

# Report for Congress

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## Congressional Budget Actions in 2002

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## Summary

During 2002, Congress considered many different budgetary measures. Most measures pertained to FY2003 (which began on October 1, 2002) and beyond. A supplemental appropriations measure for FY2002 (which began on October 1, 2001, and ended on September 30, 2002) also was enacted during 2002. This report describes House and Senate actions 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 George W. Bush submitted his FY2003 budget to Congress on February 4, 2002.

The congressional budget process is centered around the adoption of an annual concurrent resolution on the budget. 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, but did not consider it on the Senate floor. Budget resolution policies are implemented through the enactment of revenue and debt-limit legislation, appropriations and other spending measures, and, if required by the budget resolution, one or more reconciliation bills.

On October 23, President Bush signed into law the first two FY2003 regular appropriations acts: the Defense Appropriations Act, 2003 (P.L. 107-248) and the Military Construction Appropriations Act, 2003 (P.L. 107-249). In the absence of final action on the remaining 11 regular appropriations acts, Congress and President Bush provided temporary appropriations to the federal government agencies and programs normally funded in these acts through eight successive continuing resolutions (five in 2002 and three in 2003).

On February 13, 2003, the House and Senate agreed to the conference report to the Consolidated Appropriations Resolution, 2003 (H.J.Res. 2), which contains the remaining 11 of the 13 regular appropriations acts for FY2003. On February 20, President Bush signed the measure into law (P.L. 108-7), thereby bringing action on the FY2003 regular appropriations acts to a close.

The statutory limits on discretionary spending and the “pay-as-you-go” (PAYGO) requirement for direct spending and revenue legislation established under the Budget Enforcement Act of 1990, as amended, expired on September 30, 2002. At the end of the end of the 107<sup>th</sup> Congress, Congress passed and President Bush signed legislation (H.R. 5708, P.L. 107-312) that reduced the positive balances on the PAYGO scorecard to zero, thereby preventing any future PAYGO sequestration due to projected increases in the deficit as a result of direct spending and revenue legislation enacted prior to the end of FY2002.

This report will not be updated.

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# Congressional Budget Actions in 2002

## Concluding Actions

On November 22, 2002, Congress adjourned sine die. Before ending the session, Congress and President George W. Bush completed action on two of the 13 fiscal year (FY) 2003 regular appropriations acts: the Defense Appropriations Act, 2003 (P.L. 107-248) and the Military Construction Appropriations Act, 2003 (P.L. 107-249) on October 23. In the absence of final action on the remaining 11 regular appropriations acts, Congress and President Bush provided temporary appropriations to the federal government agencies and programs normally funded in these acts through eight successive continuing resolutions (five in 2002 and three in 2003).

On February 13, 2003, the House and Senate agreed to the conference report to the Consolidated Appropriations Resolution, 2003 (H.J.Res. 2), which contains the remaining 11 of the 13 regular appropriations acts for FY2003. On February 20, President Bush signed the measure into law (P.L. 108-7), thereby bringing action on the FY2003 regular appropriations acts to a close. For further information on actions taken in 2003, see CRS Report RL31754, *Congressional Budget Actions in 2003*.

## Introduction

During the second session of the 107<sup>th</sup> Congress, the House and Senate considered many different budgetary measures. Most measures pertained to FY2003 (which began on October 1, 2002) and beyond. A supplemental appropriations measure for FY2002 (which began on October 1, 2001, and ended on September 30, 2002) also was enacted during 2002. This report describes House and Senate actions on major budgetary legislation within the framework of the congressional budget process and other procedural requirements.

In 2002, Congress faced a significantly different procedural and budget environment than it had in the previous few years. Not only were key enforcement procedures under the Budget Enforcement Act (Title XIII of P.L. 101-508) scheduled to expire at the end of FY2002 (i.e., September 30, 2002), but the current and long-term budget outlook also had changed considerably from the year before. At the beginning of 2001, the Congressional Budget Office (CBO) projected federal surpluses in each fiscal year through FY2011 and a cumulative surplus of \$5.6 trillion for FY2002 through FY2011, under policies existing at that time.<sup>1</sup> In contrast, CBO Director Dan L. Crippen testified before the House and Senate Budget

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<sup>1</sup>Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011* (Washington: Jan. 2001).

Committees on January 23, 2002, that CBO projected that both fiscal years 2002 and 2003 would show small deficits, if current policies remained the same and the economy performed as CBO forecasted. Further, the projected cumulative surplus for FY2002 through FY2011 dropped by \$4.0 trillion to \$1.6 trillion. The new environment undoubtedly had a significant effect on congressional budget actions during the 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, prior to September 30, 2002, congressional action on budget legislation was constrained by limits on discretionary spending and a “pay-as-you-go” (PAYGO) requirement for direct spending and revenue legislation.

