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Congressional Budget Actions in 2002

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Contents

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SUMMARY

During the second session of the 107th Congress, the House and Senate will consider many different budgetary measures. Most of these measures will pertain to FY2003 (which will begin on October 1, 2002) and beyond, but some may make adjustments to the budget for FY2002. As the congressional session progresses, this issue brief will describe House and Senate action on major budgetary legislation within the framework of the congressional budget process and other procedural requirements.

Congress begins its annual budget process once the President submits his budget. President Bush submitted his FY2003 budget to Congress on February 4, 2002.

In preparation for congressional action on the budget, CBO released its annual report on budget baseline projections, *The Budget and Economic Outlook: Fiscal Years 2003-2012*, on January 31. CBO updated these budget baseline projections, based on new technical assumptions and a revised economic forecast, in its report, *Analysis of the President's Budgetary Proposals for Fiscal Year 2003*, released on March 6.

The Congressional Budget Act of 1974 established the congressional budget process. The process is centered on the adoption of an annual concurrent resolution on the budget. The budget resolution sets forth aggregate spending and revenue levels, and spending levels by major functional area, for at least 5 fiscal years. It is an agreement between the House and Senate on a congressional budget plan, providing a framework for subsequent budgetary legislation during a congressional session.

Budget resolution policies are implemented through the enactment of reconciliation bills, revenue and debt-limit legislation, and appropriations and other spending measures, and enforced by points of order that may be raised when legislation is pending on the House and Senate floor.

The House adopted its version of the FY2003 budget resolution, H.Con.Res. 353, on March 20. In the absence of an agreement with the Senate, the House adopted a resolution "deeming" its budget resolution to have been adopted by Congress for budget enforcement purposes. The Senate Budget Committee reported its version of the FY2003 budget resolution, S.Con.Res. 100, on March 22.

Budget legislation also is constrained by limits on discretionary spending and a "pay-as-you-go" (PAYGO) requirement for direct spending and revenue legislation established under the Budget Enforcement Act of 1990, as amended.

Currently, adjustable discretionary spending limits exist for the following categories: highway and mass transit spending for FY2002-FY2003; conservation spending (divided into six subcategories) for FY2002-FY2006; and other discretionary spending, also called general purpose discretionary spending, for FY2002. However, the sequestration process established to enforce the discretionary spending limits expires at the end of FY2002 (i.e., September 30, 2002), and it is not yet clear whether Congress and the President will extend it.

The PAYGO requirement also expires at the end of FY2002, but the PAYGO sequestration process covers the net effects through FY2006 of new direct spending and revenue legislation enacted before the end of FY2002.

MOST RECENT DEVELOPMENTS

On June 28, 2002, President Bush signed into law S. 2578, an act to increase the public-debt limit by $450 billion (P.L. 107-199). The legislation had been approved by the Senate on June 11 and the House on June 27.

On June 27, the House adopted the first two regular appropriations acts for FY2003: H.R. 5010, Department of Defense Appropriations Act and H.R. 5011, Department of Interior Appropriations Act. Also on June 27, the House adopted H.R. 4954, the Medicare Modernization and Prescription Drug Act of 2002, which provides a voluntary program for prescription drug coverage under the Medicare program, among other things.

BACKGROUND AND ANALYSIS

During the second session of the 107th Congress, the House and Senate will consider many different budgetary measures. Most of these measures will pertain to FY2003 (which will begin on October 1, 2002) and beyond, but some may make adjustments to the budget for FY2002. As the congressional session progresses, this issue brief will describe House and Senate action on major budgetary legislation within the framework of the congressional budget process and other procedural requirements.

This year, Congress faces a significantly different procedural and budget environment than in recent years. Not only are key enforcement procedures under the Budget Enforcement Act (Title XIII of P.L. 101-508) set to expire at the end of FY2002 (*i.e.*, September 30, 2002), the current and long-term budget outlook has changed considerably from a year ago. Last year, CBO projected federal surpluses in each fiscal year through FY2011 and a cumulative surplus of $5.6 trillion for FY2002-FY2011, under policies existing at that time.[1] In contrast, CBO Director Dan L. Crippen testified before the House and Senate Budget Committees on January 23, 2002, that CBO now is projecting that both fiscal years 2002 and 2003 will show small deficits, if current policies remain the same and the economy performs as CBO forecasts. Further, the projected cumulative surplus for FY2002 through FY2011 has dropped by $4.0 trillion to $1.6 trillion. The new environment undoubtedly will have a significant effect on congressional budget actions during this session.

Overview of the Congressional Budget Process

The congressional budget process consists of the consideration and adoption of spending, revenue, and debt-limit legislation within the framework of an annual concurrent resolution on the budget. Additionally, congressional action on budget legislation is constrained by limits on discretionary spending and a "pay-as-you-go" (PAYGO) requirement for direct spending and revenue legislation.

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[1] Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011*, Jan. 2001.

