

GAO

Report to the Chairman, Committee on  
the Budget, House of Representatives

---

June 2002

BUDGET ISSUES

Budget Enforcement  
Compliance Report



---

# Contents

---

---

Letter	1
Results in Brief	2
The Future of Budget Enforcement	6

---

## Appendixes

<b>Appendix I: Background and Scope and Methodology</b>	7
Discretionary Spending Limits	8
PAYGO Enforcement	11
Scope and Methodology	12
<b>Appendix II: Implementation Issues</b>	14
Although There Are Many Discretionary Scorekeeping Differences, Neither OMB Nor CBO Call for Sequestration	14
Scoring Differences	15
PAYGO Scoring Issues	21
Cap Adjustments	31
<b>Appendix III: Future of Budget Enforcement Rules</b>	33
Recent History of Budget Enforcement Rules	33
Trends in Adherence to the Discretionary Spending Caps and PAYGO Constraints	34
Principles for a Budget Process	37
Alternatives for Improving the Budget Process	39
Extending Caps on Discretionary Spending	39
Miscellaneous Discretionary Challenges: Leases and User Fees	42
Extending and Refining PAYGO	43
Improving the Recognition of Long-Term Commitments	46
Dealing with the Uncertainty of Projections	48
Conclusion	49
<b>Appendix IV: GAO Contact and Staff Acknowledgments</b>	51
GAO Contact	51
Acknowledgments	51

---

Tables	
Table 1: Sequestration Reports and Due Dates	2
Table 2: Discretionary Spending Categories by Fiscal Year	9
Table 3: CBO and OMB Estimates of Fiscal Year 2002 Appropriations Compared to End-of-Session Discretionary Caps	15
Table 4: Provisions with More than \$500 Million Difference between OMB and CBO Estimates	16

---

Table 5: Comparison of OMB and CBO PAYGO Scoring for the Air Transportation Safety and System Stabilization Act	22
Table 6: Comparison of OMB and CBO PAYGO Scoring for the Insurance Provisions of the Air Transportation Safety and System Stabilization Act	23
Table 7: Comparison of OMB and CBO PAYGO Scoring for the Tax Payment Extension Provision of the Air Transportation Safety and System Stabilization Act	24
Table 8: Comparison of OMB and CBO PAYGO Scoring for the Victim Compensation Provision of the Air Transportation Safety and System Stabilization Act	25
Table 9: Comparison of OMB and CBO PAYGO Scoring for the Investor and Capital Markets Fee Relief Act	26
Table 10: Comparison of OMB and CBO PAYGO Scoring for the National Defense Authorization Act for Fiscal Year 2002	27
Table 11: Comparison of OMB and CBO PAYGO Scoring for the Medical Care Provision of the National Defense Authorization Act for Fiscal Year 2002	28
Table 12: Comparison of OMB and CBO PAYGO Scoring for the Economic Growth and Tax Relief Reconciliation Act of 2001	29
Table 13: Comparison of OMB and CBO PAYGO Scoring for Title I, the Individual Income Rate Reductions Provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001	30
Table 14: Comparison of OMB and CBO PAYGO Scoring for Title V, the Estate, Gift, and Generation-Skipping Transfer Tax Provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001	31
Table 15: Comparison of OMB and CBO PAYGO Scoring for the Title II, Tax Benefits Relating to Children of the Economic Growth and Tax Relief Reconciliation Act of 2001	31

---

**Figure**

Figure 1: Discretionary Outlay Caps and Enacted Appropriations	35
--	----



United States General Accounting Office  
Washington, D.C. 20548

June 14, 2002

The Honorable Jim Nussle  
Chairman  
Committee on the Budget  
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we assess compliance by the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) with the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985 (DCA), as amended.<sup>1</sup> Our assessment covers OMB and CBO reports issued for legislation enacted during the 1st session of the 107th Congress, which ended on December 20, 2001.

According to CBO's final sequestration report issued on January 15, 2002, fiscal year 2002 discretionary outlays for all spending categories combined are estimated to fall beneath the adjusted spending limits. OMB's final sequestration report, issued on January 31, 2002, also estimated that no sequestration of discretionary spending would be required for fiscal year 2002. Both OMB and CBO estimated about \$130 billion in net pay-as-you-go (PAYGO) costs for 2001 and 2002 combined, which would have required a PAYGO sequestration. However, the Department of Defense and Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States, 2002 (P. L. 107-117) required OMB to reset the 2001 and 2002 PAYGO balances to zero, thereby avoiding a PAYGO sequester. Nevertheless, OMB estimates in its 2002 final report that a total PAYGO scorecard balance of \$505.8 billion remains for fiscal years 2003 through 2006.

To assess compliance with the DCA, we reviewed OMB and CBO sequestration reports issued under the act to determine if they complied with all of the act's requirements. In addition we reviewed the

---

<sup>1</sup>The Balanced Budget and Emergency Deficit Control Act of 1985 as amended by the Budget Enforcement Act of 1990 (BEA), the Omnibus Budget Reconciliation Act of 1993 (OBRA 93), and the Budget Enforcement Act of 1997 (BEA-97). In addition to being known as DCA, it is sometimes called Gramm-Rudman-Hollings or GRH. It is also referred to as BEA since that legislation amended GRH in 1990 by adding the current discretionary spending caps and PAYGO procedures.

---

scorekeeping reports issued by OMB and CBO to (1) identify major scoring differences and (2) determine the timeliness of the reports. Appendix I contains greater detail on our scope and methodology, as well as background information on DCA.

Our work was conducted in Washington, D.C. from August 2001 through May 2002 in accordance with generally accepted government auditing standards. We provided a draft of this report to OMB and CBO officials for their review and comment. OMB and CBO officials agreed with our presentation of their views and the facts as presented. We incorporated their comments where appropriate.

---

## Results in Brief

Overall, we found that OMB and CBO substantially complied with the act. However, as in previous years, some of the required OMB and CBO reports were issued late. The DCA sets a specific timetable for issuance of OMB and CBO sequestration reports, as shown in table 1.

---

**Table 1: Sequestration Reports and Due Dates**

Report	Due date	
	CBO	OMB
Preview report	5 days before President's budget submission	President's budget submission
Update report	August 15	August 20
Final report	10 days after end of congressional session	15 days after end of congressional session

Although OMB met the timing requirement for the sequestration preview report, the update report was issued 2 days late on August 22, 2001, and the final report was issued 27 days late on January 31, 2002. CBO's preview and update reports were issued on time, but the final report was issued on January 15, 2002, 16 days late.

---

As has been the case for the past 5 fiscal years, OMB issued most of its fiscal year 2002 scorekeeping reports late, with over 80 percent of the reports issued late. For fiscal year 2002, OMB issued a total of 5 discretionary scorekeeping reports (covering 15 pieces of enacted legislation) and 21 PAYGO reports.<sup>2</sup> Of this total of 26 scorekeeping reports, only 6 of the PAYGO reports were issued on time. All of the discretionary reports and 15 of the 21 PAYGO reports were issued later than the legal requirement of 7 working days after enactment of the relevant piece of legislation. The average tardiness for fiscal year 2002 discretionary spending and PAYGO reports (for legislation with significant budgetary impact) was 17 working days late. In comparison, the 4 fiscal year 2001 discretionary reports were issued an average of 23 days late and the 51 PAYGO reports (for legislation with significant budgetary impact) were issued an average of 9 days late.

While CBO does not have a timing requirement for its PAYGO or discretionary scoring reports, DCA requires CBO to issue estimates “as soon as practicable” after Congress completes action. On average, CBO issued both its fiscal year 2002 appropriations scoring reports and its PAYGO reports about 11 working days after congressional action was completed.

As you requested, we also looked beyond compliance to some implementation issues. In appendix II, we further discuss the major appropriations and PAYGO scoring differences between CBO and OMB, including a difference caused by OMB changing its baseline for receipts to the Airport and Airway Trust Fund while CBO did not. DCA does not specifically address whether or not this is permissible.

We identified a total of 19 items where differences of over \$500 million existed between CBO’s and OMB’s scoring of discretionary budget authority and/or outlays for enacted laws. Of the 15 outlay differences greater than \$500 million, 13 were due to differences in outlay rates and 2 were due to differences in how funds were allocated to accounts. The 4 remaining differences relate to the treatment of budget authority by OMB and CBO in P.L. 107-38, the Emergency Supplemental Appropriations Act

---

<sup>2</sup>Although CBO issued scorekeeping reports on 47 PAYGO bills enacted during this session of Congress, OMB no longer issues PAYGO scorekeeping reports for legislation where OMB and CBO estimate zero or negligible budgetary impact.

---

for Recovery from and Response to Terrorist Attacks on the United States, 2001. These items are discussed in greater detail in appendix II.

CBO and OMB differed substantially in PAYGO scoring for four pieces of enacted legislation. First, the Air Transportation Safety and System Stabilization Act (P.L. 107-42) provides compensation to the victims of the terrorist attacks of September 11 and contains several provisions to stabilize the air transportation industry. The total net difference over the period 2001 through 2006 was \$470 million. This difference occurs in the scoring of the provision that provides assistance to airlines for their insurance costs.<sup>3</sup> There were significant differences (ranging from \$600 million to \$1,133 million) in individual years due to differences in estimates for the tax deadline extension provision and the outlay rates for the victim compensation provision; however, these differences completely offset each other over the 2001 through 2006 period. In addition there was a difference of \$1,000 million in cost estimates for the loan guarantee subsidy provision of the law, but since this was considered emergency funding it was not subject to PAYGO procedures.

Second, the Investor and Capital Markets Fee Relief Act (P.L. 107-123) adjusted the fees and assessments that the Securities and Exchange Commission (SEC) is authorized to collect for transactions, registrations, and mergers of securities. OMB estimates for this law exceeded CBO's by \$1,203 million over the 2002 through 2006 period. This difference resulted from the different economic and technical assumptions in the models used by each agency.

Third, the National Defense Authorization Act for Fiscal Year 2002 (P.L. 107-107) contains numerous provisions that either increased or decreased outlays from direct spending, including provisions affecting health care for certain retirees of the uniformed services. The CBO and OMB cost estimates for P.L. 107-107 not only differed by \$1,159 million over the 2002 through 2006 period but also disagreed as to whether the bill saved money or cost money. In that period, OMB estimated that the act would save \$883 million while CBO estimated a cost of \$276 million. Almost all (\$1,060 million) of the total net difference is due to scoring of sections 701 and 707

---

<sup>3</sup>CBO estimates \$663 million more in spending for this provision (and this legislation) over the period 2002 through 2006, but for purposes of assessing cost estimate differences between CBO and OMB, the scoring reports show estimates over the 6-year period, 2001 through 2006.

---

of the law, which require the Department of Defense (DOD) to change the way it administers and pays for its skilled nursing and home health care benefits. CBO scored only \$294 million in savings over the 2002 through 2006 period for these provisions, while OMB scored a savings of \$1,354 million. OMB's savings for this provision were large enough to offset the costs from the other provisions affecting direct spending in P.L. 107-107, while CBO's savings estimates were less than the costs of the remaining provisions.

Finally, CBO and OMB differed substantially in both their outlay and revenue estimates of the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16). Almost all of the cost estimates for this legislation were provided to CBO by the Joint Committee on Taxation and to OMB by the Department of Treasury. Over the 2001 through 2006 period, CBO estimated outlays of \$40,308 million while OMB estimated outlays of \$28,085 million—a difference of \$12,223 million. For this same period, CBO estimated revenue costs of \$510,815 million while OMB estimated \$502,074 million in revenue costs—a difference of \$8,741 million. The net difference in estimates for this law was \$20,964 million. Since these estimates come from elaborate models consisting of different economic and technical assumptions, neither agency identified specific reasons for estimated differences. The one exception is the outlay scoring differences in 2001 that result from the advance refund mechanism. Additionally, we found the provisions with the largest differences were those that reduce individual income tax rates; provide for a phased reduction of the current estate, gift, and generation-skipping taxes; and increase the child tax credit.<sup>4</sup> These PAYGO scoring differences are discussed in greater detail in appendix II.

In addition, our analysis of required cap adjustments made by OMB and CBO found significant differences between the estimates of the final fiscal year 2002 outlay spending caps for the Overall Discretionary category. The OMB 2002 final sequestration report shows spending limit differences between OMB and CBO of \$3,375 million in outlays for 2002. As described in detail in appendix II, this difference results largely from differences by CBO and OMB in their outlay rate estimates of, and therefore the cap adjustments for, the \$22.2 billion in emergency appropriations enacted this year.

---

<sup>4</sup>This is a general, not comprehensive, description of the provisions found in Titles I, II, and V of P.L. 107-16.



