

# Common Budgetary Terms Explained



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This guide briefly explains—in plain language—the differences between some common budgetary terms. (For detailed definitions, see CBO’s *Glossary*.)

## What’s the Difference Between . . .

### . . . Budget Authority, Obligations, and Outlays?

**Budget authority**, **obligations**, and **outlays** are related terms that describe the funds provided, committed, and used for a program or activity.

Often called funding, **budget authority** is the amount of money available to a federal agency for a specific purpose. The authority to commit to spending federal funds is provided to agencies by law. The amount of budget authority provided can be specific—such as when the Congress provides a set amount for a program or activity—or indefinite. For example, the federal crop insurance program uses indefinite budget authority to provide insurance products to farmers and ranchers at subsidized rates.

Once budget authority has been provided for a given purpose, an agency can incur an **obligation**—a legally

binding commitment. For example, the Department of Defense incurs an obligation when it enters into a contract to purchase equipment. Often, the funds must be obligated within a specified period—typically one or several years—although some funds are available indefinitely. If funds are not obligated within the specified period, they expire (or lapse) and are no longer available for use.

In general, **outlays** occur when a federal agency issues checks, disburses cash, or makes electronic transfers to liquidate (or settle) an obligation. That occurs, for example, when a federal agency deposits grant funds into recipients’ accounts or the Social Security Administration disburses payments to beneficiaries. (For more information about how the Congressional Budget Office estimates outlays, see *CBO’s Waterfall Model for Projecting Discretionary Spending, March 2021*.)

### . . . Authorization Acts and Appropriation Acts?

**Authorization acts** and **appropriation acts** provide the legal authority for the government to operate and fund programs or activities.

**Authorization acts** establish or continue the authority for agencies to conduct programs or activities. Such laws delineate a program’s terms and conditions—often, its duration and eligibility rules. When an authorization act provides funding directly from the Treasury (so that the program does not require an annual appropriation), that amount is classified as mandatory spending.

Other authorization laws establish or continue discretionary programs, which receive their funding in appropriation acts. Those authorization laws may include language

such as “there is authorized to be appropriated [a certain amount of money],” indicating that any funding for the program must be provided in subsequent appropriation acts. (For more information, see *Expired and Expiring Authorizations of Appropriations: Fiscal Year 2021*.)

**Appropriation acts** make funding available to federal programs and activities by providing budget authority to federal agencies, usually by specifying an amount of money for a given fiscal year. In the absence of an authorization act, an appropriation act—by providing funding—can also authorize agencies to operate a program or to undertake an activity. The Congress may consider multiple regular appropriation bills in a given year or provide all discretionary appropriations in one

omnibus bill. When regular appropriations are not in place by October 1, the start of the fiscal year, a continuing resolution can be enacted to provide temporary budget authority for a specified period, typically in amounts equal to appropriations for the previous year.

The Congress can also supplement regular appropriations that have already been enacted. In 2020, for example, lawmakers enacted four laws that provided supplemental appropriations in response to the coronavirus pandemic to give financial assistance to individuals, businesses, and other entities.

## ... Discretionary and Mandatory Spending?

The labels **discretionary** and **mandatory** identify the process by which the Congress provides funds for federal programs or activities. The distinction is generally made at the time a law creates a program or provides authority to undertake an activity. The Congressional rules and statutory procedures that govern budget enforcement differ for those two types of spending.

**Discretionary spending** results from budget authority provided in appropriation acts. (A few mandatory programs are also funded through appropriation acts; those programs are discussed below.) Through the appropriation process, the Congress decides on the amount of funding for a program (such as veterans' health care) or an activity (such as collecting entrance fees at national parks). Administrative costs—to pay salaries, for example—are usually covered through those appropriations.

As a share of all federal outlays, discretionary spending has dropped from 60 percent in the early 1970s to 30 percent in recent years. Almost all defense spending is discretionary, and about 15 percent of pandemic-related spending was classified as discretionary.

Although statutory limits (often referred to as caps) on most types of discretionary budget authority were in place in many years, none are in effect now. The Budget Control Act of 2011 established caps for fiscal years 2012 to 2021; no caps were established for subsequent years.