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 FY2003 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. On July 15, President Bush submitted his *Mid-Session Review* to Congress. This report contains revised estimates of the budget deficit/surplus, receipts, outlays, and budget authority for FY2002 through FY2007, reflecting changed economic conditions and assumptions and congressional actions.<sup>2</sup>

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,

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<sup>2</sup>Presidential budget documents are available from the Government Printing Office or on OMB’s Web site at [<http://www.whitehouse.gov/omb>], visited on Dec. 31, 2002.

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**

<b>Date</b>	<b>Action to be completed</b>
First Monday in February	President submits budget to Congress.
February 15	Congressional Budget Office submits economic and budget outlook report to Budget Committees.
Six 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.

**Source:** Section 300 of the Congressional Budget Act of 1974, as amended (P.L. 93-344, 88 Stat. 297).

**Note:** Dates serve as guidelines, except the first and last, which are required by law.

Budget resolution policies are implemented through the enactment of revenue and debt-limit legislation, appropriations and other spending measures, and, if required by the budget resolution, one or more reconciliation bills. 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 spending and revenue 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.<sup>3</sup> Congress also may use reconciliation legislation (discussed further below) to enforce direct spending, revenue, and debt-limit provisions of a budget resolution.

In addition to the enforcement procedures associated with the budget resolution, budget legislation was 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).

As consideration of the FY2003 budget began, adjustable discretionary spending limits existed 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 required that projected increases in direct spending or decreases in revenues due to legislative action were offset so that the net effects of the new legislation did not increase the deficit or reduce the surplus. The PAYGO requirement applied to legislation enacted through FY2002, but it covered the effects of such legislation through FY2006.

The discretionary spending limits and PAYGO requirement were enforced primarily by sequestration, which involves automatic, largely across-the-board spending cuts in non-exempt programs. Sequestration was triggered if the director of the Office of Management and Budget estimated in the final sequestration report after the end of a session that one or more of the discretionary spending limits had been exceeded or the PAYGO requirement had been violated. A within-session sequestration was possible if a supplemental appropriations bill caused 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 could have been enforced through points of order while legislation was considered on the Senate floor.

The sequestration process established to enforce the discretionary spending limits expired at the end of FY2002 (September 30, 2002). The PAYGO sequestration process continues until the end of FY2006 for the projected increases in the deficit as a result of direct spending and revenue legislation enacted prior to the end of FY2002. However, Congress passed and President Bush signed legislation (H.R. 5708, P.L. 107-312) that reduced the positive balances on the PAYGO scorecard through FY2006 to zero, thereby preventing any PAYGO sequestration through FY2006 for the projected increases in the deficit as a result of direct spending and revenue legislation enacted prior to the end of FY2002.

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<sup>3</sup>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.

## 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.<sup>4</sup>

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. On August 27, CBO released its budget update report, *The Budget and Economic Outlook: An Update*, containing revised budget projections.<sup>5</sup>

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<sup>4</sup>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>], visited on Dec. 31, 2002. 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>], visited on Dec. 31, 2002.

<sup>5</sup>CBO reports are available on its 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 are printed in a separate House Budget Committee print (Serial No. CP-2).

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.

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.<sup>6</sup>

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<sup>6</sup>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, (continued...)

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. The Senate did not consider the Senate Budget Committee-reported budget resolution on the floor.<sup>7</sup>

## 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.

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,

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<sup>6</sup>(...continued)

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. For further information on “deeming resolutions,” see CRS Report RL31443, *The “Deeming Resolution”: A Budget Enforcement Tool*, by Robert Keith.

<sup>7</sup>On June 5, during the consideration of the Emergency Supplemental Appropriations Act (H.R. 4775), Sen. Rick Santorum offered an amendment (no. 3765) that contained the text of S.Con.Res. 100, but the amendment was tabled by a 96-0 vote. See *Congressional Record*, daily edition, vol. 148, June 5, 2002, pp. S5018-S5021.

Section 313 of the CBA, commonly referred to as the Byrd rule, prohibits extraneous matter in a reconciliation bill or any amendment.

Although Congress did not complete action on a FY2003 budget resolution, neither the House or Senate version of the FY2003 budget resolution (H.Con.Res. 353 and S.Con.Res. 100, respectively) contained reconciliation instructions. Consequently, Congress did not anticipate considering reconciliation legislation in 2002.