---

---

## The Future of Budget Enforcement

BEA was designed to ensure lower deficits with the goal of a balanced budget, and there is widespread agreement that for much of the past decade it was successful in restraining fiscal action by Congress and the President. Given the forthcoming expiration of the BEA enforcement regime, Congress and the President need a new overall framework upon which a process and interim targets can be based. A budget process that is part of a broader fiscal framework can help policymakers make wise fiscal choices and meet upcoming challenges. Recognizing the need to manage the budgetary challenges the country faces both in the short and long term, now is an important time to comment on the future of budget enforcement mechanisms. We discuss this more in appendix III and in our recent testimony.<sup>5</sup>

We are sending copies of this report to The Honorable Mitchell E. Daniels, Jr., Director, Office of Management and Budget; The Honorable Dan L. Crippen, Director, Congressional Budget Office; Representative John Spratt, Representative C.W. Bill Young, Representative David R. Obey, Senator Kent Conrad, Senator Pete V. Domenici, Senator Robert C. Byrd, and Senator Ted Stevens in their capacities as Chair or Ranking Member of appropriate Senate and House Committees on Budget and Appropriations. Copies will be made available to other interested parties on request. Please contact me at (202) 512-9142 if you or your staff have any questions. Major contributors to this report are listed in appendix IV.

Sincerely yours,



Susan J. Irving  
Director, Federal Budget Analysis

---

<sup>5</sup>U.S. General Accounting Office, *Budget Process: Extending Budget Controls*, [GAO-02-682T](#) (Washington, D.C.: Apr. 25, 2002).

---

# Background and Scope and Methodology

---

The Balanced Budget and Emergency Deficit Control Act of 1985 (DCA), as amended,<sup>6</sup> established statutory limits on federal government spending for fiscal years 1991 through 2002 by creating

- annual adjustable dollar limits (spending caps) on discretionary spending funded through the regular appropriations process,
- a pay-as-you-go (PAYGO)<sup>7</sup> requirement for direct spending<sup>8</sup> and receipts legislation, and
- a sequestration<sup>9</sup> procedure to be triggered if (1) aggregate discretionary appropriations enacted for a fiscal year exceed the fiscal year's discretionary spending caps or (2) aggregate PAYGO legislation is estimated to increase the combined current and budget year deficits.

To track progress against the budget enforcement requirements and to implement any needed sequestration, DCA requires the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) to score (estimate) the budgetary effects of each appropriation action and each piece of PAYGO legislation. As soon as practicable after Congress completes action on an appropriation or on PAYGO legislation, CBO is required to report to OMB the estimated amount of new budget authority and outlays provided by the legislation. Within 7 working days after an appropriation or PAYGO legislation is enacted, OMB must report its estimates for these amounts, using the same economic and technical assumptions underlying the most recent budget submission. It must also

---

<sup>6</sup>DCA was amended by the Budget Enforcement Act of 1990 (BEA), the Omnibus Budget Reconciliation Act of 1993 (OBRA 93), and the Budget Enforcement Act of 1997 (BEA-97). In addition to being known as DCA, it is sometimes called Gramm-Rudman-Hollings or GRH. It is also referred to as BEA since that legislation amended GRH in 1990 by adding the current discretionary spending caps and PAYGO procedures.

<sup>7</sup>DCA requires that the aggregate effect of new legislation that increases direct spending or decreases receipts be deficit neutral (that is, not increase the deficit). Such legislation is often referred to as PAYGO legislation. OMB and CBO have interpreted the PAYGO requirement as applying to surpluses as well; the aggregate effect of new legislation must not decrease the surplus.

<sup>8</sup>Direct spending (commonly referred to as mandatory spending) means entitlement authority, the food stamp program, and any budget authority provided by laws other than appropriation acts.

<sup>9</sup>Sequestration is the cancellation of budgetary resources.

include the CBO estimates and explain any differences between the two sets of estimates. If there are significant differences between the OMB and CBO estimates, OMB is required to consult with the budget committees prior to issuing its scoring report.

DCA also requires CBO and OMB to submit a series of three sequestration reports at specified times during each year, as shown in table 1 in the letter. CBO and OMB reports include a discretionary sequestration report that adjusts the discretionary spending caps and a PAYGO sequestration report that displays the net decrease or increase in the deficit or surplus for enacted PAYGO legislation. Because OMB's reports control for purposes of sequestration, CBO uses estimates from OMB's most recent previous sequestration report as the starting point for each of its reports.

---

## Discretionary Spending Limits

Annual discretionary spending limits for budget authority and outlays are set forth in DCA. The Budget Enforcement Act of 1997 amended DCA to establish three separate categories of discretionary spending for 1998 and 1999: (1) Defense, (2) Nondefense excluding Violent Crime Reduction spending, and (3) Violent Crime Reduction spending. For fiscal year 2000, Defense and Nondefense were combined resulting in two categories—Violent Crime Reduction spending and Other Discretionary spending.<sup>10</sup> The Violent Crime Reduction category was eliminated for fiscal years 2001 and 2002 and associated appropriations were included in the Other Discretionary category.

The spending cap structure was altered again in the Transportation Equity Act for the 21st Century (TEA-21). Two new outlay caps that apply separately to highway and mass transit programs were established for 1999 through 2003.<sup>11</sup> Because these programs previously had been included under the Nondefense cap, both the Nondefense cap for 1999 and the Other Discretionary caps for 2000, 2001, and 2002 were reduced. Since the new caps on highway and mass transit outlays exceeded the reductions in the other caps by about \$15.4 billion, the amount of total discretionary outlays

---

<sup>10</sup>CBO refers to the spending category that encompasses all other discretionary spending as Overall Discretionary while OMB refers to it as Other Discretionary.

<sup>11</sup>Title VIII of TEA-21 (P.L. 105-178, enacted June 9, 1998) amended DCA to add these two new caps. These caps continue for 2003 even though DCA caps only exist through 2002.

permitted under all of the caps was increased for each year from 1999 through 2002.

The “Conservation spending” category was established by The Department of the Interior and Related Agencies Appropriations Act for Fiscal Year 2001 (P.L. 106-291). The new spending limits were established for fiscal years 2002 through 2006 even though the DCA caps expire after 2002. The law also established six distinct subcategories under the Conservation category. The subcategories are (1) federal land and state land water conservation fund, (2) state and other conservation, (3) urban and historic preservation, (4) payments in lieu of taxes, (5) federal deferred maintenance, and (6) coastal assistance. Table 2 summarizes the various caps for fiscal years 1998 through 2002.

**Table 2: Discretionary Spending Categories by Fiscal Year**

1998	1999	2000	2001	2002	2003
Violent Crime Reduction	Violent Crime Reduction	Violent Crime Reduction			
Defense	Defense	Other Discretionary	Other Discretionary	Other Discretionary	
Nondefense	Nondefense				
	Highway	Highway	Highway	Highway	Highway
	Mass Transit	Mass Transit	Mass Transit	Mass Transit	Mass Transit
				Conservation	Conservation

Note: The Highway and Mass Transit categories were formerly included in the Nondefense category. Similarly, spending in the Conservation category was formerly included in the Other Discretionary category.

In addition to creating categories of spending and establishing spending limits, provisions in these laws define certain required adjustments to the spending limits. DCA directs that adjustments be made to the discretionary limits for (1) changes in concepts and definitions, (2) emergency appropriations, (3) funding for continuing disability reviews, (4) funding for International Monetary Fund increases, (5) international arrearages funding through fiscal year 2000, (6) the earned income tax credit compliance initiative, (7) adoption incentive payments, and (8) a special outlay allowance to cover technical scoring differences between OMB and CBO.

TEA-21 added adjustments for the two transportation caps (Highway and Mass Transit). The Highway caps were set at specific annual funding levels on the basis of projected receipts to the Highway Trust Fund. OMB is required to revise the Highway spending limits in each year's sequestration preview report for changes in actual receipts and revised projections of trust fund revenue, relative to the receipt levels assumed in TEA-21.<sup>12</sup> TEA-21 also requires that both transportation caps be adjusted each year to reflect any changes in technical estimates of the outlays that will result from the TEA-21 funding levels. Finally, the law establishing the Conservation category specified that the amount, if any, by which appropriations for this category for a given fiscal year fall below the limit for that year will be added to the limit for the following year.<sup>13</sup>

In addition to the standard adjustments described above, the Department of Defense Appropriations Act for Fiscal Year 2002 (P.L. 107-117) raised the budget authority limit for fiscal year 2002 to \$681.4 billion and the fiscal year 2002 outlay limit to \$670.2 billion for the Overall Discretionary spending category, increases of \$134.5 billion and \$132.8 billion, respectively. In addition, this legislation raised the cap on Conservation outlays by \$241 million. These adjustments were at a level sufficient to cover all enacted appropriations in 2002. In fiscal year 2001, a similar adjustment was included in the Military Construction Appropriations Act for 2001 (P.L. 106-246). P.L. 107-117 also allowed OMB to adjust the 2002 limit on budget authority upward by amounts in excess of the spending limits, up to a limit of .12 percent. In response, OMB increased the Other Discretionary budget authority limits by \$308 million.<sup>14</sup> Appendix II describes these adjustments in more detail.

The spending limits are to be enforced by sequestration should budget authority or outlays exceed the statutory limits. CBO estimated in its fiscal year 2002 final sequestration report that total discretionary outlays for all categories combined are below the adjusted caps for 2002 and thus concluded that no discretionary sequestration was required. OMB's final sequestration report drew the same conclusion.

---

<sup>12</sup>If actual and estimated tax receipts exceed the levels assumed in TEA-21, the spending limits are increased. If the receipts are below the levels assumed, the spending limits are revised downward.

<sup>13</sup>This adjustment applies to the six subcategories as well.

<sup>14</sup>CBO made this adjustment in its 2003 sequestration preview report.

In addition, the law specifies that for a fiscal year in progress, if an appropriation enacted between end-of-session adjournment and July 1 of that fiscal year causes any of the spending limits for the year in progress to be exceeded, CBO and OMB must issue within-session sequestration reports 10 and 15 days, respectively, after enactment. On the same day as the OMB report, the President must issue an order implementing any sequestration set forth in the OMB report. If appropriations causing a breach within any category for the fiscal year in progress are made after June 30, the limits in that category for the next fiscal year will be reduced by the amount of the breach. On July 24, 2001, the President signed P.L. 107-20, the Supplemental Appropriations Act, 2001. OMB estimated \$6.5 billion in budget authority and \$4.9 billion in outlays in 2001 for this bill. Even with this additional spending, total budget authority and outlays for 2001 fell under the adjusted spending limits. The President requested supplemental appropriations for fiscal year 2002 on March 21, 2002. The President designated his request as an emergency requirement, and the resulting cap adjustment will be for the amount of any emergency appropriations actually enacted. Any additional non-emergency spending over \$2 million will exceed the caps.

---

## PAYGO Enforcement

PAYGO enforcement covers all direct spending (also known as mandatory spending) and receipts legislation. CBO and OMB maintain a “scorecard” showing the cumulative deficit/surplus effect of PAYGO legislation to track progress against the PAYGO requirements. If, at the end of a congressional session, cumulative legislated changes enacted in direct spending and receipts result in a net cost, a sequester of nonexempt direct spending programs is required to offset the cost. In determining the need for sequestration the estimates for the budget year and any for the current year that were not included in the current year’s final sequestration report are combined. Effective on its enactment, BEA-97 set the scorecard balance to zero for the then-current year and for each subsequent year through fiscal year 2002. This prevented any net savings achieved by legislation enacted prior to the enactment of BEA-97 from being used to offset deficit-increasing legislation enacted through 2002. Although BEA expires in 2002, the sequestration procedure applies through 2006 to eliminate any projected net costs stemming from PAYGO legislation enacted through fiscal year 2002.

In the final sequestration reports, OMB and CBO calculate the net change in the deficit or surplus due to PAYGO legislation. However, the OMB report is the sole basis for determining whether an end-of-session

sequestration is required. If OMB determines that sequestration is required, the President must issue an order implementing it. OMB estimated that the cumulative effect of legislation subject to PAYGO procedures enacted through the end of the first session of the 107th Congress totaled \$130.3 billion. Similarly, CBO's estimate of net costs was \$129.1 billion. However, Congress included a provision in the Department of Defense and Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States, 2002 (P.L. 107-117) that required OMB to remove from the PAYGO scorecard any balances for fiscal years 2001 and 2002, thus eliminating the need for a PAYGO sequester for fiscal year 2002. A similar provision was used last year to prevent a PAYGO sequester. Absent this year's requirement to reset the scorecard to zero, a sequester of \$130.3 billion would have been required.

September 30, 2002, will be the last day for which the estimated budgetary effects of mandatory legislation will be recorded on the PAYGO scorecard. Any balances remaining for 2003 through 2006 that increase the deficit (or reduce the surplus) could lead to a PAYGO sequester through 2006. OMB estimates in its 2002 final report that the total PAYGO scorecard balance for fiscal years 2003 through 2006 is \$505.8 billion. CBO estimates a \$499.2 billion balance for the same time frame.