Congress begins its budget process once the President submits his budget. The President is required by law to submit a comprehensive federal budget no later than the first Monday in February. The President's budget includes estimates of direct spending and revenues under existing laws, as well as requests for discretionary spending (i.e., funds provided through the appropriations process) for the upcoming fiscal year. In addition, the President frequently proposes new initiatives in his budget submission to Congress. Although Congress is not bound by the President's budget, congressional action on spending and revenue legislation often is influenced by his recommendations, as well as subsequent budgetary activities by the President during the year. The Office of Management and Budget (OMB) assists the President in formulating and coordinating his budget policies and activities.

On February 4, 2002, President Bush submitted his FY2003 budget to Congress. Following the usual practice, the President's budget was submitted as a multi-volume set consisting of a main document, which includes the President's budget message and information on his 2003 proposals (*Budget*), and supplementary documents, which provide special budgetary analyses (*Analytical Perspectives*), historical budget information (*Historical Tables*), and detailed account and program level information (*Appendix*), among other things. These documents are available from the Government Printing Office or on OMB's Web site at [http://www.whitehouse.gov/omb].

The Congressional Budget Act (CBA) of 1974 (Titles I-IX of P.L. 93-344) established the congressional budget process, including a timetable for congressional action on budget legislation (see **Table 1**). The process is centered on the adoption of an annual concurrent resolution on the budget. The budget resolution sets forth aggregate spending and revenue levels, and spending levels by major functional area, for at least 5 fiscal years. Because the budget resolution is a concurrent resolution, it is not presented to the President for his signature and thus does not become law. Instead, it is an agreement between the House and Senate on a congressional budget plan, providing a framework for subsequent legislative action on the budget during each congressional session.

Table 1. The Congressional Budget Process Timetable

On or before	Action to be completed
First Monday in February	President submits budget to Congress.
February 15	Congressional Budget Office submits economic and budget outlook report to Budget Committees.
6 weeks after President submits budget	Committees submit views and estimates to Budget Committees.
April 1	Senate Budget Committee reports budget resolution.
April 15	Congress completes action on budget resolution.
May 15	Annual appropriations bills may be considered in the House, even if action on budget resolution has not been completed.
June 10	House Appropriations Committee reports last annual appropriations bill.
June 15	House completes action on reconciliation legislation (if required by budget resolution).
June 30	House completes action on annual appropriations bills.
July 15	President submits mid-session review of his budget to Congress.
October 1	Fiscal year begins.

Because the budget resolution does not become law, budget policies are implemented through the enactment of reconciliation bills, revenue and debt-limit legislation, and appropriations and other spending measures. Congress enforces budget resolution policies through points of order on the floor of each chamber and the reconciliation process. For example, any legislation that would cause the aggregate levels to be violated is prohibited from being considered. Further, the total budget authority and outlays set forth in the budget resolution are allocated among the House and Senate committees having jurisdiction over specific spending legislation. Any legislation, or amendment, that would cause these committee allocations to be exceeded is prohibited. Finally, the House and Senate Appropriations Committees subdivide their allocations among their respective 13 subcommittees. A point of order may be raised against any appropriations act, or amendment, that would cause one of these subdivisions to be exceeded.[2] Congress also may use reconciliation legislation (discussed further below) to enforce direct spending, revenue, and debt-limit provisions of a budget resolution.

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[2] For more detailed information on these points of order and their application, see CRS Report 97-865, *Points of Order in the Congressional Budget Process*, by James V. Saturno.

In addition to the enforcement procedures associated with the budget resolution, budget legislation is constrained by statutory limits on discretionary spending and a PAYGO requirement for direct spending and revenue legislation, both established by the Budget Enforcement Act (BEA) of 1990 (Title XIII of P.L. 101-508), which amended the Balanced Budget and Emergency Deficit Control Act of 1985 (Title II of P.L. 99-177).

Currently, adjustable discretionary spending limits exist for the following categories: highway and mass transit spending for FY2002-FY2003; conservation spending (divided into six subcategories) for FY2002-FY2006; and other discretionary spending, also called general purpose discretionary spending, for FY2002. PAYGO generally requires that increases in direct spending or decreases in revenues due to legislative action are offset so that the net effects of new legislation do not incur a positive balance on the PAYGO scorecard. The PAYGO requirement applies to legislation enacted through FY2002, but it covers the effects of such legislation through FY2006.

The discretionary spending limits and PAYGO requirement are enforced primarily by sequestration, which involves automatic, largely across-the-board spending cuts in non-exempt programs. Sequestration is triggered if the director of the Office of Management and Budget estimates in the final sequestration report at the end of a session that one or more of the discretionary spending limits will be exceeded or the PAYGO requirement will be violated. A within-session sequestration is possible if a supplemental appropriations bill causes the spending levels of the current fiscal year to exceed the statutory limit for a particular category. The discretionary spending limits, as well as a PAYGO requirement similar to the statutory one, also may be enforced through points of order while legislation is being considered on the Senate floor.

The sequestration process established to enforce the discretionary spending limits expires at the end of FY2002 (i.e., September 30, 2002). The PAYGO sequestration process continues until the end of FY2006, but only applies to the net effects of legislation enacted before the end of FY2002.