**Mandatory spending** (also called direct spending) consists of outlays for certain federal benefit programs and other payments to individuals, businesses, non-profit institutions, and state and local governments. That spending is generally governed by statutory criteria and, in most cases, is not constrained by the annual

appropriation process. Social Security, Medicare, and Medicaid are the three largest mandatory programs.

Funding amounts for a mandatory program can be specified in law or, as is the case with Social Security, determined by complex eligibility rules and benefit formulas. The authorization laws that specify the amount of funding for mandatory programs may use language such as “there is hereby appropriated [a particular amount of money].”

Funding for some mandatory programs—for example, the Supplemental Nutrition Assistance Program, veterans' disability compensation and pensions, and Medicaid—is appropriated annually. Spending on those programs is called appropriated mandatory spending. Those programs are mandatory because authorization acts legally require the government to provide benefits and services to eligible people or because other laws require that they be treated as mandatory; however, appropriation acts provide the funds to the agencies to fulfill those obligations.

As discretionary spending's share of total federal spending has declined, mandatory spending's share has grown, from about 30 percent in the early 1970s to 60 percent in recent years. The remaining 10 percent of total federal outlays consists of net spending on interest (primarily interest payments on the federal debt).

Under the Statutory Pay-As-You-Go Act of 2010 (often called S-PAYGO), the Congress established budgetary reporting and enforcement procedures for legislation that affects mandatory spending or revenues. That act can trigger across-the-board cuts in funding (known as sequestration) for mandatory programs. (For more information, see *The Statutory Pay-As-You-Go Act and the Role of the Congress*.)

### ... Rescissions and Reappropriations?

**Rescissions** and **reappropriations** are used by the Congress to change the availability of unused (that is, unobligated) budget authority.

**Rescissions** cancel previously provided budget authority before it expires under current law.

**Reappropriations** extend the originally specified period of availability for unused budget authority that has expired or that would otherwise expire. Generally, that reappropriated budget authority is for the originally stated purpose, but sometimes it can be used for a different purpose.

### ... Cash Accounting, Accrual Accounting, and Fair-Value Accounting?

**Cash**, **accrual**, and **fair-value accounting** are ways to estimate and record the cost of government activities in the federal budget. Those methods differ in terms of when the commitment or the collection of budgetary funds is recorded in the budget and whether they measure the market value of the government's obligations. (For more information, see *How CBO Produces Fair-Value Estimates of the Cost of Federal Credit Programs: A Primer* and *Cash and Accrual Measures in Federal Budgeting*.)

**Cash accounting** records costs when payments are made and revenues when receipts are collected. Most spending in the federal budget is recorded on a cash basis.

**Accrual accounting** records costs when goods are received or services are performed (rather than when they are paid for) and revenues when they are earned (rather than when actual payments are received). Under that accounting method, the estimated cost of budgetary activities is the sum of all cash flows associated with that activity, expressed in a single number called a present value. The present value depends on the rate of interest, known as the discount rate, that is used to translate future cash flows into current dollars. (Interest on the public debt is recorded on an accrual basis but not as a discounted present value.)

The Federal Credit Reform Act of 1990 (or FCRA) requires the costs of federal credit programs—namely,

the costs of the government's direct loans and loan guarantees—to be recorded as a present value at the time a loan is made. FCRA also requires the discount rate to be the interest rate on Treasury securities with the same term to maturity as the associated cash flow. For example, cash flows in the second year of a federal loan or loan guarantee are discounted using two-year Treasury rates. Federal credit programs include certain housing programs, postsecondary education loans, commercial loans, and loans to small businesses.

Like FCRA accounting, **fair-value accounting** is a form of accrual accounting, but it uses market prices to measure the costs of loans and loan guarantees. Fair-value accounting reflects the fact that the government's risk of loss from defaults on loans tends to increase when the economy is weak. Current and future generations bear the costs of such losses, which can result in higher taxes, reductions in spending, or larger debt. Although FCRA accounting is required by law to be used for recording outlays in the budget, fair-value accounting can be used to analyze credit programs, insurance programs, and retirement benefits. In general, the fair-value cost that private institutions would assign to credit assistance on the basis of market prices is greater than the cost reported in the federal budget under FCRA procedures.