---

## Scope and Methodology

To determine whether the OMB and CBO reports complied with the requirements of DCA as amended by BEA and other legislation, we reviewed the OMB and CBO preview, update, and final sequestration reports to determine if they reflected all of the technical requirements specified in DCA, such as (1) estimates of the discretionary spending limits, (2) explanations of any adjustments to the limits, (3) estimates of the amount of net deficit increase or decrease, and (4) the sequestration percentages necessary to achieve the required reduction in the event of a sequester.

We reviewed all applicable OMB and CBO appropriations scoring reports for regular, emergency, and supplemental appropriations enacted since OMB's 2001 final sequestration report and issued as of January 23, 2002. We also examined the OMB and CBO PAYGO scoring reports for mandatory spending and receipts legislation enacted during the first session of the 107th Congress. We compared each OMB and CBO report and obtained explanations for differences of \$500 million or more in estimates for the PAYGO reports. For discretionary spending, we compared OMB and CBO scoring reports and obtained explanations for any differences of \$500

million or more in budget authority or outlay estimates. We examined OMB and CBO adjustments to the discretionary spending limits for the preview, update, and final sequestration reports. During the course of our work, we also interviewed OMB and CBO officials.

Our work was performed in Washington, D.C. from August 2001 through May 2002 in accordance with generally accepted government auditing standards. We provided a draft of this report to OMB and CBO officials for their review and comment. OMB and CBO officials agreed with our presentation of their views and the facts as presented. We incorporated their comments where appropriate.



# Implementation Issues

---

We examined three areas in which the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) often have differed in the past: (1) discretionary scoring, (2) pay-as-you-go (PAYGO) scoring, and (3) discretionary spending cap adjustments. We compared OMB and CBO discretionary and PAYGO scoring reports and obtained explanations for estimates of individual items or report totals that differed by \$500 million or more. Additionally, we examined OMB and CBO adjustments to the discretionary spending limits for the preview, update, and final sequestration reports.

---

## Although There Are Many Discretionary Scorekeeping Differences, Neither OMB Nor CBO Call for Sequestration

The CBO and OMB final sequestration reports agreed that there was no need for discretionary sequestration in fiscal year 2002. As shown in table 3, OMB and CBO estimated budget authority in all categories and outlays in all categories as below or meeting the caps. The overall difference between the CBO and OMB estimates is accounted for by many scorekeeping differences; the largest of these are detailed in the following discussion.

**Table 3: CBO and OMB Estimates of Fiscal Year 2002 Appropriations Compared to End-of-Session Discretionary Caps**

Dollars in millions

	OMB		CBO	
	Budget authority	Outlays	Budget authority	Outlays
<b>Overall Discretionary</b>				
Enacted appropriations	\$704,548	\$692,752	\$704,240	\$688,064
End-of-session caps	704,548	696,092	704,240	692,717
<b>Difference</b>	<b>\$0</b>	<b>-\$3,340</b>	<b>\$0</b>	<b>-\$4,653</b>
<b>Highway</b>				
Total enacted appropriations	n.a.	\$28,489	n.a.	\$28,489
End-of-session caps	n.a.	28,489	n.a.	28,489
<b>Difference</b>	<b>n.a.</b>	<b>\$0</b>	<b>n.a.</b>	<b>\$0</b>
<b>Mass Transit</b>				
Total enacted appropriations	n.a.	\$5,272	n.a.	\$5,275
End-of-session caps	n.a.	5,275	n.a.	5,275
<b>Difference</b>	<b>n.a.</b>	<b>-\$3</b>	<b>n.a.</b>	<b>\$0</b>
<b>Conservation</b>				
Total enacted appropriations	\$1,758	\$1,473	\$1,758	\$1,392
End-of-session caps	1,760	1,473	1,760	1,473
<b>Difference</b>	<b>-\$2</b>	<b>\$0</b>	<b>-\$2</b>	<b>-\$81</b>
<b>Total for all spending categories</b>				
Total enacted appropriations	\$706,306	\$727,986	\$705,998	\$723,220
End-of-session caps	706,308	731,329	706,000	727,954
<b>Difference</b>	<b>-\$2</b>	<b>-\$3,343</b>	<b>-\$2</b>	<b>-\$4,734</b>

Note: Highway and Mass Transit categories were created by TEA-21 and include outlay caps only.

Source: OMB and CBO 2002 final sequestration reports.

## Scoring Differences

Although there were many discretionary scorekeeping differences between OMB and CBO, most were relatively small. In the discretionary scorekeeping reports issued by OMB and CBO, we identified 19 differences that were greater than \$500 million—4 in budget authority and 15 in outlays.

The four differences in budget authority all are in P.L. 107-38, the Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States, 2001. Of the 15 outlay

differences greater than \$500 million, 13 stem from different outlay rates and 2 reflect differences in the allocation of outlays for violent crime reduction.

A separate spending limit for budget authority and outlays was first established for the Violent Crime Reduction Trust Fund (VCRTF) by the Violent Crime Control and Law Enforcement Act of 1994 (P.L. 103-322) and was continued by the Budget Enforcement Act of 1997. The acts provided that specified amounts of budget authority be transferred to the trust fund from the general fund in each fiscal year from 1995 through 2000. Since the VCRTF's authorization expired at the end of fiscal year 2000, the account used to track those programs funded by the VCRTF has not had new appropriations since the fiscal year 2000 Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act. CBO continues to score outlays from prior-year authority in this account and estimated \$922 million in outlays for 2002. In contrast, OMB includes the outlays from violent crime reduction programs in what they consider the "parent accounts," primarily the state and local law enforcement assistance account and to a lesser extent the community oriented policing services (COPS) account. OMB describes this as a way to avoid unnecessary administrative issues. The effect is the appearance of a significant difference between OMB and CBO estimates in the violent crime reduction and parent accounts, when in actuality the funds are merely accounted for in different locations and the differences nearly offset each other.

The provisions with the remaining 17 largest differences in budget authority or outlays are shown in table 4.

**Table 4: Provisions with More than \$500 Million Difference between OMB and CBO Estimates<sup>a</sup>**

Dollars in millions

Act	Provision	Difference between OMB and CBO estimates (OMB-CBO)			
		Fiscal year 2001		Fiscal year 2002	
		Budget authority	Outlays	Budget authority	Outlays
<b>Differences in Outlay Rates</b>					
Supplemental Appropriations Act, 2001 (P.L. 107-20)	Defense Health Program	0	\$1,010	0	-\$842
Supplemental Appropriations Act, 2001 (P.L. 107-20)	Operations and Maintenance, Navy	0	\$679	0	-\$546

**Appendix II  
Implementation Issues**

(Continued From Previous Page)

Dollars in millions

Act	Provision	Difference between OMB and CBO estimates (OMB-CBO)			
		Fiscal year 2001		Fiscal year 2002	
		Budget authority	Outlays	Budget authority	Outlays
Department of Defense Appropriations Act, 2002 (P.L. 107-117)	Defense Health Program	b	b	0	\$568
Department of Defense Appropriations Act, 2002 (P.L. 107-117)	Operations and Maintenance, Army	b	b	0	-\$654
2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States (P.L. 107-38)	Department of Defense-Operations and Maintenance, Defense Emergency Response Fund	0	\$20	0	-\$1,095
Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States, 2002 (P.L. 107-117)	Department of Health and Human Services-General departmental management	b	b	0	\$751
Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States, 2002 (P.L. 107-117)	Federal Emergency Management Agency-Disaster Relief	b	b	0	\$1,525
Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 2002 (P.L. 107-73)	Federal Emergency Management Agency-Disaster Relief, contingent emergency	b	b	0	\$525
Departments of Labor, Health and Human Services, Education, and Related Agencies Appropriations Act, 2002 (P.L. 107-116)	Department of Health and Human Services-National Institutes of Health	b	b	0	\$840
Departments of Labor, Health and Human Services, Education, and Related Agencies Appropriations Act, 2002 (P.L. 107-116)	Department of Labor-Employment and Training Administration, Training and Employment Services	b	b	0	\$1,008
Department of Transportation and Related Agencies Appropriations Act, 2002 (P.L. 107-87)	Adjustment for TEA-21	b	b	0	-\$1,279
<b>Differences in Budget Authority</b>					
2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States (P.L. 107-38)	Department of Defense-Operations and Maintenance, Defense Emergency Response Fund	-\$9,456	0	0	0
2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States (P.L. 107-38)	Department of Housing and Urban Development-Community Planning and Development, Community Development Block Grants	-\$700	0	0	0

**Appendix II  
Implementation Issues**

(Continued From Previous Page)

Dollars in millions

Act	Provision	Difference between OMB and CBO estimates (OMB-CBO)			
		Fiscal year 2001		Fiscal year 2002	
		Budget authority	Outlays	Budget authority	Outlays
2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States (P.L. 107-38)	Executive Office of the President, Emergency Response Fund	\$12,358	0	0	0
2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States (P.L. 107-38)	International Security Assistance, Economic Support Fund	-\$600	0	0	0

Note: Positive numbers indicate provisions where CBO estimates were lower than OMB estimates. Negative numbers indicate provisions where CBO estimates were higher than OMB estimates.

<sup>a</sup>Differences due to account allocation are not included.

<sup>b</sup>Only fiscal year 2002 budgetary impacts were reported.

For these provisions, the differences between the OMB and CBO estimates can be grouped into the following categories:

- Different outlay rate estimates:

Outlay estimate differences greater than \$500 million existed in two programs, the Defense Health Program and Operations and Maintenance, Navy, funded in the 2001 Supplemental Appropriations Act (P.L. 107-20). Since P.L. 107-20 was enacted in late July 2001, CBO lowered its first-year outlay rates because it estimated that few outlays would occur before the end of the fiscal year. OMB did not reduce outlay rates because it believed the need for these funds was identified well in advance of the appropriation. Both of these programs also received funding in the Department of Defense Appropriations Act, 2002 (P.L. 107-117). Here again, we found significant outlay differences for the Defense Health Program. Both OMB and CBO estimated outlay rates of roughly 79 percent for new budget authority. However, OMB had a higher total estimate of outlays resulting from higher outlay rate estimates for prior-year budget authority balances, based on Department of Defense (DOD) reports.

The \$654 million difference in the \$22.3 billion Operations and Maintenance, Army account results primarily from a difference in first-year outlay rates. CBO has a rate of 73 percent while OMB has a 69

percent rate. Similarly, for fiscal year 2002, the \$1,095 million difference in outlays in the DOD, Defense Emergency Response Fund results because CBO used an outlay rate of about 74 percent and OMB used a rate of roughly 68 percent for the \$13.7 billion provision. In both these cases, the large budget authority amounts mean that an outlay rate difference of 6 percent or less leads to significant differences in the estimates.

The general departmental management account of the Department of Health and Human Services (HHS) received \$2.64 billion in supplemental appropriations in P.L. 107-117. CBO explained that HHS used these funds for various activities intended to respond to the events of September 11, such as purchasing smallpox vaccines and upgrading security measures at the Centers for Disease Control and Prevention. For these activities, on which there is no historical evidence to base outlay rate estimates, OMB estimates \$751 million more in fiscal year 2002 outlays than does CBO.

In 2002, the Federal Emergency Management Agency (FEMA) disaster relief account received \$8.5 billion in total appropriations from three bills: \$4.3 billion from P.L. 107-117, \$2 billion from P.L. 107-38, and \$2.2 billion from P.L. 107-73 (the VA/HUD appropriation act).<sup>15</sup> Significant differences in outlay estimates for this account in P.L. 107-117 and P.L. 107-73 stem from different assumptions about which of the funds will be used first. OMB assumed a 35 percent outlay rate for all three of these funding sources. CBO, however, estimated that none of the \$4.3 billion in budget authority in P.L. 107-117 would be spent until 2003 because it believes that the funding from the other two sources will be spent first. Thus, OMB estimates \$1,525 million more in outlays for P.L. 107-117 than does CBO. In the VA/HUD bill, the \$2.2 billion in funding was divided into \$1.5 billion in contingent emergency funds and \$661 million in non-emergency funds for disaster relief. CBO believed that large prior-year balances in budget authority would be spent before any new budget authority and therefore approximated there would be no outlays of the emergency budget authority in 2002. OMB's assumption of a 35 percent outlay rate for both emergency and non-emergency funding resulted in \$525 million more in emergency outlays for 2002 than did CBO. However, its estimate of non-emergency outlays was

---

<sup>15</sup>The Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 2002 (P.L. 107-73).

\$373 million lower than was CBO's. Because these differences partially offset each other, the aggregate outlay difference for emergency and non-emergency outlays for FEMA disaster relief funding in the VA/HUD bill was only \$152 million.