Budget Resolution

The Congressional Budget Act, as amended, establishes the concurrent resolution on the budget as the centerpiece of the congressional budget process. The budget resolution sets forth aggregate spending and revenue levels, and spending levels by major functional area, for at least 5 fiscal years. Once adopted, it provides the framework for subsequent action on budget-related legislation.

The congressional budget process timetable sets April 15 as a target date for final adoption of the budget resolution. The CBA prohibits the consideration of spending, revenue, or debt-limit legislation for the upcoming year until the budget resolution has been adopted, unless the rule is waived or set aside.

Following the submission of the President's budget early in the year, Congress begins formulating the budget resolution. The House and Senate Budget Committees are responsible for developing and reporting the budget resolution. In formulating the budget resolution, the Budget Committees hold hearings and receive testimony from Members of

Congress and representatives from federal departments and agencies, the general public, and national organizations. Three regular hearings include separate testimony from the Director of the Congressional Budget Office (CBO), the Chair of the Federal Reserve Board, and the Director of OMB.[3]

The congressional budget resolution, as well as the President's budget, is based on budget baselines. The budget baseline is a projection of federal revenue, spending, and deficit or surplus levels based upon current policies, assuming certain economic assumptions. The President's budget baseline, referred to as current services estimates, usually differs from CBO's baseline, referred to as baseline budget projections, often due to different economic and technical assumptions. Baseline projections provide a benchmark for measuring the budgetary effects of proposed policy changes. On January 31, 2002, CBO released its annual report on budget baseline projections, *The Budget and Economic Outlook: Fiscal Years 2003-2012*. On March 6, CBO released its *Analysis of the President's Budgetary Proposals for Fiscal Year 2003*. This report contains estimates of the President's proposals using CBO's economic and technical assumptions. In addition, the report incorporates CBO's new technical assumptions and revised economic forecast, as well as updates its budget baseline projections. Both of these reports are available on CBO's Web site at [http://www.cbo.gov].

Another source of input comes from the "views and estimates" of congressional committees with jurisdiction over spending and revenues. Within 6 weeks after the President's budget submission, House and Senate committees are required to submit views and estimates of budget matters under their jurisdiction to their respective Budget Committees. These views and estimates, frequently submitted in the form of a letter to the Chair and Ranking Member of the Budget Committee, typically include comments on the President's budget proposals and estimates of the budgetary impact of any legislation likely to be considered during the current session of Congress. The Budget Committees are not bound by these recommendations. The views and estimates of Senate committees are printed in the committee report accompanying the Budget Committee-reported budget resolution (S.Rept. 107-141, pp. 72-164). The views and estimates of House committees will be printed in a separate House Budget Committee print later in the session.

The budget resolution was designed to provide a framework to make budget decisions, leaving specific program determinations to House and Senate Appropriations Committees and other committees with spending and revenue jurisdiction. In many instances, however, particular program changes are considered when formulating the budget resolution. Program assumptions sometimes are referred to in the reports of the House and Senate Budget Committees and usually are discussed during floor action. Although these program changes are not binding, committees may be strongly influenced by these recommendations when formulating appropriations bills, reconciliation measures, or other budgetary legislation.

[3] The CBO Director, Dan L. Crippen, presented separate, but identical, testimony before the Senate and House Budget Committees on Jan. 23, 2002. The testimony is available on CBO's Web site at [http://www.cbo.gov]. Federal Reserve Board Chairman Alan Greenspan testified before the Senate Budget Committee on Jan. 24, 2002. OMB Director Mitchell E. Daniels, Jr., presented separate, but identical, testimony before the Senate and House Budget Committees on Feb. 5, 2002. The latter two testimonies are available on the Senate Budget Committee's Web site at [http://www.senate.gov/~budget].

On March 15, the House Budget Committee reported its version of the FY2003 budget resolution (H.Con.Res. 353, H.Rept. 107-376), after a mark up on March 13. The Senate Budget Committee marked up its version (S.Con.Res. 100, S.Rept. 107-141) on March 21, and reported it to the full Senate the next day (March 22).

The House and Senate consider the budget resolution under procedures generally intended to expedite final action. In the House, the budget resolution usually is considered under a special rule, limiting the time of debate and allowing only a few amendments, as substitutes to the entire resolution. On March 20 (legislative day, March 19), the Rules Committee reported a special rule (H.Res. 372, H.Rept. 107-380) which allowed only a self-executing amendment in the nature of a substitute and allowed 3 hours of general debate. After adopting the rule by a vote of 222-206, the House considered and adopted H.Con.Res. 353 by a 221-209 vote, on March 20. In the absence of an agreement on a FY2003 budget resolution with the Senate, the House adopted a so-called "deeming resolution." The special rule (H.Res. 428) governing the initial consideration of the emergency supplemental appropriations act (H.R. 4775) included a provision "deeming" the House-adopted budget resolution to have been agreed to by Congress. The House adopted this special rule by a 216-209 vote on May 22. Under the deeming resolution, the enforcement procedures of the Congressional Budget Act, such as the limits on spending in the annual appropriations acts, are effective in the House.[4]

The Senate considers the budget resolution under the procedures set forth in the CBA, unless superseded by a unanimous consent agreement. Debate on the initial consideration of the budget resolution, and all amendments, debatable motions, and appeals, is limited to 50 hours. Amendments, motions, and appeals may be considered beyond this time limit, but without debate. Consideration of the conference report is limited to 10 hours in the Senate.