## ... Revenues, Offsetting Collections, and Offsetting Receipts?

**Revenues, offsetting collections, and offsetting receipts** are funds received by the federal government for various purposes and activities. Those funds are designated in the budget either as governmental receipts (revenues) or as reductions in spending (offsetting collections and offsetting receipts). The implications of those designations for legislative and budget processes differ.

**Revenues** are funds that the federal government collects from the public using its sovereign power. About 90 percent of federal revenues come from individual income taxes, corporate income taxes, and social insurance taxes (which fund Social Security, Medicare, and other social insurance programs). Other sources include excise taxes, estate and gift taxes, duties on imported goods, remittances from the Federal Reserve, and various fees and fines.

**Offsetting collections and offsetting receipts** are funds that government agencies receive from the public and from other federal agencies (in what are known as intragovernmental transactions) for businesslike or market-oriented activities. Both are shown in the budget as offsets to spending (that is, as negative budget authority and outlays).

**Offsetting collections** are used for specific spending programs and are credited to the accounts that record outlays for such programs. For example, the U.S. Fish and Wildlife Service issues permits to import or export some species of game animals. The fees for the permits are considered offsetting collections because they cover program costs. (The authority for the agency to spend the fees is granted in annual appropriation acts.) Similarly, the money that the Department of Defense collects from sales at military commissaries is used to cover operating expenses.

**Offsetting receipts** are recorded in stand-alone accounts that are separate from spending accounts. Such receipts are not automatically available for an agency to spend but are generally considered to offset mandatory spending. The largest offsetting receipts are Medicare premiums. In addition, much of the income generated from federal oil and gas leases is counted as offsetting receipts, as are the intragovernmental transfers from agencies' accounts to the civil service and military retirement trust funds. (Because those transfers are recorded as outlays by the agencies and as offsetting receipts to the trust funds, they have no net effect on the deficit.)

## ... Deficit and Debt?

The amount by which government outlays exceed revenues in a fiscal year is the **deficit**. Because the government borrows to finance deficits, a deficit adds to federal **debt**—the total amount borrowed by the government at a given point in time. Alternatively, a surplus exists when revenues exceed outlays; a surplus reduces federal debt.

Federal debt can be defined in several different ways. Two common measures of the amount that the federal government owes are **debt held by the public** and **gross debt**. (For more information, see *Federal Debt: A Primer*.)

**Debt held by the public** is the measure used most often in CBO's reports on the budget. It is the amount that the government owes to other entities (such as individuals, corporations, state or local governments, the Federal Reserve Banks, and foreign governments). It consists mostly of IOUs in the form of securities—the bills, notes, and bonds that the Treasury issues to fund government operations.

Debt held by the public is the amount that the government has borrowed over time to finance the costs of programs and activities that revenues were insufficient to cover. Thus, it largely reflects the total cumulative deficit that the government has incurred. (To a lesser degree, that debt reflects other factors, such as the cumulative net cash disbursements for credit programs and the cash balances held by the government.)

**Gross debt** is debt held by the public plus intragovernmental debt, which is the amount that the government owes to its own accounts, primarily the trust funds for Social Security, Medicare, military retirement, and civil service retirement. When those programs' collections exceed their spending, the Treasury uses the surplus cash flows to fund other federal activities, and the trust funds are credited with a corresponding amount of Treasury securities.

Intragovernmental debt is not a meaningful benchmark for *future* costs of benefits because it represents the cumulative total of the difference between a program's *past* collections and expenditures. An increase in intragovernmental debt means that the programs credited with Treasury securities are running a surplus—the larger the intragovernmental debt, the bigger the cumulative surplus. The intragovernmental debt held by the Social Security trust funds is projected to decrease as the aging of the population and slow growth in the workforce cause the funds' outlays to outpace their collections; the

amounts in the trust funds will be insufficient to cover that projected gap between their collections and outlays in future decades.

Nearly all gross debt is constrained by a statutory debt limit—commonly referred to as the debt ceiling.

To make comparisons of deficits and federal debt over time, CBO typically measures them as a percentage of gross domestic product (or GDP)—the total market value of all goods and services produced domestically in a given period.

