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Folder Title:
Budget [1990] (2 of 2) [5]

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G	15	24	6	3

DRAFT

July 10, 1990
10:47am

SUMMARY OF PROPOSALS

TITLE I
5-YEAR DISCRETIONARY FUNDING

- The Budget Agreement Bill specifies the spending levels for three categories of discretionary spending for each of the next five years: domestic, international, and defense .

- The President's Budget and the Congressional Budget Resolution are required to display and to be consistent with the budget agreement category amounts.

- The budget agreement category amounts are required to be allocated among the Congressional committees and subcommittees.

- Points of order under the Congressional Budget Act would apply to the budget agreement category amounts.

- In the absence of a Congressional Budget Resolution, the budget agreement category amounts serve as a budget resolution. This provision is intended to facilitate consideration of bills consistent with the Budget Agreement even in those circumstances where there is no agreement on the budget resolution.

TITLE II
AMENDMENTS TO G-R-H

Section 201. EXTENSION OF GRAMM-RUDMAN-HOLLINGS ACT

- Extends Gramm-Rudman-Hollings through fiscal year 1998.
- Revises the annual maximum deficit amount for 1991 and 1992.
- Extends the $10 billion margin through fiscal year 1997.

Section 202. SECOND SEQUESTER

- Adds new sections to Gramm-Rudman-Hollings (G-R-H) providing for revised sequester reports and orders. The initial second report and order are to be issued with the President's budget; the final second report and order on March 15.

- The snapshot date for the initial second report would be the latest possible date before the budget is issued. The

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second snapshot date is the latest possible date before March 15.

- o Both reports would be based upon updated economic and technical assumptions used to calculate the sequester baseline in the most recent President's budget.

- o Both reports would be based on laws enacted and regulations promulgated as final by the snapshot date of each report.

- o The report will state whether, as the result of laws enacted and regulations promulgated as final prior to the snapshot date of each report, and based on the updated technical and economic assumptions, the amount of the required sequester has been increased or reduced.

- o The reports will set forth any additional amounts and percentages required for a second sequester in the same manner as the October 15 report does so for the first final sequester.

- o On the same date as the initial second sequester report, the President will issue an initial second sequester order making the reductions set forth in the report. Amounts will be withheld pending issuance of the final second order.

- o On March 15, the President will issue the final second sequester order making the reductions set forth in the final second report. It will be effective on the date it is issued and will permanently cancel amounts sequestered. If the final second report indicates that no additional reductions are required, the order will make available any amounts previously withheld under the initial second order.

<u>Section 203.</u> [TO BE PROVIDED]

<u>Section 204.</u> <u>TECHNICAL MODIFICATIONS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985.</u>

1. Elimination of requirement that OMB sequester reports include explanations for every difference between OMB and CBO of $5 million for more in sequestrable resources and by resource type.

2. Elimination of requirement that OMB sequester reports include a table showing a sequester calculated using CBO's technical assumptions.

3. Elimination of aggregate spendout rate requirements for defense, non-defense and medicare.

4. Modify baseline calculations for expiring mandatory programs to assume that all such programs are extended unless the authorizing legislation specifically states that the program should be allowed to expire for purposes of the Balanced Budget Act.

5. Clarify language on full-funding vs. full absorption of pay raises for the current year.

6. Correct language on adjustments for personnel cost increases to allow for reflecting cost decreases as well.

7. Eliminate requirement that OMB reports be published in the Federal Register. Instead, require that they be printed by GPO.

8. Change in timing of Presidential decision on exemption of military personnel accounts from sequester.

9. Require Program, Project, and Activities level of detail only in the final accompanying message and only to the extent that full-year appropriations have been enacted and a sequester is required.

10. Require Congressional budget resolution allocations to be technically adjusted to be consistent with the final sequester.

11. Clarify definition of term "current rates" as it applies to extension of expiring provisions of law governing agricultural price support programs administered through the Commodity Credit Corporation.

12. Require concurrent submission of the Mid-Session Review of the Budget and OMB's Initial Sequester Report on August 25th of each year.

TITLE III
ENFORCEMENT PROCEDURES

Section 301. REQUIREMENTS FOR CONSIDERATION OF SUPPLEMENTALS

- The proposed language would provide a simple means for keeping within the budget agreement category amounts for discretionary appropriations. Specifically, each time a supplemental was enacted for a discretionary appropriation that would have exceeded the 302(b) allocation to the Subcommittee, the discretionary budget authority and resulting outlays would have to be offset, either by:

  - reduction of sufficient previously enacted budget authority (and resulting outlays), or

  - an automatic reduction in the appropriations provided in the regular appropriations bill by a uniform percentage.

- In the event of a sequester, the requirement to offset supplementals would be applied to the post sequester level.

- A point of order could be raised under section 302(f) of the Budget Act against any bill that did not meet this requirement.

- Should the point of order be waived and a bill be passed that exceeded the 302 (b) allocation, Section 303 would apply.

Section 302. EMERGENCY RESERVE ACCOUNTS FOR DIRE EMERGENCIES

ALTERNATIVE 1. EMERGENCY RESERVES APPROPRIATIONS

- The Budget Agreement Bill would appropriate 2% of the allocation for domestic, international, and defense to three new emergency reserve accounts in the Treasury.

- The availability of the amounts appropriated would be restricted to dire emergencies, as defined in the bill.

- The President would be authorized to transfer the funds.

- The President would be required to issue a report listing the balances that will be available on July 1st for each account. The report will present the amounts for each subcommittee.

- The reserved balances would be released for expenditure at the beginning of the final quarter of the fiscal year. The President would be authorized to transfer the funds to other accounts within the major categories.

- In addition, a mandatory emergency reserve account would be established. It would be funded by a permanent indefinite appropriation.

ALTERNATIVE 2. PRESIDENTIAL RESERVE FOR CONTINGENCIES

- A Presidential Reserve for Contingencies would be established to be funded by permanent indefinite appropriation.

- Funds could be made available from this reserve only to meet emergency needs, based on a Presidential determination, e.g declaration of an emergency or of a natural disaster.