Reconciliation Legislation

Congress may implement changes to existing law related to direct spending, revenues, or the debt limit through the reconciliation process, under Section 310 of the CBA. The reconciliation process has two stages. First, Congress includes reconciliation instructions in a budget resolution directing one or more committees to recommend changes in statute to achieve the levels of spending, revenues, and debt limit agreed to in the budget resolution. Second, the legislative language recommended by committees is packaged "without substantive revision" into one or more reconciliation bills, as set forth in the budget resolution, by the House and Senate Budget Committees. In some instances, a committee may be required to report its legislative recommendations directly to its chamber.

[4] The special rule also required the House Budget Committee chairman to submit for printing in the *Congressional Record* the committee allocations, referred to as the 302(a) allocations, associated with the House-adopted budget resolution spending levels. House Budget Committee Chairman Jim Nussle submitted the allocations on May 22, 2002. See *Congressional Record*, daily edition, vol. 148 (May 22, 2002), pp. H2929-H2930. With the House-adopted budget resolution deemed to have been passed by Congress, a point of order may be raised against legislation that would cause these allocations to be exceeded.

Once reconciliation legislation is reported, consideration is governed by special procedures. These special rules serve to limit what may be included in reconciliation legislation, to prohibit certain amendments, and to encourage its completion in a timely fashion. In the House, as with the budget resolution, reconciliation legislation usually is considered under a special rule, establishing the time allotted for debate and what amendments will be in order. In the Senate, debate on a budget reconciliation bill, all amendments, debatable motions, and appeals is limited to not more than 20 hours. After the 20 hours of debate has been reached, consideration of amendments, motions, and appeals may continue, but without debate.

In both chambers, the CBA requires that amendments to reconciliation legislation be deficit neutral and germane. Also, the CBA prohibits the consideration of reconciliation legislation, or any amendment to a reconciliation bill, recommending changes to the Social Security program. Finally, in the Senate, Section 313 of the CBA, commonly referred to as the Byrd rule, prohibits extraneous matter in a reconciliation bill.

Revenue and Debt-Limit Legislation

Congress may adopt revenue and debt-limit legislation individually. Revenue and debt-limit legislation is under the jurisdiction of the House Ways and Means Committee and the Senate Finance Committee. Article I, Section 7, of the U.S. Constitution, requires revenue legislation originate in the House of Representatives, but the Senate may amend a revenue bill as it chooses.

Most of the laws establishing the federal government's revenue sources are permanent and continue year after year without any additional legislative action. Congress, however, typically enacts revenue legislation, changing some portion of the existing tax system, every year. Revenue legislation may include changes to individual and corporate income taxes, social insurance taxes, excise taxes, or tariffs and duties.

Revenue legislation is not automatically considered in the congressional budget process on an annual basis. Frequently, however, the President proposes and Congress considers changes in the rates of taxation or the distribution of the tax burden. An initial step in the congressional budget process is the publication of revenue estimates of the President's budget by CBO. These revenue estimates usually differ from the President's since they are based on different economic and technical assumptions (*e.g.*, growth of the economy and change in the inflation rate). Estimates of any congressional revenue-policy proposals are prepared by CBO, based on Joint Committee on Taxation revenue estimates, and are published in committee reports or the *Congressional Record*.

The budget resolution includes baseline estimates of federal government receipts based on the continuation of existing laws and any proposed policy changes. The revenue levels in the budget resolution provide the framework for any action on revenue measures during the session. A point of order may be raised against the consideration of legislation that causes revenues to fall below the agreed upon levels for the first fiscal year or the total for all fiscal years in the budget resolution. This point of order may be set aside by unanimous consent, or waived by a special rule in the House or by a three-fifths vote in the Senate.

A Senate PAYGO point of order, under Section 207 of the FY2000 budget resolution (H.Con.Res. 68, 106th Congress), also may be raised against any revenue legislation that would increase or cause an on-budget deficit for the first fiscal year, the period of the first 5 fiscal years, or the following 5 fiscal years, covered by the most recently adopted budget resolution. The point of order may be waived by a vote of three-fifths of Senators, or set aside by unanimous consent.

On January 23, 2002, the Senate began consideration of a scaled-down economic recovery package that included tax-related provisions and an extension of unemployment benefits, among other things. The House last year approved two economic stimulus packages (H.R. 3090 and H.R. 3529) upon which the Senate did not vote. The scaled-down package was introduced by Senate Majority Leader Tom Daschle as an amendment in the nature of a substitute to H.R. 622, a House-passed revenue bill dealing with adoption tax credits that became law as part of other legislation last year. On February 6, after two cloture motions failed to get the required three-fifths vote to end debate on the scaled-down recovery package and a separate amendment, the Senate instead adopted by unanimous consent a stand-alone amendment to H.R. 622 to provide temporary extended unemployment compensation.

