



October 31, 2019

CBO's Relationships With Agencies: Communication Is Key

Budget Line of Business
Fall Forum

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CBO's Role

The **Congressional Budget Act of 1974** established the House and Senate Budget Committees to set federal spending policy and identify priorities for allocating budgetary resources.

To support the Budget Committees in carrying out those responsibilities, the Budget Act also established the Congressional Budget Office and required it to provide:

- **Baseline budget projections**—annual reports on projected spending, revenues, and deficits under current law; and
- **Cost estimates for legislation** that summarize the legislation's incremental budgetary effects relative to the baseline.

The Budget Act also addressed the critical need for **open communication and data sharing** between CBO and other federal agencies.

To meet its responsibilities, CBO must understand how agencies operate and carry out federal laws. As a result, CBO consults with agencies on an ongoing basis.

CBO's analysts aim to develop strong relationships with agencies' staff members. CBO does not release the names of the people it consults.

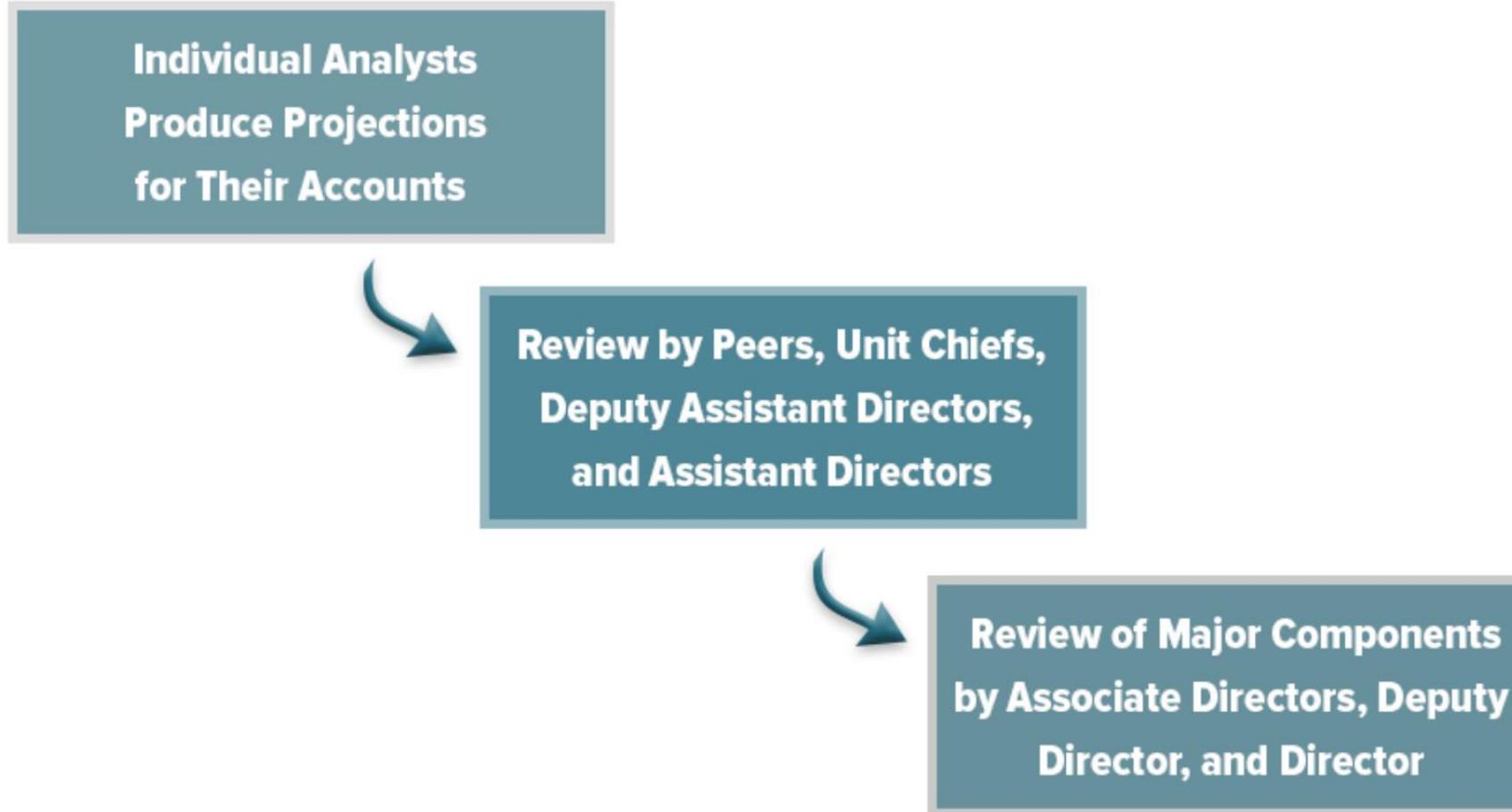
CBO also relies on experts from many other places, including:

- The Office of Management and Budget (OMB);
- The Joint Committee on Taxation;
- Other Congressional committees;
- The Government Accountability Office;
- The Congressional Research Service; and
- Think tanks, universities, interest groups, industry, and state and local governments.