### ... On-Budget and Off-Budget?

Most public discussion and reports about the budget address the unified budget, which encompasses all the activities of the federal government. For certain budget enforcement purposes, budget accounts are divided into two categories: **on-budget** and **off-budget**. Under federal law, the budget authority, outlays, and revenues of most programs are **on-budget**—that is, they are included in budget totals—and on-budget activities are subject to the normal budget process and to budget enforcement procedures.

The revenues and outlays of the Social Security trust funds and transactions of the Postal Service are classified as **off-budget**. Most activities for those programs are not subject to caps, sequestration, or reporting and enforcement procedures under S-PAYGO. The budget resolution (the Congress's budget plan) generally excludes off-budget programs.

### ... Cost Estimates, Dynamic Analysis, and Scorekeeping?

**Cost estimates, dynamic analysis, and scorekeeping** are used by the legislative and executive branches to measure and track the budgetary effects of legislation—that is, the changes in federal outlays, revenues, and deficits that result from enacting a particular piece of legislation.

**Cost estimates** explain how legislation would change federal spending and revenues over the next 5 or 10 years in relation to CBO's projections of budgetary outcomes under current law. When CBO prepares estimates, it considers a range of responses that people or businesses might have to legislation and accounts for the possible budgetary effects of those responses. For example, a cost estimate for a bill that would raise or lower coinsurance for Medicare could change the number of people who chose to receive health care. As a result, CBO's estimate of spending for that program could rise or fall in relation to the agency's projection of such spending under current law.

CBO is required by law to produce a formal cost estimate for nearly every bill that is approved by a full committee of either the House or the Senate. The agency may, on occasion, produce estimates at other points in the legislative process. Cost estimates are advisory only. The Congress can use them to enforce budgetary rules and targets. (For more information, see *How CBO Prepares Cost Estimates*.)

**Dynamic analysis** incorporates the same kind of information found in conventional cost estimates but also includes CBO's assessments of budgetary feedback—that is, the changes in spending and revenues caused by the changes in the nation's economic output that would result from enacting the legislation. Although some major legislative proposals could significantly affect the economy—by affecting consumer prices or the labor supply, for example—most would not. By long-standing convention,



CBO's cost estimates typically do not account for the possible effects of legislation on GDP. Occasionally, however, the Congress asks CBO to provide a dynamic analysis of proposed legislation.

**Scorekeeping** is the process of developing and recording consistent measures of the budgetary effects of proposed and enacted legislation. Cost estimates are a tool used in that process. The scorekeeping process is governed by law, precedent, and rules. It addresses jurisdictional

boundaries between authorization and appropriation acts and preserves the distinctions among the major budgetary categories—mandatory spending, discretionary spending, and revenues—by using different rules and procedures to analyze legislation's effects on them. A key purpose is to attribute budgetary effects to the legislation that causes them so that rules and procedures established by the Congress for budget enforcement can be applied. (For more information, see *CBO Explains Budgetary Scorekeeping Guidelines*.)

### . . . Calendar Year and Federal Fiscal Year?

The terms **calendar year** and **federal fiscal year** describe periods in which funds are made available or spent, changes are made to certain benefit amounts, and taxes are assessed or collected.

**Calendar years** begin on January 1 and end on December 31. Although most federal programs operate on a fiscal year basis, some aspects of programs are set to the calendar year. Cost-of-living adjustments for Social Security and other programs, for example, are set on a calendar year basis. In addition, individual income taxes

are levied on a calendar year basis, and economic data are typically reported for calendar years.

**Federal fiscal years** run from October 1 to September 30 and are designated by the calendar year in which they end: Fiscal year 2021 began on October 1, 2020, and ended on September 30, 2021. Funding for federal programs is provided on a fiscal year basis, and federal budget data and CBO's cost estimates and budget projections identify spending and revenues by fiscal year.

This document is part of the Congressional Budget Office's efforts to promote wider understanding of its work. In keeping with CBO's mandate to provide objective, impartial analysis, it makes no recommendations.

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CBO seeks feedback to make its work as useful as possible. Please send comments to [communications@cbo.gov](mailto:communications@cbo.gov).



Phillip L. Swagel  
Director