On February 14, the House agreed to a motion to agree with the Senate amendment to H.R. 622 with a further amendment, which contained several of the provisions included in the previously House-adopted H.R. 3529, by a vote of 225-199. The Senate did not act further on this legislation, but instead adopted by unanimous consent a stand-alone amendment to H.R. 3090 to provide temporary extended unemployment compensation.

On March 7, the House agreed to the Senate amendment to H.R. 3090 with a further amendment, which contained a scaled-down economic recovery package of business-related tax cuts and an extension of unemployment compensation, by a 417-3 vote. The Senate subsequently agreed to the House amendment by a 85-9 vote on March 8. President Bush signed H.R. 3090, the Job Creation and Worker Assistance Act of 2002, into law (P.L. 107-147) on March 9.

Two other major measures that contain provisions reducing revenues were adopted in April, one in the House and one in the Senate. First, on April 18, the House approved by a vote of 229-198 legislation (H.R. 586) to make permanent the tax cuts enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16). Second, on April 25, the Senate adopted energy policy legislation (H.R. 4) that contains several revenue, as well as direct spending, provisions. The legislation is substantially different than the version adopted by the House on August 2, 2001, by a 240-189 vote, and thus a conference committee is expected to be convened in order to reconcile the two versions.

Federal debt consists of debt held by the public plus debt held by government accounts. Almost all of the federal debt is subject to a statutory debt limit. The debt held by the public represents the total net amount borrowed from the public to cover the federal government's budget deficits. By contrast, the debt held by government accounts represents the total net amount of federal debt issued to specialized federal accounts, primarily trust funds (*e.g.*, Social Security). Trust fund surpluses by law must be invested in special federal government securities and thus are held in the form of federal debt. Because the statutory limit applies to the combination of both types of debt, budget deficits or trust fund surpluses may contribute to the federal government reaching the existing debt limit. So long as federal budget policy results in an increase in the federal debt, Congress periodically must enact increases to the debt limit.

The most recent increase in the statutory debt limit was enacted in the Balanced Budget Act of 1997 (P.L. 105-33). At the time of passage, the increase to $5.95 trillion was considered sufficient to meet the federal government's financial needs through mid-December 1999. The federal government's surpluses over the last 4 years contributed to the fact that the statutory debt limit has been sufficient beyond this date. However, Treasury Secretary Paul O'Neill first indicated in a December 11, 2001, letter to congressional leaders that the existing debt limit may begin to interfere with the federal government's financial responsibilities "as early as February 2002."[5] Therefore, he requested that Congress raise the debt limit by $750 billion to $6.7 trillion.

On June 11, the Senate adopted S. 2578, legislation to increase the public-debt limit by $450 billion, by a 68-29 vote. On June 27, the House adopted S. 2578 by a 215-214 vote. President Bush signed the legislation into law (P.L. 107-199) on June 28.

Appropriations and Other Spending Legislation

Federal spending is categorized into two different types: discretionary or direct spending. Discretionary spending is controlled through the annual appropriations acts, while direct spending (which consists mostly of entitlement programs) is determined by existing law.

Discretionary spending is under the jurisdiction of the House and Senate Appropriations Committees. Direct spending is under the jurisdiction of the various legislative committees of the House and Senate. Some entitlement programs, such as Medicaid and certain veterans' programs, are funded in annual appropriations acts, but such spending is not considered discretionary and is not controlled through the annual appropriations process.

The President's budget includes recommendations for the annual appropriations; account and program level detail about these recommendations are included in the *Appendix* volume of the President's budget documents. In addition, agencies submit justification materials to the House and Senate Appropriations Committees. The budget justifications provide more detailed information about an agency's program activities than is contained in the President's budget documents and are used in support of agency testimony during Appropriations subcommittee hearings on the President's budget request.

Congress passes three main types of appropriations measures. *Regular appropriations acts* provide budget authority for the next fiscal year, beginning on October 1. The 13 subcommittees of the Appropriations Committees of the House and Senate are each

[5] Bud Newman,"Debt Ceiling Hike Not on House Agenda Before Adjournment, DeLay, Thomas Say," BNA *Daily Report for Executives*, no. 238 (Dec. 13, 2001), p. G-3. Also, for more information on the current need to raise the debt limit, see CRS Report RS21111, *The Debt Limit: The Need to Raise It After Four Years of Surpluses*, by Philip D. Winters.

responsible for one of the 13 regular appropriations acts. *Supplemental appropriations acts* provide additional funding for unexpected needs while the fiscal year is in progress. *Continuing appropriations acts*, commonly referred to as continuing resolutions, provide stop-gap funding for agencies that have not received a regular appropriations by the start of the fiscal year.