How CBO Uses Information From Agencies to Prepare Baseline Projections

CBO's baseline projections are constructed to reflect an assumption that current laws governing taxes and spending generally remain unchanged. The projections serve as a **benchmark** that the Congress can use to enforce rules and procedures for considering legislation that would affect the budget.

CBO's Process for Developing and Reviewing Baseline Projections



Analysts consult staff members at federal agencies to understand:

- How CBO's estimates for prior projections compare with **actual results**;
- **Atypical patterns** in actual and projected budgetary effects;
- **Key factors** that affect how programs are implemented and the timing and magnitude of budgetary outcomes;
- The outlook for **planned activities and potential changes in the Administration's policies**; and
- How **pending litigation** may affect an agency's activities.

At the end of each fiscal year, CBO reviews actual budget results in preparation for updating the agency's account-level projections for spending and revenues.

During that time, analysts frequently consult their counterparts at other agencies and OMB about how programs and accounts functioned in the previous year and are expected to function in the future.

That work begins in October and culminates with the release (usually in January) of the annual *Budget and Economic Outlook*, which contains CBO's baseline projections.

In most years, CBO updates those January baseline projections in the spring, when it analyzes the President's budget request for the upcoming fiscal year.

Analysts use information contained in the President's budget request to adjust CBO's projections of spending and revenues under current law and to estimate the budgetary effects of the Administration's proposals.

They also review the budget justifications that agencies provide to the Congress (and other public documents) and consult experts at the agencies for additional insights and information.

How CBO Uses Information From Agencies to Prepare Cost Estimates

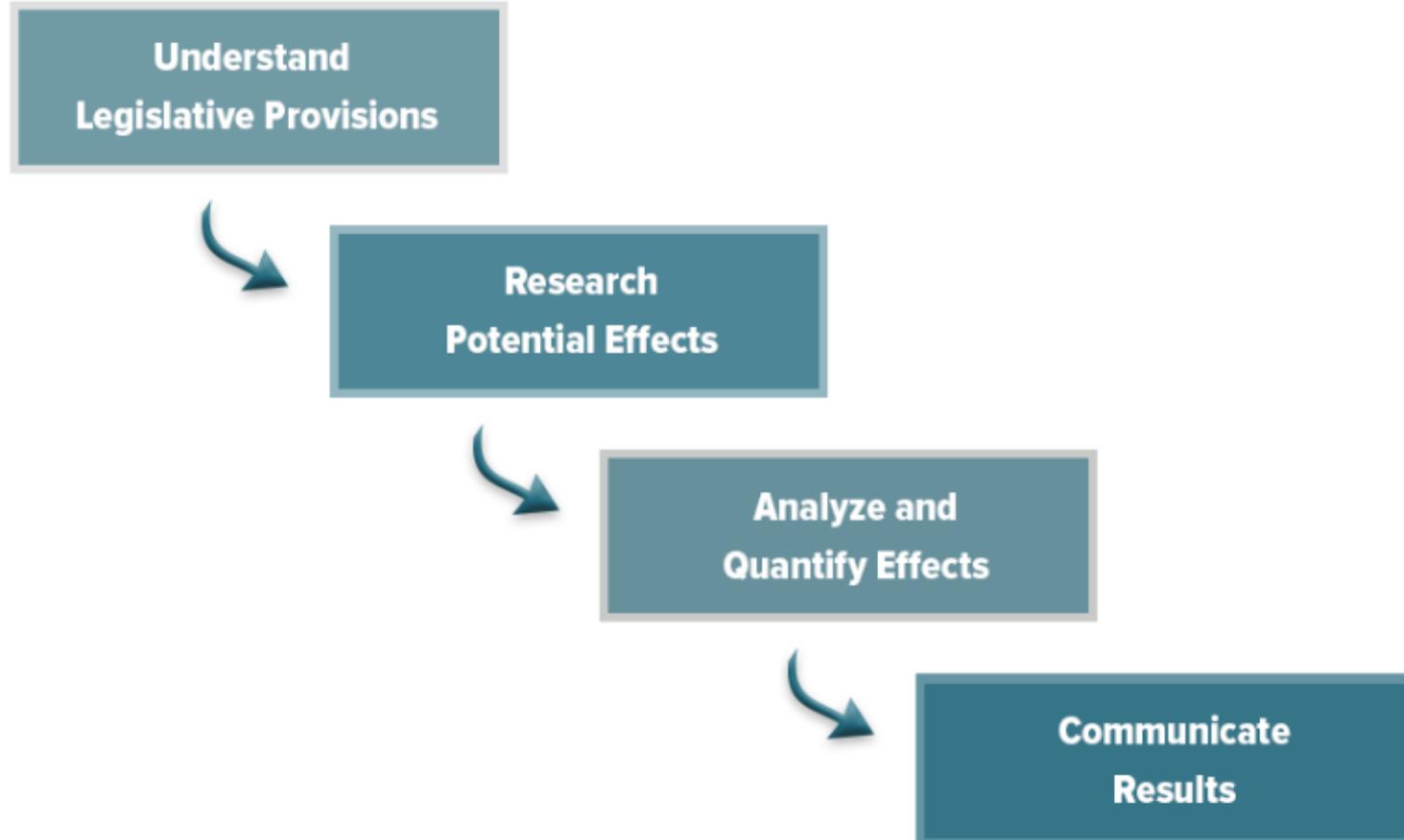
CBO's cost estimates provide information that the Congress can use to implement its rules and procedures for considering legislation that would affect the federal budget.