## 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, 106<sup>th</sup> 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. The Senate PAYGO point of order expired on September 30, 2002. On October 16, however, the Senate agreed by unanimous consent to S.Res. 304, as amended, to restore and extend the point of order through April 15, 2003.<sup>8</sup>

After months of floor consideration of several variations of economic stimulus legislation, the House and Senate agreed to H.R. 3090, which contained a scaled-down economic recovery package of business-related tax cuts and an extension of unemployment compensation, by votes of 417-3 on March 7 and 85-9 on March 8, respectively. President Bush signed H.R. 3090, the Job Creation and Worker Assistance Act of 2002, into law (P.L. 107-147) on March 9.

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 prior increase in the statutory debt limit was included 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 might begin to interfere with the federal government's financial responsibilities "as early as February 2002."<sup>9</sup> Therefore, he requested that Congress raise the debt limit by \$750 billion to \$6.7 trillion.

On June 11, 2002, 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

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<sup>8</sup>The resolution also restored and extended the three-fifths vote requirement for certain waivers of the Congressional Budget Act of 1974, through Apr. 15, 2003.

<sup>9</sup>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.

June 28. The \$450 billion increase was considered to be sufficient to meet the federal government's financial needs through early 2003.<sup>10</sup>

## Appropriations and Other Spending Legislation

Federal spending is categorized as one of 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 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 (CRs), 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 initial suballocations to the House (H.Rept. 107-529) and revised its suballocations four times (H.Rept. 107-566, H.Rept. 107-567, H.Rept. 107-656, and H.Rept. 107-738). Although there was no official allocation made, Senator Robert Byrd, chair of the Senate Appropriations Committee (SAC), submitted for printing

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<sup>10</sup>Bud Newman, "House Passes, Sends to President Bush Bill Hiking Debt Ceiling by \$450 Billion," *BNA Daily Report for Executives*, no. 126, July 1, 2002, p. G-4.

in the *Congressional Record* the SAC-approved FY2003 subcommittee allocations on June 28 and revised allocations on July 26.<sup>11</sup>

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 begun to adopt and report 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 one supplemental appropriations measure 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 either at the time of initial floor consideration or at the time they are reported from conference.

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.<sup>12</sup> On May 21, 2002, President Bush submitted a second FY2002 emergency supplemental appropriations request for \$1.1 billion.<sup>13</sup>

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, 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,

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<sup>11</sup>*Congressional Record*, daily edition, vol. 148, June 28, 2002, p. S6323, and *Congressional Record*, daily edition, vol. 148, July 26, 2002, p. S7417. These subcommittee allocations, however, were not enforceable under the Congressional Budget Act in the Senate because Congress had not adopted a budget resolution for FY2003 nor had the Senate, in the absence of a budget resolution, passed a "deeming resolution."

<sup>12</sup>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>], visited on Dec. 31, 2002.

<sup>13</sup>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](http://w3.access.gpo.gov/usbudget/fy2003/pdf/10va_doi.pdf)], visited on Dec. 31, 2002.

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.

House and Senate conferees resolved the differences between the two versions of the FY2002 supplemental appropriations measure and filed a conference report (H.Rept. 107-593) on July 19. The House agreed to the conference report on H.R. 4775 on July 23 and the Senate agreed to it on the next day by votes of 397-32 and 92-7, respectively. President Bush signed the supplemental appropriations measure into law (P.L. 107-206) on August 8.

Most of the \$28.9 billion provided in H.R. 4775 was designated an “emergency requirement” and effectively was exempt from budget policy controls during consideration on the floor of each chamber and after being enacted into law. About \$5.1 billion, however, was provided for obligation only if the President designated this entire amount an “emergency requirement” within 30 days of enactment (Section 1404 of P.L. 107-206). On August 13, President Bush announced that he would not do so, effectively reducing the overall amount of the supplemental appropriations measure to about \$23.8 billion.<sup>14</sup>

The House and Senate began consideration of the regular appropriations bills for FY2003 during the week of June 24 and July 15, respectively. By the start of FY2003 on October 1, the House had adopted five of the 13 regular appropriations measures, and the Senate had adopted three.<sup>15</sup>

In the absence of any regular appropriations acts enacted by October 1, Congress passed and President Bush signed into law a continuing resolution (H.J.Res. 111, P.L. 107-229). The measure provided temporary appropriations for FY2003 through October 4 for federal government agencies and programs funded in the 13 regular appropriations bills. Subsequently, Congress and President Bush extended the temporary funding through October 11 (H.J.Res. 112, P.L. 107-235), October 18 (H.J. Res. 122, P.L. 107-240), November 22 (H.J.Res. 123, P.L. 107-244), and January 11, 2003 (H.J.Res. 124, P.L. 107-294).