Spending allocations to the Appropriations Committees and other committees accompany the conference report on the budget resolution. Soon after it is adopted, the House and Senate Appropriations Committees subdivide their spending allocations among their subcommittees and formally report these suballocations to their respective chambers. On June 25, 2002, the House Appropriations Committee reported its suballocations to the House (H.Rept. 107-529). During the appropriations process, these suballocations usually are revised several times.

The House and Senate appropriations subcommittees begin holding extensive hearings on appropriations requests shortly after the President's budget is submitted. By custom, appropriations measures originate in the House. In recent years, the Senate Appropriations Committee has adopted and reported original Senate appropriations measures, allowing the Senate to consider appropriations measures without having to wait for the House to adopt its version. Under this practice, the Senate version is considered and amended on the floor, and then inserted into the House-adopted version, when available, as a substitute amendment, thereby retaining the House-numbered bill for final action.

In addition to the 13 regular appropriations acts, Congress typically acts on at least two supplemental appropriations measures during a session. Congress also often adopts one or more continuing resolutions each year because of recurring delays in the appropriations process. In 2001, for example, Congress passed the 13 regular appropriations measures individually, two supplementals, and eight continuing resolutions. In some years, such as in each of the three prior to 2001 (1998-2000), instead of adopting all of the regular appropriations acts individually, Congress combines several of them into an omnibus appropriations measure.

On March 21, 2002, President Bush submitted a $27.1 billion emergency supplemental appropriations request for FY2002 to provide additional resources for the war on terrorism, homeland security, and economic recovery.[6] On May 21, 2002, President Bush submitted a second FY2002 emergency supplemental appropriations request for $1.1 billion.[7]

On May 20, 2002, in response to the President's request, the House Appropriations Committee reported H.R. 4775, making supplemental appropriations for FY2002 (H.Rept. 107-480). The House considered H.R. 4775 first under an open rule (H.Res. 428) and subsequently under a closed rule (H.Res. 431) on May 22, 23, and 24. H.R. 4775 was adopted by the House on May 24 on a 280-138 vote. In the Senate, the Senate Appropriations Committee reported a FY2002 supplemental appropriations act (S. 2551,

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[6] The text of the President's request to Congress is available on the Internet at [http://w3.access.gpo.gov/usbudget/fy2003/pdf/5usattack.pdf].

[7] The text of the President's request to Congress is available on the Internet at [http://w3.access.gpo.gov/usbudget/fy2003/pdf/10va_doi.pdf].

S.Rept. 107-156) on May 22. After incorporating S. 2551 in H.R. 4775 as an amendment, the Senate began consideration of the supplemental appropriations measure on June 3. During consideration of H.R. 4775, the Senate invoked cloture by a 87-10 vote on June 6. The next day (June 7) the Senate passed H.R. 4775, as amended, by a vote of 71-22. A conference committee has been convened to reconcile the differences between the House- and Senate-versions of H.R. 4775.

During the week of June 24, the House began to consider the regular appropriations bills for FY2003.[8] On June 27, the House adopted the Department of Defense Appropriations Act (H.R. 5010, H.Rept. 107-532) and the Military Construction Appropriations Act (H.R. 5011, H.Rept. 107-533) by votes of 413-18 and 426-1, respectively.

Congress often considers major legislation affecting direct spending programs as well. On several occasions in the past, Congress has included reserve funds in the budget resolution to accommodate specific direct spending legislation. Under the provisions of a reserve fund, the chairmen of the House and Senate Budget Committees may revise the committee spending allocations and other budget resolution levels if certain legislation is reported by the appropriate committee. Without such an adjustment, direct spending legislation might be subject to points of order if it was not assumed in the budget resolution spending amounts.

The House-adopted FY2003 budget resolution, which was deemed by the House to have been adopted by Congress, includes seven reserve funds, two of which are related to direct spending legislation. First, Section 202 of H.Con.Res. 353 provides a reserve fund for legislation reforming the Medicare program, including adding a prescription drug benefit. Second, Section 212 of H.Con.Res. 353 provides a reserve fund for legislation subjecting the administrative expenses for student loans to the annual appropriations process.

On June 27, House Budget Chairman Jim Nussle, under the authority of Section 202 of H.Con.Res. 353, revised the appropriate spending allocations to accommodate H.R. 4954, the Medicare Modernization and Prescription Drug Act of 2002.[9] Subsequently, the House considered H.R. 4954 under a closed rule (H.Res. 465), which passed by a vote of 218-213. The rule provided for an amendment in the nature of a substitute printed in the report (H.Rept. 107-553) accompanying the rule to be adopted automatically. The rule also provided that a motion to recommit would be in order. The motion to recommit with instructions was offered by House Minority Leader Richard Gephardt, and was defeated by a 204-223 vote. Subsequently, the House adopted H.R. 4954 by a 221-208 vote.