- The President would be required to report the expenditure of funds under this authority to Congress within 30 days.

ALTERNATIVE 3. LEGISLATIVE SET ASIDE

- Each subcommittee of the Committee on Appropriations, upon receiving an allocation for domestic, international, or defense budget authority and outlays under the budget resolution would reserve from further action a sum of two percent of the amount allocated to it within each category.

- The reserved funds would be released for expenditure within the major categories at the beginning of the final quarter of the fiscal year.

<u>Section 303.</u> <u>ENFORCEMENT OF FUNDING LEVELS</u>

A. ENFORCEMENT OF FUNDING LEVELS - EXCESS

The following would apply if appropriations (regular, supplemental, and continuing resolutions) are enacted that exceed the caps for national defense, international, and domestic discretionary categories in the multi-year budget agreement law.

- The President would be given authority to reduce budgetary up to the excess.

- If a sequester were in effect, then the President would be given authority to reduce the full amount of the excess from the post-sequester amount.

- Congress would have 35 days to disapprove the reduction by enactment of a reduction disapproval bill.

- If an appropriations bill or continuing resolution is enacted that exceeds the appropriate allocation for the bill or resolution of the category total of budget authority or outlays set forth in the budget agreement law, the President may reduce all or any portion of any appropriations item in the bill in amounts that in total are equal to such excess. The appropriate allocation shall be the 302(b) allocation for such bill unless,

  (a) there is no 302(b) allocation, or

  (b) the 302(b) allocation is not consistent with the budget agreement, or

  (c) the President determines that the 302(b) allocation is inappropriate.

If (a), (b) or (c) applies, then the appropriate allocation shall be such allocation as the President may determine is appropriate and consistent with the budget agreement total.

B. ENFORCEMENT OF FUNDING LEVELS - SHORTFALLS

If an appropriations bill or continuing resolution is enacted that provides budget authority or outlay amounts for one of the three categories that are less than the amount of budget authority or outlays for the category set forth in the budget agreement law, the President may reduce all or any portion of any appropriations item within the total for the other two categories set forth in the budget agreement law in amounts that in total equal the amount by which budget authority or outlays for the category with the shortfall are less than amounts for that category set forth in the budget agreement law.

This provision operates independently of the enforcement of funding levels in excess of the categories provision.

<u>Section 304.</u> <u>PAY-AS-YOU GO FOR NEW OR EXPANDED MANDATORY SPENDING</u>

- Bills providing new spending authority, as defined by section 401 (c) of the Congressional Budget Act, would be required to be fully offset by an equal reduction in existing authority.

- This provision is intended to insure that no new or expanded entitlement or other mandatory programs are enacted during the period covered by the Budget Agreement, unless fully offset by reductions in existing programs.

Section 305. SCORING RULES AND COMPOSITION OF CATEGORIES

- General budget scorekeeping conventions that will be used by the House and Senate Budget Committees and the Office of Management and Budget in measuring compliance with this budget agreement are incorporated in the Agreement by reference.

- These rules are to be used to the extent possible by the Congressional Budget Office and the Office of Management and Budget in calculating deficit estimates and making projections for G-R-H.

- The composition of the budget agreement categories is to be based on the President's Mid-Session Budget Update of July 16, 1990. This document reflects the resolution of budget classification differences worked out between the Budget Committees, CBO and OMB.

- Any subsequent changes to the composition of budget agreement categories due to the enactment of new programs or legislative changes will be resolved following the procedures of section 1104(c) of Title 31, United States Code.

TITLE IV

CREDIT

- Administration Credit Reform Bill.

- Credit Budget Caps.

- Generic Budget Process Controls on Contingent Liabilities (see Attachment 2).

TITLE V

SUPPLEMENTARY BUDGET PRESENTATION

Section 501. SUPPLEMENTARY BUDGET PRESENTATION

- The language would establish a legal requirement for a supplementary presentation using the GAO system in the President's Budget.

TITLE VI

AGENCY AUDITS AND FINANCIAL SYSTEM IMPROVEMENTS

Section 601. INTEGRATED FINANCIAL MANAGEMENT SYSTEMS

- Legislative requirement for the Director of OMB and the Secretary of the Treasury to submit an annual 5 year government-wide financial management plan to Congress.
- The Director is to submit a report, with the budget, that:
  - updates the 5-year plan; and
  - sets forth accomplishments.

Section 602. FINANCIAL REPORTING AND AUDITS

- Financial statements will be required for specified agencies.
- Director of OMB to prescribe the form and content, consistent with applicable accounting principles, standards, and requirements.
- The statements are to be audited annually by an independent external auditor or IG.
- By April 30 of each year, the agency heads are required to report to the President and the Congress:
  - the annual financial statement; and
  - the audit report.
- The President shall submit the plan to the Congress and report annually.

DRAFT

July 9, 1990
3:12pm

DRAFT BUDGET AGREEMENT BILL

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DRAFT: June 9, 1990
3:25pm

TITLE I
5-YEAR DISCRETIONARY FUNDING

Section 101. Budget Agreement Category Amounts

Section 3 of the Congressional Budget and Impoundment Control Act of 1974 is amended by adding the following new subsections at the end thereof:

"(11) The term, "budget agreement categories", means domestic discretionary, national defense, and international discretionary as set forth in the ____________ report [identifying citation to an existing document], and the term, "budget agreement category amount", means the sum of new budget authority and outlays for the programs in each category.

The totals of new budget authority and outlays for fiscal years 1991, 1992, 1992, 1994, and 1995 shall equal the amounts specified in subsections (12), (13), and (14) of this section.

"(12) The term, "domestic discretionary amount", means--

(A) for fiscal year 1991, $__________ total budget authority and $__________ total outlays;

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(B) for fiscal year 1992, $__________ total budget authority and $__________ total outlays;

(C) for fiscal year 1993, $__________ total budget authority and $__________ total outlays;

(D) for fiscal year 1994, $__________ total budget authority and $__________ total outlays; and

(E) for fiscal year 1995, $__________ total budget authority and $__________ total outlays.