Each estimate tells a concise story about a legislative proposal's incremental effects on federal taxes or spending. It also indicates whether the proposal would impose mandates on state, local, or tribal governments or private-sector entities.

CBO consults agencies' staff members throughout the year when preparing cost estimates. Statutory requirements ensure that CBO places the highest priority on preparing estimates for proposals that are most likely to receive active consideration by the Congress.

The scope of estimates varies, as does the amount of time allowed to prepare them. Often, time frames are short.

CBO's Process for Developing Formal Cost Estimates



In **Step 1**, CBO's analysts carefully **study the proposed legislation and assess the way it would change current law**. This step involves consulting technical experts at federal agencies to understand how the agencies might implement the legislation and to determine whether its implications are clear.

In **Step 2**, analysts **research potential incremental budgetary effects**. They solicit information about those effects from a variety of sources. In some cases, analysts consult publicly available government data and information. In others, they use data provided specifically at CBO's request.

Step 3, in which analysts **analyze and quantify budgetary effects**, is often the most complex and time-consuming. No single approach works for all estimates, and the best method will depend on the question being addressed, the data available, and the time available to produce the cost estimate.

The key is to **determine how enacting the legislation would change the behavior** of affected individuals and institutions.

To analyze those **changes in behavior**, CBO may ask:

How would federal agencies, states, or affected industries and individuals react to a legislative proposal's directives and incentives?

Would the legislation result in an agency's undertaking activities that it would not pursue under current law?
Would the legislation change the scope of existing efforts?

How much time would be needed to carry out envisioned activities? Are the schedules proposed for implementing those activities feasible?

CBO also asks technical questions about **budget execution**, such as:

- What is the process for obligating and expending the funding that is provided for a given activity?
- How much time typically passes between the point when funding is provided and the point when it is spent?
- What is the status of existing balances of funding? Does an agency expect to obligate and spend them under current law?

To estimate budgetary effects, analysts use a variety of tools to synthesize the data and information that they gather. Often, they also perform sensitivity analyses to assess how outcomes depend on different factors.

CBO also looks at **potential mandates on other governments and the private sector**. Analysts often ask such questions as:

- How are nonfederal entities affected by current law?
- If a bill would prohibit or require an activity, how would behaviors change?
- What are the relationships between federal agencies and state governments that are involved in implementing federal laws?

In **Step 4**, in which analysts **communicate results**, CBO strives to be transparent, providing clear, concise explanations and detailing the key components of the estimate. The **overarching goal is to make information accessible** by providing context, explaining technical terms, and effectively using tables.

Additional Resources

How CBO Prepares Baseline Budget Projections
(February 2018), www.cbo.gov/publication/53532

How CBO Prepares Cost Estimates
(February 2018), www.cbo.gov/publication/53519

“10 Things to Know About CBO,” *CBO Blog*
(January 30, 2018), www.cbo.gov/publication/53520

“Frequently Asked Questions
About Cost Estimates,”
www.cbo.gov/about/products/ce-faq

“CBO’s Activities Under the Unfunded
Mandates Reform Act,”
www.cbo.gov/publication/51335

“In Our Estimation,” www.cbo.gov/podcasts