Budget Enforcement and Sequestration

The sequestration process was first established in 1985 by the Balanced Budget and Emergency Deficit Control Act, commonly known as the Gramm-Rudman-Hollings Act. Initially, the sequestration process was tied to annual maximum deficit targets established

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[8] For the up-to-date status of and further information on the FY2003 appropriations bills, see the CRS Appropriations Web site at [http://www.crs.gov/products/appropriations/apppage.shtml].

[9] See *Congressional Record*, daily edition, vol. 148 (June 27, 2002), p. H4322.

in law, declining to zero by FY1991. If the budget deficit exceeded those target levels (plus a margin-of-error amount in some years), automatic across-the-board spending cuts would be triggered to bring the deficit to within the allowable level. The process was intended to provide an incentive to Congress and the President to reduce the deficit through legislative action to avoid an automatic sequestration. The law was amended and modified in 1987, 1990, 1993, and 1997. Most notably, the Budget Enforcement Act (BEA) of 1990 changed the focus of the sequestration process. Instead of maximum deficit targets, the BEA of 1990 tied sequestration to new statutory limits on discretionary spending and a PAYGO requirement for new direct spending and revenue legislation. The change was intended to hold Congress and the President accountable for projected budget outcomes that would result from new legislation, rather than the level of the deficit which could be affected by factors beyond their direct control, such as economic growth, inflation, and demographic changes.

Currently, adjustable discretionary spending limits exist for the following categories: highway and mass transit spending for FY2002-FY2003; conservation spending (divided into six subcategories) for FY2002-FY2006; and other discretionary spending, also called general purpose discretionary spending, for FY2002. Under the PAYGO requirement, the net effect of new direct spending and revenue legislation enacted for a fiscal year may not cause a positive balance (reflecting an increase in the on-budget deficit or a reduction in the on-budget surplus) on a multiyear PAYGO "scorecard." For each fiscal year, this scorecard maintains the balances of the accumulated budgetary effects of laws enacted during the session and prior years. The PAYGO requirement applies to legislation enacted through FY2002, but it covers the effects of such legislation through FY2006.

The discretionary spending limits and PAYGO requirement are enforced primarily by sequestration, which involves automatic, largely across-the-board spending cuts in non-exempt programs. Sequestration is triggered if the director of the Office of Management and Budget estimates in the final sequestration report that one or more of the discretionary spending limits will be exceeded or the PAYGO requirement will be violated. The President is required to issue a sequestration order cancelling budgetary resources in non-exempt programs by the amount of any spending limit breach or PAYGO violation. A within-session sequestration is possible if a supplemental appropriations bill causes the spending levels of the current fiscal year to exceed the statutory limit for a particular category.[10]

The discretionary spending limits, as well as a PAYGO requirement similar to the statutory one, also may be enforced through points of order while legislation is being considered on the Senate floor. First, Section 312(b) of the 1974 CBA prohibits the consideration of legislation that would cause any of the spending limits to be exceeded. Second, Section 207 of the FY2000 budget resolution (H.Con.Res. 68, 106th Congress), like similar provisions in previous budget resolutions, provides a point of order against any direct spending or revenue legislation that would increase or cause an on-budget deficit for the first fiscal year, the period of the first 5 fiscal years, or the following 5 fiscal years, covered by

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[10] Under the BEA, if a supplemental appropriations act causes a discretionary spending limit to be exceeded in the last quarter of a fiscal year (i.e., July 1 through September 30), the spending limit for the applicable category for the following fiscal year must be reduced by the amount of the violation. However, this particular procedure will have no effect this year, unless the discretionary spending limits are extended beyond FY2002.

the most recently adopted budget resolution. Both of these points of order may be waived by a vote of three-fifths of Senators, or set aside by unanimous consent.

Table 2 provides the timetable for sequestration actions. As indicated, OMB and CBO publish preview and update sequestration reports to provide Congress and the President with advance notice regarding the possibility of a sequester. If one or both types of sequester are anticipated, these reports may afford Congress and the President enough warning so that they can enact legislation to forestall them. The utility of these reports this year, however, may depend on whether Congress and the President extend the discretionary spending limits and the PAYGO requirement beyond FY2002. Only an OMB within-session (noted above) or final sequestration report can trigger a sequester; the CBO sequestration reports are advisory only.

Table 2. Timetable for Sequestration Actions

Deadline	Action to be completed
5 days before the President's budget submission	CBO sequestration preview report.
Date of the President's budget submission	OMB sequestration preview report (as part of the President's budget).
August 10	Notification regarding military personnel.
August 15	CBO sequestration update report.
August 20	OMB sequestration update report.
10 days after end of session	CBO final sequestration report.
15 days after end of session	OMB final sequestration report; presidential sequestration order.

The BEA enforcement procedures, as well as several enforcement procedures tied to the budget resolution, may be suspended in the event a declaration of war is enacted or if Congress enacts a joint resolution triggered by the issuance of a "low-growth" report by CBO.[11] With regard to the latter, CBO must notify Congress if actual real economic growth was less than 1% or estimated real economic growth is projected to be negative for the most recently reported quarter and the preceding quarter. Upon receiving a low-growth report, the Senate majority leader is required to introduce a joint resolution suspending the enforcement procedures, but such action is optional in the House. On January 30, 2002, CBO issued a low-growth report to Congress (H.Doc. 107-178), and on February 7 the Senate majority leader subsequently introduced a suspension resolution (S.J.Res. 31). The Senate rejected by voice vote the suspension resolution on February 14.