Differences in the estimates for the National Institutes of Health (NIH) and the Employment and Training Administration result largely from differences in estimates of prior-year balances. For the NIH, OMB estimated \$505 million more in outlays from prior-year budget authority than CBO and \$335 million more in outlays from new authority. CBO reasoned that the large increases in budget authority received by NIH in 2001 and 2002 would result in slower outlay rates for two reasons. First, since 80 percent of NIH's obligations are extramural grants paid on a quarterly basis, the large increases in budget authority received in 2001 and 2002 might cause a slower outlay rate as the grant administration burden increases. Second, in both those years appropriations were delayed, pushing spending to later in the fiscal year. In the Employment and Training Administration account, OMB estimated \$753 million more in outlays from prior-year authority and \$255 million more in outlays from new authority. In this case, CBO reported that its rates reflect the lower than expected outlay rates over the past several years for programs funded by the Workforce Investment Act, the primary authorization for this account. OMB did not adjust its estimates to reflect this recent actual experience.

Pursuant to DCA, any outlays in the Highway and Mass Transit categories exceeding the levels established in TEA-21 are considered part of the Overall Discretionary category. In both our 2000 and 2001 Budget Enforcement Compliance reports, we reported significant differences between CBO and OMB for outlay estimates in the Highway and Mass Transit categories. In 2002, CBO again estimated higher outlays than OMB, most of this from estimates of outlays for the Highway category.

- Differences in budget authority:

The OMB and CBO scorekeeping reports for the 2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States (P.L. 107-38) contain four significant differences in scoring of budget authority. All four stem from different treatment of funds appropriated to the Emergency Response Fund (ERF). P.L. 107-38 was signed by the President on

September 18, 2001, and appropriated \$20 billion to ERF. For its estimate, CBO subtracted from the \$20 billion ERF any budget authority that had been released to a receiving account after the bill was signed into law and scored it as budget authority in that receiving account. In its January 23, 2002, report, OMB scored those funds transferred or obligated from the ERF to receiving accounts by the end of fiscal year 2001 the same way. However, budget authority transferred or obligated after that point was scored as transfers of unobligated balances, not as budget authority; the result was that only the outlay effects of those transfers were apparent in the receiving account.

---

## PAYGO Scoring Issues

In its final sequestration report, CBO reported that balances on the PAYGO scorecard are \$76.4 billion for 2001 and \$52.7 billion for 2002—a total of \$129.1 billion. OMB estimates in its final sequestration report net PAYGO costs of \$75.3 billion in 2001 and \$55.0 billion in 2002—a total of \$130.3 billion. The majority of these costs are a result of the Economic Growth and Tax Relief Reconciliation Act of 2001. In accordance with BEA, the PAYGO balances for 2001 and 2002 are to be combined to determine whether a PAYGO sequestration is necessary for 2002. However, the Department of Defense and Emergency Supplemental Appropriations Act for 2002 requires OMB to reset the total PAYGO balances for 2001 and 2002 to zero, thereby avoiding a PAYGO sequestration.<sup>16</sup>

During its first session, the 107th Congress enacted 23 pieces of PAYGO legislation with estimated budgetary impact greater than \$500,000.<sup>17</sup> We analyzed those scorekeeping reports for which OMB and CBO estimates differed by \$500 million or more either in any single year or over the 5-year period 2002 through 2006. Four pieces of legislation met this criterion: (1) the Air Transportation Safety and System Stabilization Act (Public Law 107-

---

<sup>16</sup>Department of Defense and Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States, Public Law 107-117, Division C, section 102, 115 STAT. 2230, 2342 (2002).

<sup>17</sup>OMB announced in its 2000 sequestration preview report that it was no longer issuing PAYGO reports on legislation where OMB and CBO estimate zero or negligible budget impact, i.e., less than \$500,000. During the first session of the 107th Congress, OMB issued 21 PAYGO reports. CBO issued 23 reports for legislation estimated to have impacts greater than \$500,000. For two laws that did not provide new funding but merely changed the timing or purpose of expenditures, CBO issued PAYGO reports while OMB did not.



42), (2) the Investor and Capital Markets Fee Relief Act (Public Law 107-123), (3) the National Defense Authorization Act for Fiscal Year 2002 (Public Law 107-107), and (4) the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16). They are discussed below.

**Air Transportation Safety and System Stabilization Act**

This law, enacted September 22, 2001, contains several provisions to respond to the terrorist events of September 11, 2001, and is designed to stabilize the air transportation industry and to provide compensation to the victims of the terrorist attacks. It provides insurance assistance to airlines, establishes a fund to compensate victims of the terrorist attacks, and makes changes in the timing of excise, payroll-related, and withheld income tax payments by airlines. The costs of these provisions are included on the PAYGO scorecard. The act also provides \$5 billion in grants and \$10 billion in loan guarantees to air carriers. Since both of these provisions are designated as emergency spending their costs are exempt from the PAYGO scorecard. Table 5 illustrates CBO and OMB's estimates for the PAYGO costs of this law over the 2001 through 2006 period.<sup>18</sup> OMB scores a PAYGO cost of \$6,130 million while CBO scores a cost of \$6,600 million. The difference over 6 years is \$470 million with the largest individual year difference, \$1,463 million, occurring in 2002.

**Table 5: Comparison of OMB and CBO PAYGO Scoring for the Air Transportation Safety and System Stabilization Act**

Dollars in millions							
Agency	Fiscal year						Total
	2001	2002	2003	2004	2005	2006	
OMB	\$267	\$1,063	\$3,000	\$1,800	\$0	\$0	\$6,130
CBO	1,400	-400	2,400	2,400	800	0	6,600
<b>Difference (OMB-CBO)</b>	<b>-\$1,133</b>	<b>\$1,463</b>	<b>\$600</b>	<b>-\$600</b>	<b>-\$800</b>	<b>\$0</b>	<b>-\$470</b>

The difference in these estimates is a result of differences in how each agency scored individual provisions of the act. These individual provisions,

<sup>18</sup>The breakdown for this law is provided over a 6-year period, showing a net difference of \$470 million between CBO and OMB estimates. Over the 5-year period, 2002-2006, the differences net to \$663 million, so GAO considers it significant. A 6-year period is shown because there is a significant difference in estimates in 2001.

their estimated costs by each agency, and an explanation of the differences in estimates are discussed below.

CBO and OMB PAYGO costs for the insurance provisions differed by \$470 million over 6 years; CBO estimated a cost of \$600 million while OMB estimated a cost of \$130 million. Table 6 provides a breakdown of the differences for these provisions. OMB estimated lower insurance costs than CBO because OMB officials were aware of policy decisions to provide insurance benefits to airlines over a shorter time period than assumed by CBO. The act provided insurance assistance to air carriers through two measures. First, the government reimburses carriers for the cost of the surcharge imposed by private insurers to cover liabilities for risks associated with terrorism or war. A second measure allows the government to provide the airlines with additional insurance above the \$50 million available from private insurers to cover liabilities to third parties for damages due to acts of terrorism or war. OMB estimated that the first measure would cost \$62 million while CBO assumed expenditures of about \$200 million. OMB assumed the additional insurance permitted by the second measure would cost \$68 million while CBO assumed a cost of \$400 million. OMB assumed 1 month of surcharge payments and 2 months of insurance coverage, while CBO assumed 6 months of surcharge payments and 1 year of insurance coverage.

**Table 6: Comparison of OMB and CBO PAYGO Scoring for the Insurance Provisions of the Air Transportation Safety and System Stabilization Act**

Dollars in millions

Agency	Fiscal year						Total
	2001	2002	2003	2004	2005	2006	
OMB	\$0	\$130	\$0	\$0	\$0	\$0	\$130
CBO	0	600	0	0	0	0	600
<b>Difference (OMB-CBO)</b>	<b>\$0</b>	<b>-\$470</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>-\$470</b>

Both CBO and OMB estimated that the provision that extends by 180 days the deadline for certain tax payments by airlines will have no cost over the 2001 through 2006 period. However, as shown in table 7, they differed in the amount of tax receipts to be shifted from 2001 to 2002. Because the legislation was enacted on September 22, 2001, both CBO and OMB show a shift of receipts from 2001 to 2002. OMB shows \$267 million in receipts shifting from 2001 to 2002 while CBO shows a shift of \$1.4 billion.

Although the act pushes back the deadline for collection of excise taxes, payroll-related taxes, and withheld income taxes, OMB estimated a shift of excise tax revenue only. OMB stated that the shift for the payroll-related and withheld income taxes was already assumed in its baseline because the Internal Revenue Service already had issued regulations allowing the delay in payment of these taxes, leaving only the excise taxes to be included in its estimate. CBO shifted all three types of taxes in its estimate.

OMB also changed its baseline estimates of excise tax receipts to the Airport and Airway Trust Fund to take into account the effect on air travel of the September 11 terrorist attacks, including the order by the government to ground all air traffic. Because CBO did not make any adjustments to its baseline to account for anticipated changes in air travel that might result from these attacks, its estimate of the act's effect on the timing and volume of receipts differs from OMB's. DCA does not specifically address on-going changes to the baseline. According to OMB and CBO officials, OMB and CBO have, on occasion, made changes to their baselines.

**Table 7: Comparison of OMB and CBO PAYGO Scoring for the Tax Payment Extension Provision of the Air Transportation Safety and System Stabilization Act**

Dollars in millions

Agency	Fiscal year						Total
	2001	2002	2003	2004	2005	2006	
OMB	\$267	-\$267	\$0	\$0	\$0	\$0	\$0
CBO	1,400	-1,400	0	0	0	0	0
<b>Difference (OMB-CBO)</b>	<b>-\$1,133</b>	<b>\$1,133</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

OMB and CBO also differed in their estimates of the government's payment rate for the victims compensation fund. This fund provides monetary compensation for the economic and non-economic losses (including pain, suffering, and loss of companionship) of individuals who were injured and the families of those killed in the attacks of September 11, 2001. As table 8 shows, OMB assumes a quicker payout rate, but the overall total for both agencies is the same—\$6,000 million.<sup>19</sup> OMB assumed that most claims filed

<sup>19</sup>Both OMB and CBO revised their estimated totals to \$5,400 million as a result of revised fatality estimates available in December 2001.

between December and May would be paid in fiscal year 2002 and that fiscal year 2002 outlays would be 20 percent of the total. As of early March, the Department of Justice (DOJ) had received 352 claims, about 10 percent of the estimated total, and OMB believed it reasonable to expect that at least 20 percent of all claims would be received by the end of May. OMB based this assumption on the fact that DOJ program regulations were designed to facilitate the prompt filing, review, and payment of claims and the belief that the Special Master's public comments had consistently urged victims to take advantage of the program's expedited process, particularly the "advance payments" on potential awards. CBO's estimate took into account its judgment that victims' families would delay collecting from the fund because they would want to assess the possibility of compensation through civil litigation.

**Table 8: Comparison of OMB and CBO PAYGO Scoring for the Victim Compensation Provision of the Air Transportation Safety and System Stabilization Act**

Dollars in millions

Agency	Fiscal year						Total
	2001	2002	2003	2004	2005	2006	
OMB	\$0	\$1,200	\$3,000	\$1,800	\$0	\$0	\$6,000
CBO	0	400	2,400	2,400	800	0	6,000
<b>Difference (OMB-CBO)</b>	<b>\$0</b>	<b>\$800</b>	<b>\$600</b>	<b>-\$600</b>	<b>-\$800</b>	<b>\$0</b>	<b>\$0</b>

**Investor and Capital  
Markets Fee Relief Act**

This law adjusts the fees and assessments that the Securities and Exchange Commission (SEC) is authorized to collect for transactions, registrations, and mergers of securities. Previously, SEC fees were collected and, depending on the type of fee, recorded in the budget either as revenues or as offsetting collections credited against discretionary appropriations for the SEC. In fiscal year 2000, SEC collected fees that far exceeded its operating costs. Under this act, all SEC fees and assessments are reclassified as offsetting collections and the fee rates are lowered. CBO and OMB estimates for this act differed increasingly from 2003 through 2006. Over the 5-year period shown in table 9, CBO estimated a revenue loss to the government of \$9,518 million. Over the same 5-year period, OMB estimated a revenue loss of \$10,721 million, or \$1,203 million more than CBO.