"(13) The term, "national defense amount", means--

(A) for fiscal year 1991, $__________ total budget authority and $__________ total outlays;

(B) for fiscal year 1992, $__________ total budget authority and $__________ total outlays;

(C) for fiscal year 1993, $__________ total budget authority and $__________ total outlays;

(D) for fiscal year 1994, $__________ total budget authority and $__________ total outlays; and

(E) for fiscal year 1995, $__________ total budget authority and $__________ total outlays.

"(14) The term, "international discretionary amount", means-

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(A) for fiscal year 1991, $__________ total budget authority and $__________ total outlays;

(B) for fiscal year 1992, $__________ total budget authority and $__________ total outlays;

(C) for fiscal year 1993, $__________ total budget authority and $__________ total outlays;

(D) for fiscal year 1994, $__________ total budget authority and $__________ total outlays; and

(E) for fiscal year 1995, $__________ total budget authority and $__________ total outlays."

Section 102. Requirement that the President's Budget and the Congressional Budget Resolution be Consistent with the Budget Agreement Categories

a. Section 1105 (a) of Title 31, United States Code, is amended by adding the following new paragraph:

"(27) a display of the budget agreement categories and amounts, as defined in section 3 of the Congressional Budget and Impoundment Control Act of 1974, for the budget year through fiscal year 1995. The budget shall be consistent with the amounts specified in subsections (12), (13), and (14) of section 3 of such Act for each such year."

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b. Section 301(a) of the Congressional Budget Act of 1974 is amended by adding the following new paragraph:

"(6) the budget agreement categories and amounts, as defined in section 3 of this Act, for the budget year and the following two fiscal years. The appropriate levels included in the resolution shall be the amounts specified in subsections (12), (13), and (14) of such section for each such year. Amounts set forth in the resolution, including new budget authority, outlays, direct loan obligations, and primary loan guarantee commitments for each budget agreement category, based on allocations of the total levels set forth in this paragraph, shall be consistent with amounts specified in subsections (12), (13), and (14). For purposes of this section, the term, "consistent with", shall mean no more nor less than the amount specified."

Section 103. Amendments to Title III of the Congressional Budget Act

a. Section 301(i) of the Congressional Budget Act of 1974 is amended by--

(1) deleting the title and inserting, "NEITHER THE MAXIMUM DEFICIT AMOUNT NOR THE BUDGET AGREEMENT CATEGORY AMOUNTS MAY BE VIOLATED.--"; and

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(2) in paragraph (1)(A), inserting before the period, ", or if the amounts specified for each budget agreement category are not consistent with the amounts specified in section (3)(12), (13), and (14)".

b. Section 302(a) of such Act is amended--

(1) in paragraph (1), by inserting "budget agreement category amounts" in the first sentence before the words, "total credit authority", and inserting "such budget agreement category amounts" before the words, "or such credit authority"; and

(2) inserting at the end the following: "The allocation shall, for each committee, divide budget agreement category amounts between amounts provided or required by law on the date of such conference report, and amounts not so provided or required."; and

(3) in paragraph (2), by inserting "budget agreement category amounts," before the words, "and new credit authority", and inserting before the period, "or such budget agreement category amounts".

c. Section 302(b) of such Act is amended by inserting "budget agreement category amounts," before the words, "and new credit authority" in subsection (1).

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d. Section 302(c) of such Act is amended by deleting "or" at the end of (2), renumbering "(3)" to "(4)", and inserting the following after the existing subsection (2): "(3) budget agreement category amounts for a fiscal year; or".

e. Section 302(f) of such Act is amended--

(1) in paragraph (1), by inserting "budget agreement category amounts for such fiscal year," before the words, "or new credit authority for such fiscal year", and inserting "budget agreement category amounts," before the words, "or new credit authority"; and

(2) in paragraph (2), by deleting the phrase, "for budget outlays or new budget authority in excess of the appropriate allocation of such outlays or authority", and inserting "for budget outlays, new budget authority, or budget agreement category amounts in excess of the appropriate allocation of such outlays, authority, or budget agreement category amounts".

f. Section 304(b) is amended by deleting the title and inserting "NEITHER MAXIMUM DEFICIT AMOUNT NOR BUDGET AGREEMENT CATEGORY AMOUNT MAY BE VIOLATED.--".

g. Section 311(a) is amended--

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(1) by inserting after the phrase, "would cause the appropriate level of total new budget authority or total budget outlays", the following: ", or the budget agreement category amounts,"; and

(2) by inserting after the phrase, "would otherwise result in", the following: "total amounts of budget authority and outlays for such fiscal year that are not equal to the budget agreement category amounts specified for such fiscal year in section 3(12),(13), or (14), or in".

Section 104. Absence of a Budget Resolution

If in fiscal year 1992, 1993, 1994, or 1995, a concurrent resolution on the budget is not agreed to by the Congress by the date stated in section 301 of the Congressional Budget Act of 1974, the budget agreement category amounts specified in section 3(12), (13), and (14) shall be deemed to be agreed to by Congress for purposes of title III of such Act.

Section 105. Budget Agreement Category Amounts Shall be Superseded Only by Subsequent Act of Congress

The budget agreement category amounts specified in section

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3(12), (13), and (14) shall be binding and shall be superseded only by an act of Congress, presented to and signed by the President.

[NOTE: hook into Title III? e.g.--The enforcement procedures authorized by Title III of this Act are triggered by failure to utilize (?) amounts consistent with these sections. ??]

DRAFT

July 6, 1990
5:48pm

TITLE II

AMENDMENTS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985

Section 201. (a) EXTENSION OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT. -- Section 275(b)(1) of the Balanced Budget and Emergency Deficit Control of 1985 is amended by striking "1993" and inserting "1998".