On October 23, President Bush signed into law the first two FY2003 regular appropriations acts: the Defense Appropriations Act, 2003 (P.L. 107-248) and the Military Construction Appropriations Act, 2003 (P.L. 107-249). As Congress adjourned sine die on November 22, the federal government agencies and programs funded in the remaining 11 regular appropriations acts were provided temporary funding through January 11, 2003, by the last continuing resolution (H.J.Res. 124) adopted during the second session of the 107<sup>th</sup> Congress. President Bush signed this continuing resolution into law (P.L. 107-294) on November 23.

Early in 2003, Congress adopted and President Bush signed three additional CRs to provide temporary FY2003 appropriations through January 31 (P.L. 108-2),

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<sup>14</sup>Adam Wasch, “Bush Rejects ‘Extra’ Spending in FY2002 Supplemental Package,” *BNA Daily Report for Executives*, no. 157, Aug. 14, 2002, p. A-13.

<sup>15</sup>For information on congressional action on the FY2003 appropriations bills, see the CRS Appropriations Web site at [<http://www.crs.gov/products/appropriations/apppage.shtml>].

February 7 (P.L. 108-4), and February 20 (P.L. 108-5). On February 13, 2003, the House and Senate agreed to the conference report to the Consolidated Appropriations Resolution, 2003 (H.J.Res. 2), which contains the 11 of the 13 regular appropriations acts for fiscal year (FY) 2003. On February 20, President George W. Bush signed the measure into law (P.L. 108-7), thereby bringing action on the FY2003 regular appropriations acts to a close.<sup>16</sup>

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, included seven reserve funds, two of which were related to direct spending legislation. First, Section 202 of H.Con.Res. 353 provided a reserve fund for legislation reforming the Medicare program, including adding a prescription drug benefit. Second, Section 212 of H.Con.Res. 353 provided 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.<sup>17</sup> 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. Subsequently, the House adopted H.R. 4954 by a 221-208 vote. No further action was taken on this legislation.

## **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. 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, as provided in the 1985 Deficit Control Act, the BEA of 1990 tied sequestration to new statutory limits on discretionary spending and a PAYGO requirement for new direct spending and revenue legislation.

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<sup>16</sup>For further information on actions taken in 2003, see CRS Report RL31754, *Congressional Budget Actions in 2003*, by Bill Heniff Jr.

<sup>17</sup>See *Congressional Record*, daily edition, vol. 148, June 27, 2002, p. H4322.

As consideration of the FY2003 budget began, adjustable discretionary spending limits existed 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 projected effect of new direct spending and revenue legislation enacted for a fiscal year could 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 maintained the balances of the accumulated budgetary effects of laws enacted during the session and prior years. The PAYGO requirement applied to legislation enacted through FY2002, but it covered the effects of such legislation through FY2006.

The discretionary spending limits and PAYGO requirement were enforced primarily by sequestration, which involves automatic, largely across-the-board spending cuts in non-exempt programs. Sequestration was triggered if the director of the Office of Management and Budget estimated in the final sequestration report that one or more of the discretionary spending limits would be exceeded or the PAYGO requirement would be violated. The President then was required to issue a sequestration order cancelling budgetary resources in non-exempt programs by the amount of any spending limit breach or PAYGO violation.

The discretionary spending limits, as well as a PAYGO requirement similar to the statutory one, also could have been enforced through points of order while legislation was being considered on the Senate floor. First, Section 312(b) of the 1974 CBA prohibited 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, 106<sup>th</sup> Congress), like similar provisions in previous budget resolutions, provided 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 the most recently adopted budget resolution. Both of these points of order could have been waived by a vote of three-fifths of Senators. The Senate PAYGO point of order expired on September 30, 2002. On October 16, however, the Senate agreed by unanimous consent to S.Res. 304, as amended, to restore and extend the point of order through April 15, 2003.<sup>18</sup>

**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 were anticipated, these reports could have afforded Congress and the President enough warning so that they could enact legislation to forestall them. The utility of these reports in 2002, however, was ultimately informational only because Congress and the President did not extend the discretionary spending limits and the PAYGO requirement beyond FY2002. Only an OMB within-session

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<sup>18</sup>The resolution also restored and extended the three-fifths vote requirement for certain waivers of the Congressional Budget Act of 1974, through April 15, 2003.

or final sequestration report could have triggered a sequester; the CBO sequestration reports were advisory only.