**Table 9: Comparison of OMB and CBO PAYGO Scoring for the Investor and Capital Markets Fee Relief Act**

Dollars in millions

Agency	Fiscal year					Total
	2002	2003	2004	2005	2006	
OMB	\$1,455	\$1,947	\$2,174	\$2,429	\$2,716	\$10,721
CBO	1,261	1,804	1,984	2,152	2,317	9,518
<b>Difference (OMB-CBO)</b>	<b>\$194</b>	<b>\$143</b>	<b>\$190</b>	<b>\$277</b>	<b>\$399</b>	<b>\$1,203</b>

Neither OMB nor CBO explained these differences. Both said that baseline estimates for the fees collected are driven by a number of factors including economic assumptions like gross domestic product (GDP) and interest rates and technical assumptions like volume growth for the different types of transactions. The forecast for volume growth takes into account the stock market activities both on and off exchanges over a number of business cycles. Because the fee estimates depend on numerous economic variables and are produced by complex estimating models, OMB and CBO noted that it is difficult to identify the specific reason(s) for differences in estimates between them.

**National Defense  
Authorization Act for  
Fiscal Year 2002**

This legislation authorizes fiscal year 2002 appropriations for Department of Defense (DOD) programs, authorizes a military pay raise and other military benefits, provides for a round of base closures and realignment in 2005, authorizes closure of the Navy live-fire training facility in Vieques, Puerto Rico, authorizes fiscal year 2002 appropriations for Department of Energy national security programs, and makes other modifications to national security and related programs. Over the course of the 5-year period 2002 through 2006, CBO scored a direct spending cost of \$276 million. OMB scored \$883 million in savings over the same period, creating a 5-year difference of \$1,159 million. Table 10 provides a breakdown of each agency's estimates.

**Table 10: Comparison of OMB and CBO PAYGO Scoring for the National Defense Authorization Act for Fiscal Year 2002**

Dollars in millions

Agency	Fiscal year					Total
	2002	2003	2004	2005	2006	
OMB	\$86	-\$234	-\$208	-\$253	-\$274	-\$883
CBO	146	-221	156	92	103	276
<b>Difference (OMB-CBO)</b>	<b>-\$60</b>	<b>-\$13</b>	<b>-\$364</b>	<b>-\$345</b>	<b>-\$377</b>	<b>-\$1,159</b>

The bulk of the difference in the estimates lies in each agency's scoring of the medical care provisions of this law—sections 701 and 707— which affect the Tricare for Life program. Section 701 requires DOD to restructure its skilled nursing and home health care benefits such that it will not pay for skilled nursing unless the beneficiary has been hospitalized before receiving that care and will not pay for home health care in excess of the allowable benefit under Medicare. Section 707 requires DOD to set maximum allowable charges for skilled nursing and home health care, which will lower the cost of providing those benefits. The estimates for these provisions are shown in table 11. After a slight increase in direct spending in 2002 of \$3 million, CBO scored savings of \$297 million for 2003 (for a total of \$294 million) while OMB scored savings of \$1,357 million from 2003 through 2006 (for a total of \$1,354 million). The difference between the two agencies over 5 years is \$1,060 million. This large difference exists because the provisions as included in prior law were administratively optional but not legally required. Under prior law, DOD had the authority to make those changes and CBO estimated the agency would do so by fiscal year 2004 and thus would begin to see savings in direct spending at that time. However, P.L. 107-107 mandated that these changes take effect in fiscal year 2002, roughly 3 months after its enactment on December 28, 2001. Consequently, CBO estimated that after a year, as the program approached full participation, direct spending savings would begin in fiscal year 2003. Since CBO had assumed that DOD, beginning in fiscal year 2004, would implement the administrative changes described above, it showed savings only in fiscal year 2003 because savings in subsequent years would occur without further congressional action. Alternatively, OMB had not assumed implementation of this option in its baseline and so included all savings in its scoring of P.L. 107-107, which mandated the changes.

**Table 11: Comparison of OMB and CBO PAYGO Scoring for the Medical Care Provision of the National Defense Authorization Act for Fiscal Year 2002**

Dollars in millions

Agency	Fiscal year					Total
	2002	2003	2004	2005	2006	
OMB	\$3	-\$306	-\$329	-\$350	-\$372	-\$1,354
CBO	3	-297	0	0	0	-294
<b>Difference (OMB-CBO)</b>	<b>\$0</b>	<b>-\$9</b>	<b>-\$329</b>	<b>-\$350</b>	<b>-\$372</b>	<b>-\$1,060</b>

**Economic Growth and Tax Relief Reconciliation Act of 2001**

This law amends numerous provisions of the tax code to reduce taxes. It reduces individual income tax rates, increases the child tax credit, eliminates the estate tax, reduces the marriage penalty, expands education Individual Retirement Accounts (IRAs), and makes several other changes to provisions of the tax law. Because of their expertise in revenue estimating, the Department of Treasury and the Joint Committee on Taxation provided OMB and CBO, respectively, with almost all of the estimates for the many provisions in this law.

Over the period 2001 through 2006, OMB scored increased outlays totaling \$28,085 million, while CBO estimated \$40,308 million in outlay costs—a difference of \$12,223 million. On the revenue side, OMB estimated \$502,074 million in decreased revenues and CBO scored reductions in revenue of \$510,815 million—a difference of \$8,741 million. In total, OMB scored \$20,964 million less in net costs to the government than did CBO over the 2001 through 2006 period. Table 12 provides a breakdown of outlay and revenue costs by agency.

**Appendix II  
Implementation Issues**

**Table 12: Comparison of OMB and CBO PAYGO Scoring for the Economic Growth and Tax Relief Reconciliation Act of 2001**

Dollars in millions

Agency	Outlays						Total
	Fiscal year						
	2001	2002	2003	2004	2005	2006	
OMB	\$0	\$4,451	\$5,729	\$5,274	\$5,218	\$7,413	<b>\$28,085</b>
CBO	3,600	6,425	6,599	7,006	7,081	9,597	<b>40,308</b>
<b>Difference (OMB-CBO)</b>	<b>-\$3,600</b>	<b>-\$1,974</b>	<b>-\$870</b>	<b>-\$1,732</b>	<b>-\$1,863</b>	<b>-\$2,184</b>	<b>-\$12,223</b>

Dollars in millions

Agency	Revenues						Total
	Fiscal year						
	2001	2002	2003	2004	2005	2006	
OMB	-\$65,501	-\$31,240	-\$80,670	-\$100,183	-\$101,112	-\$123,368	<b>-\$502,074</b>
CBO	-70,208	-31,145	-83,736	-100,415	-100,021	-125,290	<b>-510,815</b>
<b>Difference (OMB-CBO)</b>	<b>\$4,707</b>	<b>-\$95</b>	<b>\$3,066</b>	<b>\$232</b>	<b>-\$1,091</b>	<b>\$1,922</b>	<b>\$8,741</b>

In general, OMB and CBO agreed that the scoring differences for this legislation resulted from (1) different economic assumptions, and (2) technical estimating differences attributable to the use of different baselines and estimating models. Since the estimates for almost all of the provisions depend on numerous economic variables, such as wages and salaries, corporate profits, and GDP, and are produced by elaborate estimating models, neither OMB nor CBO could identify the specific reason or reasons for differences in estimates, with one exception.

The one exception is for the outlay scoring differences in 2001 resulting from the scoring of the advance refund of the individual income rate reduction. CBO scored roughly 10 percent of the refund as outlays because it estimated that this amount would exceed the taxpayers' liability for calendar year 2001 based on calendar year 2000 liability. Since the taxpayer will not be required to repay the difference, CBO believed that the difference represents a payment in excess of liability and should be classified as an outlay. CBO estimated that 95 percent of the outlays will be paid in 2001 and the remaining 5 percent will be paid in fiscal year 2002 to



taxpayers who filed their tax returns with an extension. OMB did not believe this distinction would be crucial so they classified the entire advance refund as a loss in receipts in 2001 and 2002.

Shown below are the breakdowns of the three titles of the act with the greatest differences in estimates:

- Title I, Individual Income Tax Rate Reductions Provisions
- Title V, Estate, Gift, and Generation-Skipping Transfer Tax Provisions
- Title II, Tax Benefits Relating to Children

Table 13 provides a breakdown of the estimates for Title I, the individual income tax rate reductions provisions, which among other things create a regular income tax bracket with a rate of 10 percent and reduce the four highest income tax rates over the 2001 through 2006 period . For these provisions, CBO showed a loss of \$391,416 million from 2001 through 2006, while OMB showed a total loss of receipts of \$365,724 million, or \$25,692 million less than CBO, over that same period.

**Table 13: Comparison of OMB and CBO PAYGO Scoring for Title I, the Individual Income Rate Reductions Provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001**

Dollars in millions

Agency	Fiscal year						Total
	2001	2002	2003	2004	2005	2006	
OMB	-\$38,995	-\$49,515	-\$54,672	-\$65,373	-\$70,310	-\$86,859	<b>-\$365,724</b>
CBO	-40,191	-54,521	-61,479	-69,385	-72,975	-92,865	<b>-391,416</b>
<b>Difference (OMB-CBO)</b>	<b>\$1,196</b>	<b>\$5,006</b>	<b>\$6,807</b>	<b>\$4,012</b>	<b>\$2,665</b>	<b>\$6,006</b>	<b>\$25,692</b>

Table 14 shows a breakdown of the estimates by each agency for the Estate and Gift Tax provisions. OMB estimated a total loss in receipts of \$43,432 million over the 2001 through 2006 period, while CBO estimated a loss of \$24,852 million over the same period. CBO showed \$18,580 million less in lost receipts than OMB for this provision.

**Table 14: Comparison of OMB and CBO PAYGO Scoring for Title V, the Estate, Gift, and Generation-Skipping Transfer Tax Provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001**

Dollars in millions

Agency	Fiscal year						Total
	2001	2002	2003	2004	2005	2006	
OMB	-\$89	-\$3,424	-\$11,100	-\$10,054	-\$10,951	-\$7,814	-\$43,432
CBO	0	-105	-6,993	-5,590	-7,594	-4,570	-24,852
<b>Difference (OMB-CBO)</b>	<b>-\$89</b>	<b>-\$3,319</b>	<b>-\$4,107</b>	<b>-\$4,464</b>	<b>-\$3,357</b>	<b>-\$3,244</b>	<b>-\$18,580</b>

Table 15 below provides a breakdown of the estimates by OMB and CBO for Title II, which provided tax benefits relating to children, including: increasing the child tax credit from \$500 to \$1,000 over 10 years; increasing the portion of the child credit that is refundable; changing the treatment of personal credits under the alternative minimum tax; and changing the treatment of adoption tax credits, dependent care tax credits, and the credit for childcare facilities provided by an employer. OMB estimated a total of \$55,930 million in lost receipts over the 2001 through 2006 period, while CBO estimated a loss of \$64,713 million over the same period, a difference of \$8,783 million.

**Table 15: Comparison of OMB and CBO PAYGO Scoring for the Title II, Tax Benefits Relating to Children of the Economic Growth and Tax Relief Reconciliation Act of 2001**

Dollars in millions

Agency	Fiscal year						Total
	2001	2002	2003	2004	2005	2006	
OMB	-\$317	-\$8,451	-\$9,397	-\$9,804	-\$11,345	-\$16,616	-\$55,930
CBO	-518	-9,390	-10,562	-11,415	-13,634	-19,194	-64,713
<b>Difference (OMB-CBO)</b>	<b>\$201</b>	<b>\$939</b>	<b>\$11,665</b>	<b>\$1,611</b>	<b>\$2,289</b>	<b>\$2,578</b>	<b>\$8,783</b>

## Cap Adjustments

Section 251(b)(2) of the DCA requires specific adjustments to the spending limits. While both CBO and OMB are required to calculate how much the spending limits should be adjusted, OMB's adjustments control for the purposes of budget enforcement, such as determining whether enacted appropriations fall within the spending limits, whether a sequestration is required, and, if so, how much. CBO's adjustments are advisory and are

adjusted in each subsequent sequestration report to match the previously reported OMB limits. In their 2002 final sequestration reports, both CBO and OMB made adjustments to Overall Discretionary budget authority and outlays limits for emergency appropriations, continuing disability reviews by the Social Security Administration, adoption incentive payments, and the earned income tax credit (EITC) compliance initiative. In addition to these annual adjustments, Division C of the 2002 Department of Defense Appropriations Act incorporated two additional ones— a discretionary budget authority technical estimating difference adjustment allowance of up to .12 percent and \$134.5 billion and \$132.8 billion increases in the spending caps for budget authority and outlays, respectively. The OMB 2002 final sequestration report showed spending limit differences between OMB and CBO of \$308 million in budget authority and \$3,375 million in outlays for 2002 for the Overall Discretionary category. There are no differences this year in the final spending limits for the Highway, Mass Transit, and Conservation categories.

In its final report, OMB adjusted budget authority limits using a provision in P.L.107-117 that allowed OMB to adjust the 2002 limit on budget authority for the discretionary category upward by any amounts in excess of the spending limits, up to .12 percent. This allowance, which was enacted to account for appropriations act scoring differences between OMB and CBO, added \$308 million to the OMB's budget authority limits for the Overall Discretionary category. CBO reflected this adjustment in its sequestration preview report for fiscal year 2003.