(b) MAXIMUM DEFICIT AMOUNT. -- Section 3(7) of the Congressional Budget and Impoundment Control Act of 1974 is amended --

(1) by striking paragraphs (F), (G), and (H); and

(2) by inserting after paragraph (E) the following:

"(F) with respect to the fiscal year beginning October 1, 1990, $ ________;

"(G) with respect to the fiscal year beginning October 1, 1991, $ ________;

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"(H) with respect to the fiscal year beginning October 1, 1992, $ __________;

"(I) with respect to the fiscal year beginning October 1, 1993, $ __________;

"(J) with respect to the fiscal year beginning October 1, 1994, $ __________;

"(K) with respect to the fiscal year beginning October 1, 1995, $ __________.

"(L) with respect to the fiscal year beginning October 1, 1996, $ __________; and

"(M) with respect to the fiscal year beginning October 1, 1997, $ __________."

(c) CONFORMING CHANGES. --

(1) DEFINITION OF MARGIN. -- Section 257(10) of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended by --

(i) deleting "1992 and zero with respect to fiscal year 1993.", and

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(ii) inserting "1997 and zero with respect to fiscal year 1998.".

(2) ESTIMATES AND DETERMINATION. -- Section 251(a)(1)(B) and (a)(2)(A) of the Balanced Budget and Emergency Deficit Control Act of 1985 are amended by striking "1993" and inserting "1998".

(3) DETERMINATION OF REDUCTION. -- Section 251(a)(3)(A)(i)(III) of the Balanced Budget and Emergency Deficit Control Act of 1985 is amended by striking "for fiscal years 1990, 1991, 1992, or 1993," and inserting "for each fiscal year following fiscal year 1989,".

(4) PRESIDENTIAL ORDER. --

(A) Section 252(a)(6)(B) is amended by deleting "1993" in the title and inserting "1998"; and

(b) Section 252(a)(7) is amended by deleting "1993" in the title and inserting "1998".

Section 202. SECOND SEQUESTER REPORTS AND ORDERS. -- The Balanced Budget and Emergency Deficit Control Act of 1985 is amended by inserting, after Section 252, the following new sections --

"Section 252A. INITIAL SECOND REPORT AND ORDER.

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"(a) INITIAL SECOND REPORT BY OMB.

(1) At the time that the President's budget for the fiscal year following the issuance of the first final order under section 252(b) is submitted pursuant to section 1105 of Title 31, United States Code, the Director of OMB shall submit to the President and the Congress a report revising the report issued under section 251(c)(2) for the current fiscal year, adjusting the estimates, determinations, and specifications contained in the report issued under such section. The report shall follow the requirements, specifications, definitions, and calculations required under section 251(c)(2), and utilize the same definition of the budget baseline and the same criteria and guidelines as the report issued under section 251(c)(2), except --

(A) the report shall be based on laws enacted and regulations promulgated as final by the snapshot date of the report, which shall be, for purposes of this section, the latest possible date before the submission of the report;

(B) the report shall be based upon updated economic and technical assumptions used for the President's budget;

(C) the report shall not be required to meet the requirements of section 251(a)(2)(B)(i) and (ii); and

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(D) as set forth in subsection (a)(2) of this section.

(2) The report shall indicate whether and to what extend, as a result of (i) laws enacted and regulations promulgated as final prior to the snapshot date for the report issued under this section, and (ii) the revised technical and economic assumptions made pursuant to subparagraph (a)(1)(B) of this section, the projected deficit for the current fiscal year exceeds the maximum deficit amount for such fiscal year and whether such deficit excess will be greater than $10,000,000,000. If such deficit excess exceeds $10,000,000,000, the report shall--

(A) indicate the additional reductions and sequester amounts necessary to eliminate any deficit excess as determined under this subsection; and

(B) specify the revised budget baseline from which additional reductions will be taken, and the additional amounts and percentages by which amounts available must be reduced to eliminate any deficit excess.

"(b) INITIAL SECOND ORDER.

(1) On the same day as the budget is submitted, after the submission of the report by the Director of OMB under subsection

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(a), the President shall issue an initial second order under this section to make all of the additional reductions and sequestrations specified in such report, but only to the extent and in the manner provided in such report. The order issued under this subsection --

(A) shall be in addition to any final order issued pursuant to section 252(b); and

(B) shall become effective on the day it is issued, and the President shall withhold from obligation or expenditure, as provided in section 252(a)(4), pending the issuance of the final second sequester order under section 252B(b), any additional amounts that are sequestered under such order.

(2) If the Director of OMB issues a report under this section stating that the deficit excess calculated in subsection (a) of this section is less than $10,000,000,000, no additional outlay reductions are required for the current fiscal year.

"(c) PROPOSAL OF ALTERNATIVES BY THE PRESIDENT. -- The budget submitted by the President pursuant to section 1105 of Title 31, United States Code, may contain a proposal setting forth in full detail alternative ways to reduce the deficit for the current fiscal year in an amount not less than the deficit reduction required under this section for such fiscal year.

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"Section 252B. FINAL SECOND REPORT AND ORDER.

"(a) FINAL SECOND REPORT BY OMB. -- On March 15 of each fiscal year, the Director of OMB shall submit to the President and the Congress a final report revising the report issued under section 252A(a), adjusting the estimates, determinations, and specifications contained in the report issued under such section. The report shall follow the requirements, specifications, definitions, and calculations required by that section, except the report shall be based on laws enacted and regulations promulgated as final by the snapshot date of the report, which shall be, for purposes of this section, the latest possible date before March 15.

"(b) FINAL SECOND ORDER. -- On March 15 of each fiscal year, after the submission of the report by the Director of OMB under subsection (a), the President shall issue a final second order under this section to make all of the additional reductions and sequestrations specified in such report, but only to the extent and in the manner provided in such report. The order issued under this subsection --

(A) shall be in addition to any final first order issued pursuant to section 252(b);

(B) shall become effective on the day that it is issued; and

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(C) shall permanently sequester or reduce the amounts specified therein.

"(c) If the report issued under this section states that no additional outlay reductions are required for the current fiscal year, the order issued under this subsection shall so state, and shall state that the final first order issued under section 252(b) shall remain in full force and effect. The order shall make available for obligation and expenditure amounts withheld pursuant to section 252A."