**Table 2. Timetable for Sequestration Actions**

<b>Deadline</b>	<b>Action to be completed</b>
Five days before the President submits budget	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.

As required, CBO released its sequestration preview report on February 1, 2002, its sequestration update report on August 15, and its final sequestration report on December 4.<sup>19</sup> OMB included its sequestration preview report in the *Analytical Perspectives* volume of the President's budget for FY2003, submitted to Congress on February 2. OMB released its sequestration update report on August 19 and its final sequestration report on December 6.<sup>20</sup>

The BEA enforcement procedures, as well as several enforcement procedures tied to the budget resolution, may have been suspended in the event a declaration of war was enacted or if Congress enacted a joint resolution triggered by the issuance of a "low-growth" report by CBO.<sup>21</sup> With regard to the latter, CBO was required to 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 was required to introduce a joint resolution suspending the enforcement procedures, but such action was 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.

<sup>19</sup>These sequestration reports are available on CBO's Web site at [<http://www.cbo.gov>].

<sup>20</sup>These sequestration reports are available on OMB's Web site at [<http://www.whitehouse.gov/omb>].

<sup>21</sup>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.

At the end of FY2002, the PAYGO scorecard reflected a positive balance for each year from FY2002 through FY2006. **Table 3** provides the estimated balances on the PAYGO scorecard at the end of FY2002. If no other legislative action was taken by the Congress and President Bush, a sequestration likely would have been required. However, on November 14, the House passed by a 366-19 vote H.R. 5708, which required the OMB director to reduce the balances on the PAYGO scorecard to zero. The next day the Senate passed the legislation by unanimous consent. On December 2, President Bush signed H.R. 5708 into law (P.L. 107-312), thereby preventing any PAYGO sequestration through FY2006 for the projected increases in the deficit as a result of direct spending and revenue legislation enacted prior to the end of FY2002.<sup>22</sup>

**Table 3. Estimated PAYGO Scorecard Balances at the End of FY2002**  
(in millions of dollars)

	<b>FY2002</b>	<b>FY2003</b>	<b>FY2004</b>	<b>FY2005</b>	<b>FY2006</b>
Receipt effect	-114	-87,728	-106,935	-109,501	-127,256
Outlay effect	2,206	37,338	40,005	32,127	16,483
Net budget cost	2,320	125,066	146,940	141,628	143,739
OMB balance for sequester in 2003		127,386			

**Source:** OMB's Web site at [<http://www.whitehouse.gov/omb/legislative/paygo/index.html>], visited on Nov. 13, 2002.

## 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.

<sup>22</sup>For further information on the recent removal of PAYGO balances, see CRS Report RS21378, *Termination of the "Pay-As-You-Go" (PAYGO) Requirement for FY2003 and Later Years*, by Robert Keith.

## Chronology

- 11-23-2002 – President Bush signed into law a fifth continuing resolution for FY2003 (P.L. 107-294), providing temporary appropriations through January 11, 2003, for federal government agencies and programs funded in the 11 regular appropriations acts not yet enacted.
- 10-23-2002 – President Bush signed into law the first two FY2003 regular appropriations acts: the Defense Appropriations Act, 2003 (P.L. 107-248) and the Military Construction Appropriations Act, 2003 (P.L. 107-249).
- 08-02-2002 – President Bush signed H.R. 4775, FY2002 supplemental appropriations act, into law (P.L. 107-206), following the adoption of the legislation by the House (July 23) and the Senate (July 24).
- 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).
- 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

### Congressional Hearings, Reports, and Documents

- U.S. Congress. House. Committee on the Budget. *Concurrent Resolution on the Budget–Fiscal Year 2003*. Report to accompany H.Con.Res. 353. 107<sup>th</sup> Congress, 2<sup>nd</sup> 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. 107<sup>th</sup> Congress, 2<sup>nd</sup> session. S.Rept. 107-141. Washington: GPO, 2002.

Congressional Budget Office. *The Budget and Economic Outlook: Fiscal Years 2003-2012*. January 2002.

Congressional Budget Office. *Analysis of the President's Budgetary Proposals for Fiscal Year 2003*. March 2002.

Congressional Budget Office. *The Budget and Economic Outlook: An Update*. August 2002.

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

Office of Management and Budget. *Mid-Session Review, Fiscal Year 2003*. Washington: GPO, 2002.

## **CRS Products**

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

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

CRS Report RL30343. *Continuing Appropriations Acts: Brief Overview of Recent Practices*, 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.