For outlay spending limits, OMB estimated \$3,375 million more than did CBO, largely the result of differences in adjustments for emergency outlay estimates. The emergency appropriations contained in P.L. 107-117 had over \$3,200 million in outlay scoring differences between OMB and CBO. As described above, the FEMA disaster relief account in this bill accounted for \$1,525 million of that difference and the general departmental management account, HHS accounted for another \$751 million. OMB also had higher estimates of emergency outlays in some of the regular appropriations acts. The higher estimates by OMB are partially offset by an \$800 million higher estimate of emergency outlays by CBO for P.L. 107-38. As discussed in detail in the previous section on discretionary scoring differences, these estimates differ due to different outlay rates used by OMB and CBO. There were also small differences in outlay estimates for the EITC compliance initiative, continuing disability reviews, and the adoption incentive payments adjustments.

---

# Future of Budget Enforcement Rules

---

The discretionary spending limits and pay-as-you-go (PAYGO) mechanism established by the Budget Enforcement Act (BEA) expire this year.<sup>20</sup> While the fiscal year 2001, 2002, and 2003 budgets supported extending the discretionary caps and the PAYGO enforcement, to date no such legislative action has been taken. There is widespread agreement that for much of the past decade BEA was successful in restraining fiscal action by Congress and the President. However, there is also general acknowledgment both that the spending caps for the last couple of years were unrealistically tight when they were set and that the emergence of budget surpluses undermined the acceptance of BEA enforcement mechanisms that had been designed to reach budget balance. Given the forthcoming expiration of BEA enforcement regime and the need to deal with the budgetary challenges the country faces both in the short and long term, now is an important time to comment on the future of budget enforcement mechanisms.

---

## Recent History of Budget Enforcement Rules

The Budget Enforcement Act of 1990 (Title XIII of P.L. 101-508) was designed to constrain future budgetary actions by Congress and the President. BEA took a different tack on fiscal restraint than earlier efforts, which had focused on annual deficit targets in order to balance the budget.<sup>21</sup> BEA sought to reach budget balance by limiting congressional actions. The process was designed to enforce a previously reached agreement on the size of discretionary spending and the budget neutrality of revenue and mandatory spending legislation (PAYGO). In 1993, the discretionary spending limits and the PAYGO rules were extended through fiscal year 1998; the 1997 Budget Enforcement Act (Title X of P.L. 105-33) again extended the discretionary spending caps and the PAYGO rules through 2002.

---

<sup>20</sup>Although the Overall Discretionary spending caps expire in 2002, the Highway and Mass Transit outlay caps established under the Transportation Equity Act for the 21st Century (TEA-21) continue through 2003, and the Conservation caps established as part of the fiscal year 2001 Interior Appropriations Act were set through 2006. In addition, the sequestration procedure applies through 2006 to eliminate any projected net costs stemming from PAYGO legislation enacted through fiscal year 2002.

<sup>21</sup>For more on history see U.S. General Accounting Office, *Budget Process: Evolution and Challenges*, [GAO/T-AIMD-96-129](#) (Washington, D.C.: July 11, 1996).

---

---

## Trends in Adherence to the Discretionary Spending Caps and PAYGO Constraints

In the last several years with budget surpluses, adjustments to the spending caps were much larger than in most prior years.<sup>22</sup> Figure 1 illustrates the increasing lack of adherence to the original discretionary spending caps since the advent of surpluses in 1998. The figure shows the original budget authority caps as established in 1990 and as extended in 1993 and 1997, adjustments made to the caps, and the level of enacted appropriations for fiscal years 1991 through 2002.

In fiscal years 1999 and 2000, emergency spending designations were used by Congress to permit spending above the discretionary caps. The amounts designated as emergency spending—\$34.4 billion and \$30.8 billion, respectively—were significantly higher than in most past years.<sup>23</sup> In addition to the larger-than-normal amounts, emergency appropriations in those years also addressed broader purposes than in most prior years.<sup>24</sup>

---

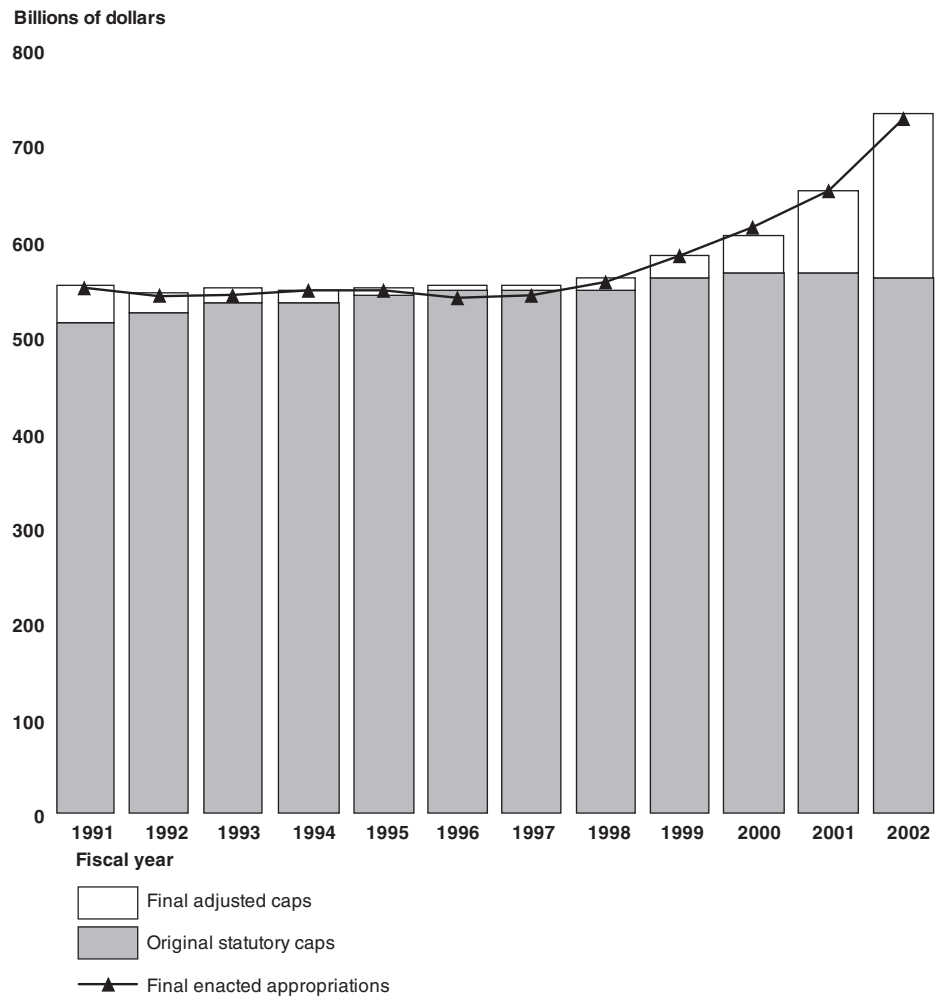
<sup>22</sup>The exception was fiscal year 1991, in which most of the large adjustment was funding for Operation Desert Storm.

<sup>23</sup>See U.S. General Accounting Office, *Budget Issues: Budget Enforcement Compliance Report*, [GAO/AIMD-99-100](#) (Washington, D.C.: Apr. 1, 1999); U.S. General Accounting Office, *Budget Issues: Budget Enforcement Compliance Report*, [GAO/AIMD-00-174](#) (Washington, D.C.: May 31, 2000); and [GAO-01-777](#).

<sup>24</sup>Additional information on issues related to emergency spending can be found in Congressional Budget Office report *Emergency Spending Under the Budget Enforcement Act*, (Washington, D.C.: Dec. 1998); the update to that report issued in June 1999; the Congressional Budget Office report *Supplemental Appropriations in the 1990s* (Washington, D.C.: March 2001); and the U.S. General Accounting Office reports *Budgeting for Emergencies: State Practices and Federal Implications*, [GAO/AIMD-99-250](#) (Washington, D.C.: Sept. 30, 1999), and *Emergency Criteria: How Five States Budget for Uncertainty*, [GAO/AIMD-99-156R](#) (Washington, D.C.: Apr. 20, 1999).

**Appendix III  
Future of Budget Enforcement Rules**

**Figure 1: Discretionary Outlay Caps and Enacted Appropriations**



Note: Data for fiscal year 2002 are current as of February 4, 2002; the final amount after the end of the fiscal year may be higher depending on the enactment of any supplemental spending.

Source: Office of Management and Budget.

Emergency spending designations have not been the only route to spending above the discretionary spending caps. In fiscal year 2001 Congress included a provision in the Foreign Operations Appropriations Act (P.L. 106-429) that raised the 2001 budget authority cap by \$95.9 billion, a level assumed to be sufficient to cover all enacted and anticipated appropriations. In 2002, Congress took similar steps and once again raised the spending limits to a level sufficient to cover enacted appropriations. The Department of Defense and Emergency Supplemental Appropriations Act for 2002<sup>25</sup> adjusted the budget authority caps upward by \$134.5 billion. In addition to the two approaches described above, the Congressional Budget Office (CBO) has reported that advance appropriations, obligation and payment delays, and specific legislative direction for scorekeeping have also been used to boost discretionary spending while allowing technical compliance with the limits.<sup>26</sup>

Advance appropriations have provided a way for Congress to pass appropriations that are scored, or counted, in subsequent fiscal years rather than the year in which they are enacted. The Office of Management and Budget (OMB) has advocated limiting this type of funding to its use as a way to fully finance capital projects and ameliorate the problem of budget spikes caused by funding the entirety of a large capital project in 1 fiscal year. However, advance appropriations can and have also been used to avoid spending limitations and/or to mask true spending levels by crediting appropriations to other years.

For fiscal year 2000, provisions of law that delayed certain obligations and payments pushed outlays from certain appropriations into the next year. CBO reported that while these and the other techniques mentioned are not new, they were used in different ways or to a greater extent than in past years.<sup>27</sup>

Directed scoring occurs when the budget committees instruct CBO to use an estimate for an appropriation action that is different from the one that

---

<sup>25</sup>Department of Defense and Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States, Public Law 107-117, Division C, section 101(a), 115 STAT. 2230, 2341-2342 (2002).

<sup>26</sup>Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011* (Washington, D.C.: January 2001).

<sup>27</sup>Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2001-2010* (Washington, D.C.: January 2000).

CBO would otherwise use. In 2000, CBO reported that the committees directed it to use such estimates for a wider variety of programs than had been the case in previous years and that these directions lowered CBO's estimates of budget authority by \$3 billion and of outlays by about \$19 billion.

Nor has PAYGO enforcement been exempt from implementation challenges. The consolidated appropriations acts for both fiscal years 2000 and 2001 mandated that OMB change the PAYGO scorecard balance to zero. In fiscal year 2002, a similar instruction in the Department of Defense and Emergency Supplemental Appropriations Act eliminated \$130.3 billion in costs from the PAYGO scorecard. Both OMB and CBO estimated that without the instructions to change the scorecard, sequesters would have been required in both 2001 and 2002.

---

## Principles for a Budget Process

On the eve of BEA's expiration, Congress has myriad options available for consideration as it begins crafting a new budget process. In the past, we have suggested four broad principles or criteria for a budget process.<sup>28</sup> The process should

- provide information about the long-term impact of decisions while recognizing the differences between short-term forecasts, medium-term projections, and longer-term simulations;
- provide information and be structured to focus on important macro trade-offs;
- provide information necessary to make informed trade-offs between missions and between the different tools of government; and
- be enforceable, provide for control and accountability, and be transparent.

---

<sup>28</sup>For a fuller discussion of these criteria see [GAO/T-AIMD-96-129](#), U.S. General Accounting Office, *Budget Process: History and Future Directions*, [GAO/T-AIMD-95-214](#) (Washington, D.C.: July 13, 1995), and U.S. General Accounting Office, *Budget Process: Comments on H.R. 853*, [GAO/T-AIMD-99-188](#) (Washington, D.C.: May 12, 1999).



The lack of adherence to the original BEA spending constraints in recent years and the expiration of BEA suggest that now may be an opportune time to think about the direction and purpose of our nation's fiscal policy. The surpluses that many worked hard to achieve—with help from the economy—not only strengthened the economy for the longer term but also put us in a stronger position to respond to the events of September 11 and to the economic slowdown than would otherwise have been the case. Going forward, the nation's commitment to surpluses will be tested: a return to surplus will require sustained discipline and difficult choices. It will be important for Congress and the President to take a hard look at competing claims on the federal fisc.<sup>29</sup> A fundamental review of existing programs and operations can create much needed fiscal flexibility to address emerging needs by weeding out programs that have proven to be outdated, poorly targeted, or inefficient in their design and management.