Section 203. TREATMENT OF SOCIAL SECURITY AND THE RESOLUTION TRUST CORPORATION.

[LANGUAGE TO BE PROVIDED]

Section 204. Technical Amendments to The Balanced Budget and Emergency Deficit Control Act of 1985.

(a) Section 251 of The Balanced Budget and Emergency Deficit Control Act of 1985 is amended as follows:

(1) Section 251(a)(2)(B)(i)(II) and (III) are repealed.

(2) Section 251(a)(2)(B)(ii) is repealed.

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(3) Section 251(a)(2)(B)(iii) and (iv) are repealed.

(4) Section 251(a)(6)(B) is amended by deleting "do expire" and inserting in lieu thereof, "are extended at the lesser of current levels or current rates (unless such provisions of law specifically indicate that they should not be assumed to be extended for purposes of this Act)"

(5) Section 251(a)(6)(C)(i) is amended by deleting the parenthetical and inserting, "(funding for such pay adjustments are assumed to be provided for in such Act unless indicated to the contrary in such Act)".

(6) Section 251(a)(6)(C)(ii) is amended by deleting "(without absorption)" and inserting before "II" the following, ",including adjustments to remove absorption explicitly indicated in such previous fiscal year appropriations,".

(7) Section 251 (a)(6)(C)(ii)(III) is amended by deleting "increased to cover the increased" and inserting, "adjusted to cover the changed".

(8) Section 251(b) is amended by deleting "Federal Register" both times it occurs and inserting, "Government Printing Office".

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(9) Section 251(d)(3)(C) is amended by deleting the phrase "October 10, 1987, in the case of fiscal year 1988, or August 15 of the calendar year in which the fiscal year begins in the case of any subsequent fiscal year," and inserting, "the day a final order is issued for such fiscal year,".

(b) Section 251 is further amended, and 252 is amended, to require program project and activity level of detail only in the final accompanying message and only to the extent full-year appropriations have been enacted and a sequester is required, as follows:

(1) Section 251(c)(1)(A) is amended by adding to the end thereof, "and".

(2) Section 251(c)(1)(B) is amended by deleting ",and" and inserting in lieu thereof, ".".

(3) Section 251(c)(1)(C) is repealed.

(4) Section 251(c)(2) is amended by deleting the final sentence, which begins "In addition,".

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(5) Section 252(a)(5) is amended by deleting "initial order" and inserting in lieu thereof, "final order indicating a sequester is required".

(6) Section 252(a)(5) is further amended by deleting "paragraph(2)" and inserting in lieu thereof, "section 252(a)(2)".

(7) Section 252(a)(5)(A) is amended by inserting after "account" the first time it occurs, "for which annual appropriations or full-year continuing appropriations have been enacted".

(8) Section 252(a)(5) is renumbered to Section 252(b)(4).

(9) Section 252(b)(4) is repealed.

(10) Section 252(c)(1) is amended by deleting "(a)(5)" and inserting in lieu thereof, "(b)(4)".

(c) Section 252 (b) is amended by adding the following at he end thereof:

"(5) After the President issues a final order making any reductions and sequestrations required, the allocation

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authorized by section 302 of the Congressional Budget Act of 1974 shall be reduced so as to be consistent with such order."

(d) Section 257 is amended by adding the following new paragraph to the end thereof, "(15) The term "current rates" for purposes of section 251(a)(6)(B) means the rates in existence on the day preceding the expiration of each such provision of law to be extended in the baseline by application of such section.

(e) Section 1106(a), Title 31 United States Code is amended by deleting "July 16" and inserting, "August 26".

Section 1106(b), Title 31 United States Code is amended by deleting "July 16" and inserting, "August 26".

DRAFT

July 10, 1990
11:00am

TITLE III

ENFORCEMENT PROCEDURES

Section 301. REQUIREMENTS FOR CONSIDERATION OF SUPPLEMENTALS

(a) Any bill that supplements an appropriation, providing funding in excess of the 302 (b) allocation, shall fully offset budget authority and resulting outlays of the excess funding.

(b) For any supplemental appropriations, not otherwise offset, each appropriation not required by law that is provided in an annual appropriations Act or continuing resolution within a budget agreement category is hereby reduced by a uniform percentage whenever any appropriation not required by law is subsequently enacted that supplements an appropriation included in such Act. The amount of the reduction shall be equal to the annual appropriation multiplied by a fraction, the nominator of which is the amount of the supplemental appropriation and the denominator of which is the amount provided within a budget agreement category in the annual appropriation.

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Section 302. EMERGENCY RESERVE ACCOUNTS FOR DIRE EMERGENCIES

ALTERNATIVE 1. EMERGENCY RESERVES APPROPRIATIONS

(a) The following accounts are established in the Department of the Treasury:

(1) the Domestic Discretionary Emergency Reserve Account;

(2) the National Defense Emergency Reserve Account;

(3) the International Discretionary Emergency Reserve Account; and

(4) the Mandatory Emergency Reserve Account.

(b) To the domestic discretionary, national defense, and international discretionary emergency reserve accounts, there are hereby appropriated out of any money in the Treasury not otherwise appropriated, two percent of the budget authority in the budget agreement category amounts specified in section 101, for the fiscal years 1991, 1992, 1992, 1994, and 1995.

(c) Through the third quarter of each applicable fiscal year, the amounts appropriated shall be available only for the dire emergencies, as follows:

(a) laws enacted, subsequent to the transmittal to the Congress of the budget request, that require expenditures beyond administrative control; and

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(b) emergencies involving (1) the safety of human life, (2) the protection of property, or (3) the immediate welfare of individuals.

(d) The President is authorized to transfer amounts from these accounts to other accounts to meet dire emergencies as defined above.

(e) On June 15th of each year, the President, shall issue a report estimating the balances in each account that will be available on July 1st of that year.