[11] For further information on these suspension provisions, see CRS Report RS20182, *Suspension of Budget Enforcement Procedures During Hostilities Abroad*; and CRS Report RL31068, *Suspension of Budget Enforcement Procedures During Low Economic Growth*, both by Robert Keith.

In previous years, Congress and the President have enacted statutory provisions to avoid a sequestration for the upcoming fiscal year or to reduce the likelihood of a sequester in future fiscal years.[12] Most recently, the FY2002 Department of Defense Appropriations Act (P.L. 107-117) included provisions increasing certain discretionary spending limits for FY2002 and changing the PAYGO scorecard balance to zero for FY2001 and FY2002. Specifically for the discretionary spending limits, Division C, Section 101(a), of P.L. 107-117 increased the budget authority and outlay limits for FY2002 in the general purpose discretionary category to $681.441 billion and $670.206 billion, respectively, and the outlay limit for FY2002 in the conservation spending category to $1.473 billion. In addition, Division C, Section 101(d), of the law authorized an estimating adjustment of 0.12% in the budget authority limit for all categories for FY2002. Such modifications to the discretionary spending limits and PAYGO scorecard effectively prevented an end-of-the-session sequester for FY2002.[13]

LEGISLATION

H.Con.Res. 353, H.Rept. 107-376

Concurrent Resolution on the Budget for Fiscal Year 2003. Adopted by the House on March 20 by a 221-209 vote. Reported by the House Budget Committee on March 15.

S.Con.Res. 100, S.Rept. 107-141

Concurrent Resolution on the Budget for Fiscal Year 2003. Marked up by the Senate Budget Committee on March 21, and reported to the full Senate on March 22.

CONGRESSIONAL HEARINGS, REPORTS, AND DOCUMENTS

Congressional Budget Office. *The Budget and Economic Outlook: Fiscal Years 2003-2012*. January 2002. The document is available on CBO's Web site at [http://www.cbo.gov].

Congressional Budget Office. *Analysis of the President's Budgetary Proposals for Fiscal Year 2003*. March 2002. The document is available on CBO's Web site at [http://www.cbo.gov].

U.S. Congress. House. Committee on the Budget. *Concurrent Resolution on the Budget–Fiscal Year 2003*. Report to accompany H.Con.Res. 353. 107th Congress, 2nd session. H.Rept. 107-376. Washington: GPO, 2002.

U.S. Congress. Senate. Committee on the Budget. *Concurrent Resolution on the Budget–Fiscal Year 2003*. Report to accompany S.Con.Res. 100. 107th Congress, 2nd session. S.Rept. 107-141. Washington: GPO, 2002.

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[12] For detailed information on the several techniques used to avoid a sequester, see CRS Report RL31155, *Techniques for Preventing a Budget Sequester*, by Robert Keith.

[13] See Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2002*, Jan. 2002.

U.S. Executive Office of the President. Office of Management and Budget. *Budget of the United States Government, Fiscal Year 2003*. Washington: GPO, 2002.

CHRONOLOGY

07-28-2002 – President Bush signed S. 2578, an act to increase the public-debt limit by $450 billion, into law (P.L. 107-199), following the adoption of the legislation by the Senate (June 11) and the House (June 27).

06-07-2002 – Senate adopted FY2002 supplemental appropriations act (H.R. 4775, as amended) by a 71-22 vote.

05-24-2002 – House adopted FY2002 supplemental appropriations act (H.R. 4775, H.Rept. 107-480) by a 280-138 vote.

03-22-2002 – Senate Budget Committee reported its version of the FY2003 budget resolution (S.Con.Res. 100, S.Rept. 107-141) to the full Senate.

03-21-2002 – President Bush submitted a $27.1 billion emergency supplemental appropriations request for FY2002 to provide additional resources for the war on terrorism, homeland security, and economic recovery.

03-20-2002 – House agreed to its version of the FY2003 budget resolution (H.Con.Res. 353, H.Rept. 107-376) by a 221-209 vote.

03-09-2002 – President Bush signed H.R. 3090, the Job Creation and Worker Assistance Act of 2002, into law (P.L. 107-147), following the adoption of the legislation by the House (March 7) and Senate (March 8).

02-04-2002 – President Bush submitted his FY2003 budget to Congress.

FOR ADDITIONAL READING

CRS Report 97-684. *The Congressional Appropriations Process: An Introduction,* by Sandy Streeter.

CRS Report 98-721. *Introduction to the Federal Budget Process,* by Robert Keith and Allen Schick.

CRS Report RS21175. *Perspectives on the Fiscal Year 2003 Budget*, by Philip D. Winters.

CRS Issue Brief IB10102. *The Budget for Fiscal Year 2003,* by Philip D. Winters.