Last October, the House and Senate Budget Committees called for a return to budget surplus as a fiscal goal.<sup>30</sup> This remains an important fiscal goal, but achieving it will not be easy. Much as the near-term projections have changed in a year, it is important to remember that even last year the long-term picture did not look rosy. These long-term fiscal challenges argued for continuation of some fiscal restraint even in the face of a decade of projected surpluses. The events of September 11 reminded us of the benefits fiscal flexibility provides to our nation's capacity to respond to urgent and newly emergent needs. Absent substantive changes in entitlement programs for the elderly, in the long term there will be virtually no room for any other federal spending priorities—persistent deficits and escalating debt will overwhelm the budget.<sup>31</sup> While the near-term outlook has changed, the long-term pressures have not. These long-term budget

---

<sup>29</sup>See U.S. General Accounting Office, *Homeland Security: Challenges and Strategies in Addressing Short- and Long-Term National Needs*, [GAO-02-160T](#) (Washington, D.C.: Nov. 7, 2001); U.S. General Accounting Office, *Congressional Oversight: Opportunities to Address Risks, Reduce Costs, and Improve Performance*, [GAO/T-AIMD-00-96](#) (Washington, D.C.: Feb. 17, 2000); and U.S. General Accounting Office, *Budget Issues: Effective Oversight and Budget Discipline are Essential—Even in a Time of Surplus*, [GAO/T-AIMD-00-73](#) (Washington, D.C.: Feb. 1, 2000).

<sup>30</sup>House and Senate Budget Committees, *Revised Budgetary Outlook and Principles for Economic Stimulus* (Oct. 4, 2001).

<sup>31</sup>U.S. General Accounting Office, *Budget Issues: Long-Term Fiscal Challenges*, [GAO-02-467T](#) (Washington, D.C.: Feb. 27, 2002) and U.S. General Accounting Office, *Long-Term Budget Issues: Moving From Balancing the Budget to Balancing Fiscal Risk*, [GAO-01-385T](#) (Washington, D.C.: Feb. 6, 2001).

challenges driven by demographic trends also serve to emphasize the importance of the first principle cited above—the need to bring a long-term perspective to bear on budget debates. Keeping in mind these principles and concerns, a number of alternatives appear promising.

---

## Alternatives for Improving the Budget Process

There is much agreement among experts that there is a need for the continuation of some type of budget process to restrain spending. Discussions on the future of the budget process have primarily focused on revamping the current budget process rather than establishing a new one from scratch. Where the discussion focuses on specific control devices, the two most frequently discussed are (1) extending the discretionary spending caps and (2) extending the PAYGO mechanism. In addition, past discussions have suggested a third element—a set of rules or a “trigger device”—that could be included to deal with the uncertainty of budget projections.

---

## Extending Caps on Discretionary Spending

BEA distinguished between spending controlled by the appropriations process—“discretionary spending”—and that which flowed directly from authorizing legislation provisions of law—“direct spending,” sometimes called “mandatory.” Caps were placed on discretionary spending—and Congress’ compliance with the caps was relatively easy to measure because discretionary spending totals flow directly from legislative actions (i.e., appropriations laws). As noted above, there is broad consensus that, although the caps have been adjusted, they have served to constrain appropriations. This consensus, combined with the belief that some restraints should be continued, has led many to propose that some form of cap structure be continued as a way of limiting discretionary appropriations. However, the actions taken to avoid the spending caps in the last few years have also led many to note that caps can only work if they are realistic; while caps may be seen as tighter than some would like, they are not likely to bind if they are seen as totally unreasonable given current conditions. In the near term, limits on discretionary spending may be an important tool to prompt reexamination of existing programs as well as new proposals.

Some have proposed that any extension of BEA-type caps be limited to caps on budget authority. Outlays are controlled by and flow from budget authority—although at different rates depending on the nature of the program. Some argue that the existence of both budget authority and

outlay caps has encouraged provisions such as “delayed obligations” to be adopted not for programmatic reasons but as a way of juggling the two caps. The existence of two caps may also skew authority from rapid spend-out to slower spend-out programs, thus pushing more outlays to the future and creating problems in complying with outlay caps in later years. Extending only the budget authority cap would eliminate the incentive for such actions and focus decisions on that which Congress is intended to control—budget authority, which itself controls outlays. This would be consistent with the original design of BEA. The obvious advantage to focusing decisions on budget authority rather than outlays is that Congress would not spend its time trying to control the timing of outlays.

Eliminating the outlay cap would raise several implementation issues—chief among them being how to address the control of transportation programs for which no budget authority cap currently exists, and the use of advance appropriations to skirt budget authority caps. However, agreements about these issues could be reached. For example, the fiscal year 2002 budget proposed a revision to the scorekeeping rule on advance appropriations so that generally they would be scored in the year of enactment. Such a scoring rule change could eliminate the practice of using advance appropriations to skirt the caps. The 2002 Congressional Budget Resolution took another tack; it capped advance appropriations at the amount advanced in the previous year. This year the administration proposed that total advance appropriations continue to be capped in 2003 and the President’s budget assumed that all advance appropriations would be frozen except for those that it said should be reduced or eliminated for programmatic reasons.

There are other issues to consider in the design of any new caps. For example, for how long should caps be established? What categories should be established within or in lieu of an overall cap? While the original BEA envisioned three categories (Defense, International Affairs, and Domestic), over time categories were combined and new categories were created. At one time or another caps for Nondefense, Violent Crime Reduction, Highways, Mass Transit, and Conservation spending existed—many with different expiration dates. Should these caps be ceilings, or should they—as is the case for Highways and Conservation—provide for “guaranteed” levels of funding? The selection of categories—and the design of the applicable caps—is not trivial. Categories define the range of what is permissible. By design they limit tradeoffs and so constrain both Congress and the President.

We have previously reported that the BEA process has not facilitated making decisions on activities intended to promote long-term economic growth.<sup>32</sup> In the past we have suggested consideration of an “investment component” within the discretionary caps; this would cover funding for physical infrastructure, research and development, and education and training (investment in human capital). Such a structure could help Congress and the President make more informed decisions about the balance between federal funding of investment activities and federal funding for other activities.

Because caps are phrased in specific dollar amounts, it is important to address the question of when and for what reasons the caps should be adjusted. This is critical for making the caps realistic. For example, without some provision for emergencies, no caps can be successful. At the same time, there appears to be some connection between how realistic the caps are and how flexible the definition of emergency is. As described in both our 2000 and 2001 compliance reports, the amount and range of spending considered as “emergency” has grown in recent years.<sup>33</sup> There have been a number of approaches suggested to balance the need to respond to emergencies and the desire to avoid making the “emergency” label an easy way to raise caps. The House Budget Resolution for fiscal year 2002 (H. Con. Res. 83) established a reserve fund of \$5.6 billion for emergencies in place of the current practice of automatically increasing the appropriate levels in the budget resolution for designated emergencies. It also established two criteria for defining an emergency. These criteria require an emergency to be a situation (other than a threat to national security) that (1) requires new budget authority to prevent the imminent loss of life or property or in response to the loss of life or property and (2) is unanticipated, meaning that the situation is sudden, urgent, unforeseen, and temporary.

---

<sup>32</sup>U.S. General Accounting Office, *Budget Structure: Providing an Investment Focus in the Federal Budget*, GAO/T-AIMD-95-178 (Washington, D.C.: June 29, 1995) and GAO/T-AIMD-96-129.

<sup>33</sup>See GAO/AIMD-00-174 and U.S. General Accounting Office, *Budget Issues: Budget Enforcement Compliance Report*, GAO-01-777 (Washington, D.C.: June 15, 2001).

In the past others have proposed providing for more emergency spending under any spending caps—either in the form of a reserve or of a greater appropriation for the Federal Emergency Management Agency (FEMA). If such an approach were to be taken, the amounts for either the reserve or the FEMA disaster relief account would need to be included when determining the level of the caps. Some have proposed using a 5- or 10-year rolling average of disaster/emergency spending as the appropriate reserve amount. Adjustments to the caps would be limited to spending over and above that reserve or appropriated level for extraordinary circumstances. Since the events of September 11—and the necessary responses to those events—would undoubtedly qualify as such an “extraordinary circumstance,” consideration of new approaches for “emergency” spending should probably focus on what might be considered “more usual” emergencies. It has been suggested that with additional up-front appropriations or a reserve, “traditional” emergency spending adjustments could be disallowed. No matter what the provision, only the commitment of Congress and the President can make any limit on cap adjustments for emergencies work. States have used this reserve concept for emergencies, and their experiences indicate that criteria for using emergency reserve funds may be useful in controlling emergency spending.<sup>34</sup> Agreements over the use of the reserve would also need to be achieved at the federal level.

This discussion is not exhaustive. There are other issues that would come up in the design of caps. In the next section, we note two of these issues.

---

## Miscellaneous Discretionary Challenges: Leases and User Fees

If the discretionary caps are to be extended, consideration should be given to addressing areas where attempts to “expand” resources under the caps can lead to distortions: the scoring of operating leases and the expansion of user fees as offsets to discretionary spending.

We have previously reported that existing scoring rules favor leasing when compared to the cost of various other methods of acquiring assets.<sup>35</sup> Currently, for asset purchases, budget authority for the entire acquisition cost must be recorded in the budget up front, in the year that the asset acquisition is approved. In contrast, the scorekeeping rules for operating

---

<sup>34</sup>GAO/AIMD-99-250.

<sup>35</sup>U.S. General Accounting Office, *Budget Issues: Budget Scorekeeping for Acquisition of Federal Buildings*, GAO/T-AIMD-94-189 (Washington, D.C.: Sept. 20, 1994).

leases often require that only the current year's lease costs be recognized and recorded in the budget. This makes the operating lease appear less costly from an annual budgetary perspective, and uses up less budget authority under the cap. Alternative scorekeeping rules could be considered that would treat operating leases used for long-term needs in some other way to more closely recognize the likely period of use. For example, scoring up front the present value of lease payments for long-term needs covering the same time period used to analyze ownership options would permit direct competition between leases and purchases. The caps could be adjusted appropriately to accommodate such a change.

Many believe that one unfortunate side effect of the structure of BEA has been an incentive to create revenues that can be categorized as "user fees" and so offset discretionary spending—rather than be counted on the PAYGO scorecard. The 1967 President's Commission on Budget Concepts recommended that receipts from activities which were essentially governmental in nature, including regulation and general taxation, be reported as receipts, and that receipts from business-type activities "offset to the expenditures to which they relate." However, these distinctions have been blurred in practice. Ambiguous classifications combined with budget rules that make certain designs most advantageous has led to a situation in which there is pressure to treat fees from the public as offsets to appropriations under BEA caps, regardless of whether the underlying federal activity is business or governmental in nature. Consideration should be given to whether it is possible to come up with and apply consistent standards—especially if the discretionary caps are to be redesigned. The administration has stated that it plans to monitor and review the classification of user fees and other types of collections.

---

## Extending and Refining PAYGO

The PAYGO requirement prevented legislation that lowered revenue or increased direct spending (e.g., by creating new mandatory programs) from increasing the deficit by requiring that it be offset by other legislative actions. As long as the unified budget was in deficit, the provisions of PAYGO—and its application—were clear. During the nation's few years of surpluses, questions were raised about whether the prohibition on increasing the deficit also applied to reducing the surplus. Although Congress and the executive branch both concluded that PAYGO did apply in such a situation—and although the question is moot currently, it would be worth clarifying the point if PAYGO is extended. In its 2002 budget the administration proposed—albeit implicitly—special treatment for a tax cut and for some Medicare provisions. It stated that the President's tax plan

and Medicare reforms were fully financed by the surplus and that any other spending or tax legislation would need to be offset by reductions in spending or increases in receipts. Ultimately, the Department of Defense and Emergency Supplemental Appropriations Act for 2002 eliminated the need to offset any of the PAYGO legislation by resetting the 2001 and 2002 scorecard to zero.

When surpluses return and Congress looks to create a PAYGO process for a time of surplus, it might wish to consider the kinds of debt targets we found in other nations.<sup>36</sup> For example, it might wish to permit increased direct spending or lower revenues as long as debt held by the public is planned to be reduced by some set percentage or dollar amount. Such a provision might prevent PAYGO from becoming as unrealistic as overly tight caps on discretionary spending. However, the design of such a provision would be important—how would a debt reduction requirement be specified? How would it be measured? What should be the relationship between the amount of debt reduction required and the amount of surplus reduction (i.e., tax cut or direct spending increase) permitted? What, if any, relationship should there be between this calculation and the discretionary caps?