(f) Beginning in the final quarter of each fiscal year, and to the extent that the balances are no longer needed to meet the above contingencies, these amounts shall be available to meet other requirements. The President is authorized to transfer amounts from these accounts to other appropriate accounts within the budget agreement categories.

(g) To the Mandatory Emergency Reserve Account, there are hereby appropriated out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to fund amounts required to be paid to individuals in specific amounts fixed by law or under formulas prescribed by law , for the fiscal years 1991, 1992, 1992, 1994, and 1995.

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ALTERNATIVE 2. PRESIDENTIAL RESERVE FOR CONTINGENCIES

Such sums as may be necessary are provided to the President for the Reserve for Contingencies, provided that no funds shall be obligated unless in response to a Presidential declaration of emergency, or natural disaster; further provided that the President report to the Congress 30 days before the use of this authority.

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ALTERNATIVE 3. LEGISLATIVE RESERVES

(a) Subsection 302(b) of the Congressional Budget Act is amended as follows:

(Insert after "Each such committee", the following:) "and each subcommittee shall retain from allocation a sum equal to two percent of the sum allocated to it within each budget agreement category, to be used strictly to meet supplemental dire emergency requirements subsequent to enactment of original appropriations for the year. Reserved funds would be released for expenditure to meet other requirements at the beginning of the final quarter of each fiscal year. In addition, each such committee."

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Section 303. ENFORCEMENT OF FUNDING LEVELS - EXCESS

"(a) IN GENERAL.--Notwithstanding the provisions of Title X of the Congressional Budget and Impoundment Control Act of 1974, the President may reduce all or part of any budgetary resources, if the President--

(1) determines that the resources made available in a bill or continuing resolution exceed the appropriate allocation of budget authority or outlays for a budget agreement category total set forth in section 3(12), (13), or (14) of this Act ("the excess amount"); and

(2) notifies the Congress of such reduction by a special message not later than 20 calendar days (not including Saturdays, Sundays, or holidays) after the date of enactment of the appropriations Act or joint resolution making continuing appropriations providing such budgetary resources.

The total of the amounts reduced shall not be greater than the excess amount.

The President shall submit a separate reduction message for each appropriations bill under paragraph (2).

"(b) REDUCTION EFFECTIVE UNLESS DISAPPROVED.--Any amount of budgetary resources reduced under this section as set forth in a special message by the President shall be deemed canceled unless during the period of 35 calendar days of session after such special message is transmitted, a reduction disapproval bill making available all of the amount reduced is enacted into law.

"(c) RELATIONSHIP TO SEQUESTER.--If a sequester order takes effect under the provisions of the Balanced Budget and Emergency Deficit Control Act, the full amount of the reduction authorized under this section shall be taken from the post-sequester level of the appropriation.

"(d) DEFINITIONS.--The following definitions apply for purposes of this section,

(i) the term 'reduction disapproval bill' means a bill or joint resolution which only disapproves a reduction of budgetary resources, in whole, notice of which is transmitted to Congress in a special message by the President under this section.

(ii) The 'appropriate allocation' means the allocation required by any allocation pursuant to section 302(b) of the Act for the bill (or, if more than one such allocation is applicable to the bill, each of such allocations) unless --

(A) there is no applicable 302(b) allocation, or

(B) the applicable 302(b) allocation is not consistent with the budget agreement category amounts of section 3, or

(C) the President determines the 302(b) allocation is not appropriate.

In the event that (A), (B) or (C) applies, the appropriate allocation shall be such allocation as the President determines is appropriate and consistent with the budget agreement category amounts of section 3(12), (13), or (14) of the Act.

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Section 303. ENFORCEMENT OF FUNDING LEVELS - SHORTFALL.

"(a) IN GENERAL.--Notwithstanding the provisions of Title X of the Congressional Budget and Impoundment Control Act of 1974, the President may reduce all or part of any budgetary resources provided for the domestic discretionary budget agreement category, if the President--

(1) determines that --

(A) the budgetary resources made available in a bill or continuing resolution within the national defense category under section 3(13) of the Congressional Budget and Impoundment Control Act of 1974 together with other amounts made available for the fiscal year for such category, fall short of the amount of budget authority or outlays for the national defense category ("the shortfall amount"); or

(B) the budgetary resources made available in a bill or continuing resolution within the international discretionary category under section 3(14) of such Act together with other amounts made available for the fiscal year for such category, fall short of the amount of budget authority or outlays for the

International category ("the shortfall amount"); and

(2) notifies the Congress of such reduction by a special message not later than 20 calendar days (not including Saturdays, Sundays, or holidays) after the date of enactment of the appropriations Act or joint resolution making continuing appropriations providing any budget authority counted within such national defense category or such international discretionary category, as the case may be.

"(b) LIMITATIONS.--

(1) The total of the amounts reduced pursuant to this section shall not be greater than any shortfall amount for the national defense category and any shortfall amount for the international discretionary category.

(2) The President shall submit a separate reduction message for each appropriations bill under paragraph (2) of subsection (a).

"(c) REDUCTION EFFECTIVE UNLESS DISAPPROVED.--

(1) Any amount of budgetary resources reduced under this section as set forth in a special message by the

President shall be deemed canceled unless during the period of 35 calendar days of session after such special message is transmitted, a reduction disapproval bill making available all of the amount reduced is enacted into law.

(2) If some or all appropriations bills or resolutions providing budgetary resources for the domestic discretionary budget agreement category discretionary budget agreement category have not been enacted at the time of enactment of the act providing national defense appropriations, then the cancellations shall take effect immediately after (i) enactment of such bills or resolutions providing such resources for the domestic discretionary budget agreement category, and (ii) application of subsection (d), if any.

"(d) RELATION TO OTHER PROVISIONS OF LAW.--

(1) The authority to reduce appropriations provided in this section shall apply independently from and in addition to the authority provided in section ____ of this Act to reduce appropriations in excess of budget agreement category amounts. Any reduction under this section shall be made --

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(A) after and in addition to application of any reduction under section ____ of this Act; and

(B) shall reduce amounts remaining after any reduction under section ____ of this Act.

(2) If a sequester order takes effect under the provisions of the Balanced Budget and Emergency Deficit Control Act, the full amount of the reduction authorized under this section shall be taken from the post-sequester level of the appropriation.

"(e) DEFINITIONS.--For purposes of this section, the following definitions apply:

(1) The term 'reduction disapproval bill' means a bill or joint resolution which only disapproves a reduction of budget authority, in whole, notice of which is transmitted to Congress in a special message by the President under this section.

(2) 'Domestic discretionary budget agreement category' refers to section 3(11) of the Congressional Budget and Impoundment Control Act of 1974.

(3) 'Budgetary resources' means new budget authority,

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obligation limitations, new direct loan limitations, new guaranteed loan limitations, and spending authority as definition section 401(c)(2) of the Act.

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Section 304. PAY-AS-YOU-GO FOR NEW OR EXPANDED MANDATORY SPENDING.

"Section____. It shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or conference report, as reported to its House which provides new spending authority described in section 401(c)(2)(A) or (B)(or any amendment that provides such new spending authority), unless that bill provides for an equal reduction in existing direct spending authority.

"Section____. SCORING RULES AND COMPOSITION OF CATEGORIES

(a) The House and Senate Committees on the Budget, the Congressional Budget Office, and the Office of Management and Budget shall use the "Scorekeeping Guidelines for the Bipartisan Budget Agreement of   " in carrying out their responsibilities under Titles III and IV of the Congressional Budget Act and the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, as amended.

(b) The composition of the budget agreement categories defined in section 3(11) of this Act will be based upon the President's Mid-Session Budget update of July 16, 1990.

(c) Changes in composition of budget agreement categories due to the enactment of new programs or legislative changes in existing programs will be will be considered under section 1104 (c) of Title 31, United States Code of this Act.

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THE ADMINISTRATION'S CREDIT REFORM

A BILL

To ensure the proper budgetary treatment of credit transactions of Federal agencies and to improve management of Federal credit programs.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Federal Credit Reform Act of 1989".

SECTION 2. PURPOSES.

The purposes of this Act are to:

(a) measure accurately the benefits of Federal credit programs;

(b) place the cost of credit programs on a budgetary basis equivalent to other Federal spending;

(c) encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries;

(d) improve the allocation of resources among credit programs and between credit and other Federal spending;

(e) establish in the Department of the Treasury two Federal credit revolving funds;

(f) modify the legislative and executive budgetary processes to carry out these purposes.

SECTION 3. DEFINITIONS.

For purposes of this Act:

(a) "Federal agency" means an executive department, an independent Federal establishment, or a corporation or other entity established by the Congress that is owned in whole or in part by the United States. The term does not include the Board of Governors of the Federal Reserve System or any "government-sponsored enterprise".

(b) "Direct loan" means a disbursement of funds by the Federal Government to a non-Federal borrower under a contract that requires the repayment of such funds with or without interest. This term includes the purchase of, or participation in, a loan made by another lender as well as disbursements on behalf of a Federal agency by the Direct Loan Fund as required under section 12(c) of this Act. This term does not include the acquisition of a federally guaranteed loan in satisfaction of default claims. For the purpose of carrying out the provisions of this Act, direct loans may be grouped and treated as a single loan as agreed to by the Secretary and the head of the affected agency.

(c) "Direct loan obligation" means a binding agreement entered into by a Federal agency for the Government under which a Federal agency agrees to make a direct loan once specified conditions are fulfilled by the borrower.

(d) "Loan guarantee" means any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender in the event the borrower defaults. This term also shall include any agreement or contract made by an agency, the primary purpose or result of which, as determined by the Secretary, is to make private credit available, or available on more favorable terms than in the absence of the agreement or contract, to a non-Federal entity by indirectly or directly assuming the risk involved. This term does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. For the purposes of carrying out the provisions of this Act, loan guarantees may be grouped and treated as a single loan as agreed to by the Secretary and the head of the affected agency.

(e) "Loan guarantee commitment" means a binding agreement entered into by a Federal agency for the Government under which a Federal agency agrees to guarantee a loan once specified conditions are fulfilled by the borrower, the lender, and any other parties to the guarantee agreement.

(f) "Subsidy" means the measure of financial assistance provided to the borrower of Federal credit as determined by estimating the net present value, based on a comparable market discount rate, of the difference in cost to the borrower between the direct loan or guaranteed loan and alternative private financing potentially available to the same or a similar borrower for the same or a similar purpose. For loan guarantees with an interest payment by the Government, the subsidy calculation shall include the present value, based on a comparable market discount rate, of the difference between the interest paid by the borrower and the interest that would be charged by a private lender for such loan. To the extent that fees are charged to beneficiaries, such fees will be taken into account in estimating the subsidies. An increase in the subsidy associated with a direct or guaranteed loan that results from any modification of the terms of such direct or guaranteed loan terms shall be subject to the requirements of this Act in the same manner as the original estimate of the subsidy.

Estimates made by the Secretary or by agencies under rules prescribed by the Secretary shall constitute the appropriate computation of the subsidy.

In the event that newly made direct loans are sold without recourse, the difference between the face amount of the loans and the gross proceeds from their sale shall be taken into consideration in estimating the subsidy. Similarly, in the event that any newly made guaranteed loans are reinsured, these estimates of the subsidy may take into consideration the cost of reinsurance, net of fees and premiums.

(g) "Direct Loan Fund" means the Federal Credit Direct Loan Fund, as established by section 6(a) of this Act.

(h) "Guaranteed Loan Fund" means the Federal Credit Guaranteed Loan Fund, as established by section 6(c) of this Act.

(i) "Secretary" means the Secretary of the Treasury.

SECTION 4. DIRECT LOAN PROGRAMS.

(a) Beginning October 1, 1989, an obligation by any

Federal agency to make a direct loan to non-Federal borrowers shall be an obligation of the Direct Loan Fund and shall be executed in accordance with the same terms and conditions as would otherwise apply to the obligations of that agency but for the provisions of this act.