While PAYGO constrained the creation or legislative expansion of direct spending programs and tax cuts, it accepted the existing provisions of law as given. It was not designed to trigger—and it did not trigger—any examination of “the base.” Cost increases in existing mandatory programs are exempt from control under PAYGO and could be ignored. However, constraining legislative actions that increase the cost of entitlements and mandatories is not enough. Our long-term budget simulations show that as more and more of the baby boom generation enters retirement, spending for Social Security, Medicare, and Medicaid will demand correspondingly larger shares of federal revenues. Assuming, for example, that last year’s tax reductions are made permanent and discretionary spending keeps pace with the economy, spending for net interest, Social Security, Medicare, and Medicaid consumes nearly three-quarters of federal revenues by 2030, leaving little room for other federal priorities, including defense and education.

---

<sup>36</sup>See U.S. General Accounting Office, Budget Surpluses: *Experiences of Other Nations and Implications for the United States*, [GAO/AIMD-00-23](#) (Washington, D.C.: Nov. 2, 1999).

The budget process is the one place where we as a nation can conduct a healthy debate about competing claims and new priorities. However, such a debate will be needlessly constrained if only new proposals and activities are on the table. A fundamental review of existing programs and operations can create much-needed fiscal flexibility to address emerging needs by weeding out programs that have proven to be outdated, poorly targeted, or inefficient in their design and management. It is always easier to subject proposals for new activities or programs to greater scrutiny than that given to existing ones. It is easy to treat existing activities as “given” and force new proposals to compete only with each other. However, such an approach would move us further from, rather than nearer to, budgetary surpluses.<sup>37</sup>

Previously we suggested some sort of “lookback” procedure to at least cause a reexamination of “the base.” Under such a process Congress could specify spending targets for PAYGO programs for several years. The President could be required to report in his budget whether these targets either had been exceeded in the prior year or were likely to be exceeded in the current or budget years. He could then be required to recommend whether any or all of this overage should be recouped—and if so, to propose a way to do so. Congress could be required to act on the President’s proposal.

While the current budget process contains a similar point of order against worsening the financial condition of the Social Security trust funds,<sup>38</sup> it would be possible to link “tripwires” to measures related to overall budgetary flexibility or to specific program measures. For example, if Congress were concerned about declining budgetary flexibility, it could design a “tripwire” tied to the share of the budget devoted to mandatory spending or to the share devoted to a major program.

Others have suggested variations of this type of “tripwire” approach. The 1999 Breaux-Frist proposal (S. 1895) for structural and substantive changes to Medicare financing contained a new concept for measuring “programmatically insolvency” and required congressional approval of additional financing if that point was reached. Other specified actions

---

<sup>37</sup>GAO-02-467T.

<sup>38</sup>2 U.S.C. 632 (i), and U.S. General Accounting Office, *Medicare Reform: Issues Associated With General Revenue Financing*, GAO/T-AIMD-00-126 (Washington, D.C.: Mar. 27, 2000).



could be coupled with reaching a “tripwire,” such as requiring Congress or the President to propose alternatives to address reforms. Or the congressional budget process could be used to require Congress to deal with unanticipated cost growth beyond a specified “tripwire” by establishing a point of order against a budget resolution with a spending path exceeding the specified amount. One example of a threshold might be the percentage of gross domestic product devoted to Medicare. The President would be brought into the process as it progressed because changes to deal with the cost growth would require enactment of a law.

---

## Improving the Recognition of Long- Term Commitments

In previous reports we have argued that the nation’s economic future depends in large part upon today’s budget and investment decisions.<sup>39</sup> In fact, in recent years there has been increased recognition of the long-term costs of Social Security and Medicare.<sup>40</sup>

While these are the largest and most important long-term commitments—and the ones that drive the long-term outlook—they are not the only ones in the budget. Even those programs too small to drive the long-term outlook affect future budgetary flexibility. For Congress, the President, and the public to make informed decisions about these other programs, it is important to understand their long-term cost implications.

While the budget was not designed to and does not provide complete information on long-term cost implications stemming from some of the government’s commitments when they are made, progress can be made on this front. The enactment of the Federal Credit Reform Act in 1990 represented a step toward improving both the recognition of long-term costs and the ability to compare different policy tools. With this law, Congress and the executive branch changed budgeting for loan and loan guarantee programs. Prior to the act, loan guarantees looked “free” in the budget. Direct loans looked like grant programs because the budget

---

<sup>39</sup>See [GAO/T-AIMD-96-129](#) and U.S. General Accounting Office, *The Deficit and the Economy: An Update of Long-Term Simulations*, [GAO/AIMD/OCE-95-119](#) (Washington, D.C.: Apr. 26, 1995), among others.

<sup>40</sup>Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2002* (Washington, D.C.: Apr. 9, 2001); CBO, *The Budget and Economic Outlook: Fiscal Years 2002-2011*; U.S. General Accounting Office, *Medicare: Higher Expected Spending and Call for New Benefit Underscore Need for Meaningful Reform*, [GAO-01-539T](#) (Washington, D.C.: Mar. 22, 2001); and [GAO-01-385T](#).

ignored loan repayments. The shift to accrual budgeting for subsidy costs permitted comparison of the costs of credit programs both to each other and to spending programs in the budget.

Information should be more easily available to Congress and the President about the long-term cost implications both of existing programs and new proposals. In 1997 we reported that the current cash-based budget generally provides incomplete information on the costs of federal insurance programs.<sup>41</sup> The ultimate costs to the federal government may not be apparent up front because of time lags between the extension of the insurance, the receipt of premiums, and the payment of claims. While there are significant estimation and implementation challenges, accrual-based budgeting has the potential to improve budgetary information and incentives for these programs by providing more accurate and timely recognition of the government's costs and improving the information and incentives for managing insurance costs. This concept was proposed in the Comprehensive Budget Process and Reform Act of 1999 (H.R. 853), which would have shifted budgetary treatment of federal insurance programs from a cash basis to an accrual basis.

There are other commitments for which the cash and obligation-based budget does not adequately represent the extent of the federal government's commitment. Although detailed budget estimates cannot be made for all programs with long-term cost implications, better information on the long-term costs of commitments like employee pension programs, retiree health benefits, and environmental cleanup could be made available. The President's fiscal year 2003 budget took a step in that direction by proposing that funding be included in agency budgets for the accruing costs of pensions and retiree health care benefits. While there are various analytical and implementation challenges to including these costs into budget totals, more could be done to provide information on the long-term cost implications of these programs to Congress, the President, and the interested public. At your request, we are continuing to address this issue.

---

<sup>41</sup>U.S. General Accounting Office, *Budget Issues: Budgeting for Federal Insurance Programs*, GAO/AIMD-97-16 (Washington, D.C.: Sept. 30, 1997).

---

---

## Dealing with the Uncertainty of Projections

Early last year, given 10-year projections showing fairly sizable surpluses, the budget debate focused on how much of the surplus should be used for tax cuts, debt reduction, and spending increases. By the fall of 2001, for a variety of reasons, the debates of how to use the surpluses had quickly turned to predictions of short-term deficits and discussions of the defense and homeland security needs of the country and the forms of government spending that should be used to help improve the economy. This quick turnaround in the economic outlook served to highlight the fact that although budgeting requires forecasts and projections, they can be inexact even in the short term. As the budgeting horizon expands, the certainty of error grows. When establishing a new budget process, it makes sense to think about including a mechanism to deal with the uncertainty of projections, especially with the expectation of a return to surpluses.

Few forecasters would suggest that 10-year projections are anything but that—projections of what the world would look like if it continued on a line from today. And long-term simulations are useful to provide insight as to direction and order of magnitude of certain trends—not as forecasts. Nevertheless, baseline projections are necessary for measuring and comparing proposed changes. Former CBO Director Rudy Penner has suggested that 5-year and 10-year projections should be used for different purposes: 5-year projections should once again be used for the budget resolution horizon while 10-year projections should only be used to identify the budgetary impact of tax and entitlement phase-ins beyond the 5-year budget window. He adds that the forecasts would not be used to plan comprehensively for total spending, taxes, or the budget balance beyond 5 years. It has been suggested that today the 10-year window is most misleading since it ends just before the baby boom bulge.

No 10-year projection is likely to be entirely correct; the question confronting fiscal policymakers is how to deal with the risk that a projection is materially wrong. Last year some commentators and members of Congress suggested dealing with this risk by using triggers. Triggers were part both of Gramm-Rudman-Hollings (GRH) and of BEA. The GRH triggers were tied to deficit results and generally regarded as a failure—they were evaded or, when deficits continued to exceed the targets, the targets were changed. BEA triggers were tied to congressional action rather than to deficit results, but were still designed mainly to lower deficits until a balanced budget was attained and did not contemplate the scenario of a surplus. Sequesters were rarely triggered and when they were, they were very small. As deficits turned to large surpluses and

debate turned to the need for a tax cut, the discussion of a different type of trigger mechanism emerged, specifically, a trigger mechanism that would link the size of the tax cut in future years to budget results in those years. However, there could be other variations on a trigger: actual surplus results, actual revenue results (this with the intent of avoiding a situation in which spending increases can derail a tax cut), or actual debt results. Some might wish to consider triggers that would cause decision makers to make proposals to address fiscal results that exceed some specific target, such as debt or spending as a share of GDP. However, there is little consensus on the effectiveness of any triggers.

Former CBO Director Robert Reischauer has suggested another way of dealing with the fact that forecasts/projections become less certain as they go further out in time. Under his proposal, a declining percentage of any projected surplus would be available—either for tax cuts or for spending increases. Specifically, 80 percent of the surplus would be available to legislators in years one and two, 70 percent in years three and four, 60 percent in years five and six, until reaching the 40 percent level in years nine and ten. The consequence of not adhering to these limits would be an across-the-board sequester. When a new Congress convenes, it would be given a new budget allowance to spend based on a new set of surplus projections.

---

## Conclusion

To affect decision making, the fiscal goals sought through a budget process must be accepted as legitimate. For many years the goal of “zero deficit”—or the norm of budget balance—was accepted as the right goal for the budget process. In the absence of the zero deficit goal, policymakers need an overall framework upon which a process and any targets can be based. When the deficits turned to surpluses, there was discussion of goals framed in terms of debt reduction or surpluses to be saved. As difficult as selecting a fiscal goal in times of surplus is, selecting one today may seem even more difficult. Congress and the administration must balance the need to respond not only to those demands that existed last year—demands kept in abeyance during many years of fighting deficits—but also demands imposed on us by the events of September 11. At the same time—in part because of the demographic tidal wave looming over the horizon—the events of September 11 do not argue for abandonment of all controls.

Whatever interim targets Congress and the President agree on, compliance with budget process rules, in both form and spirit, is more likely if end

goals, interim targets, and enforcement boundaries are both accepted and realistic.

Enforcement is more successful when it is tied to actions controlled by Congress and the President. Both BEA spending caps and the PAYGO enforcement rules were designed to hold Congress and the President accountable for the costs of the laws enacted each session—not for costs that could be attributed to economic changes or other factors.

Going forward, new rules and goals will be important to ensure fiscal discipline and to prompt a focus on the longer-term implications of decisions. The federal government still needs a decision-making framework that permits it to evaluate choices against both today's needs and the longer-term fiscal future that will be handed to future generations. What process will enable policymakers to deal with the near term without ignoring the long term? At the same time, the challenges for any budget process are the same: what process will enable policymakers to make informed decisions about both fiscal policy and the allocation of resources within the budget?

Extending the current BEA without setting realistic caps and addressing existing mandatory programs is unlikely to be successful for the long term. The original BEA employed limited actions in aiming for a balanced budget. It left untouched those programs—direct spending and tax legislation—already in existence.

Today's situation may argue for an interim step in extending and modifying BEA. However, going forward with new challenges, we believe that a new process that prompts Congress to exercise more foresight in dealing with long-term issues is needed. The budget process appropriate for the early 21st Century will have to exist as part of a broader framework for thinking about near- and long-term fiscal goals.

# GAO Contact and Staff Acknowledgments

---

---

## GAO Contact

Christine E. Bonham, (202) 512-9576

---

## Acknowledgments

In addition to the person named above, Brendan Culley, Carlos E. Diz, Jennifer A. Eichberger, and David S. Nicholson made key contributions to this report.

---

## GAO's Mission

The General Accounting Office, the investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site ([www.gao.gov](http://www.gao.gov)) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "Subscribe to daily E-mail alert for newly released products" under the GAO Reports heading.

---

## Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

To order by Phone:   Voice: (202) 512-6000  
                                  TDD: (202) 512-2537  
                                  Fax: (202) 512-6061

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Public Affairs

Jeff Nelligan, managing director, [NelliganJ@gao.gov](mailto:NelliganJ@gao.gov) (202) 512-4800  
U.S. General Accounting Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548

---

**United States  
General Accounting Office  
Washington, D.C. 20548-0001**

**Presorted Standard  
Postage & Fees Paid  
GAO  
Permit No. GI00**

**Official Business  
Penalty for Private Use \$300**

**Address Service Requested**

---