(b) For each fiscal year beginning with FY 1990, the Federal agency shall include in its budget proposal (1) the planned level of new direct loan obligations, and (2) the estimated amount of the subsidy associated with the proposed level of direct loan obligations.

(c) Beginning October 1, 1989, a Federal agency shall not obligate the Direct Loan Fund to make a direct loan obligation unless funds have been appropriated or are available on a permanent indefinite basis to the Federal agency for the subsidy or a limitation has been enacted in an annual appropriations Act on the use of funds otherwise available to the Federal agency for the subsidy.

(d) At the time a direct loan obligation is incurred, the Federal agency shall obtain an estimate of the subsidy of the loan from the Secretary or, at the discretion of the Secretary, shall make such an estimate based upon guidelines established by the Secretary. For the purposes of section 1501 of Title 31, United States Code, (1) the amount of such estimate shall constitute a direct obligation of the Federal agency and a reimbursable obligation of the Direct Loan Fund; and (2) the difference between such estimate and the face value of the loan shall constitute a direct obligation of the Direct Loan Fund.

(e) The subsidy associated with the direct loan as determined in subsection (d) shall be paid by the Federal agency to the Direct Loan Fund as the loan is disbursed by such Fund, unless the Secretary determines otherwise.

(f) Nothing in this Act shall be construed as amending the authority of a Federal agency to administer, or to determine the terms and conditions of, the eligibility for, or the amount of assistance provided by direct loans made by the Federal Government.

SECTION 5. LOAN GUARANTEE PROGRAMS.

(a) Beginning October 1, 1989, a commitment by any Federal Agency to guarantee a loan shall be a commitment of the Guaranteed Loan Fund and shall be executed in accordance with the same terms and conditions as would otherwise apply to the commitments of that agency but for the provisions of this act.

(b) For each fiscal year beginning with FY 1990, a Federal agency authorized to make loan guarantee commitments shall include in its budget proposal (1) the level of new loan guarantee commitments and (2) the estimated amount of the subsidy associated with the proposed level of loan guarantee commitments.

(c) Beginning October 1, 1989, a Federal agency shall not commit the Guaranteed Loan Fund to guarantee a loan unless funds have been appropriated, or are available on a permanent indefinite basis, to the Federal agency for the subsidy or a limitation has been enacted in an annual appropriations Act on the use of funds otherwise available to the Federal agency for the subsidy.

(d) At the time a loan guarantee commitment is made, the Federal agency shall obtain an estimate of the subsidy of the loan guarantee from the Secretary or, at the discretion of the Secretary, shall make an estimate of the subsidy based upon guidelines provided by the Secretary. The amount of such estimate shall constitute an obligation of the Federal agency for the purposes of section 1501 of the Title 31, United States Code.

(e) The subsidy associated with the loan guarantee determined in subsection (d) shall be paid by the Federal agency to the Guaranteed Loan Fund at the time the underlying loan agreement is executed, unless the Secretary determines otherwise.

(f) Nothing in this Act shall be construed as amending the authority of a Federal agency to administer, or to determine the terms and conditions of, the eligibility for, or the amount of assistance provided by loan guarantees made by the Federal Government.

SECTION 6. ESTABLISHMENT OF FEDERAL CREDIT REVOLVING FUNDS WITHIN THE DEPARTMENT OF THE TREASURY.

(a) There is hereby established within the Department of the Treasury a Federal Credit Direct Loan Fund.

(b) Beginning on October 1, 1989, the Direct Loan Fund will serve as a central revolving fund and financing mechanism for all new Federal direct loans in accordance with the terms and conditions of this Act. Amounts received pursuant to subsection 7(a)(4) of this Act shall be credited to the Fund and shall be available for the purposes of subsections 7(a)(5), 7(c)(4), and 7(c)(5) of this Act.

(c) There is hereby established within the Department of the Treasury a Federal Credit Guaranteed Loan Fund.

(d) Beginning on October 1, 1989, the Guaranteed Loan Fund will serve as a central revolving fund and financing mechanism for all new Federal loan guarantees in accordance with the terms and conditions of this Act. Amounts received pursuant to subsection 7(b)(3) of this Act shall be credited to the Fund and shall be available for the purposes of the subsections 7(b)(4), 7(b)(5), 7(c)(3), and 7(c)(4) of this Act.

SECTION 7. AUTHORITY OF THE SECRETARY TO MANAGE THE FUNDS.

(a) With regard to direct loans obligated on or after October 1, 1989, the Secretary shall:

(1) estimate the subsidy, or require estimates to be made by the Federal agencies, for each new direct loan or for groups of similar new direct loans taking into account the risk and other costs of the program;

(2) furnish the appropriate Federal agency with the subsidy estimates or with instructions for making subsidy estimates in a timely fashion;

(3) if he deems necessary for the purpose of validating the subsidy estimate, and after consultation with the agency, direct the Federal agencies to sell newly made loans without recourse;

(4) receive into the Direct Loan Fund the following

collections:

(A) direct loan subsidy payments from the Federal agencies;

(B) payments of principal, interest, fees, and other monies received by the Federal Government for direct loans obligated on or after October 1, 1989;

(C) proceeds from the sale of direct loans obligated on or after October 1, 1989, and the proceeds of the sale of any collateral received as the result of defaults of such loans; and

(5) disburse direct loans to the borrowers.

(b) With regard to guaranteed loan commitments made on or after October 1, 1989, the Secretary shall:

(1) estimate the subsidy, or require estimates to be made by the Federal agencies, for each loan guarantee or for groups of similar loan guarantees, taking into account the risk and other costs of the program;

(2) furnish the appropriate Federal agency with the subsidy estimates or with instructions for making subsidy estimates in a timely fashion;

(3) receive into the Guaranteed Loan Fund the following collections:

(A) loan guarantee subsidy payments from the Federal agencies;

(B) fees and other monies due the Federal Government for loan guarantees for which commitments were made on or after October 1, 1989;

(C) proceeds from the sale of any collateral received as the result of defaults on such loan guarantees and repayments of principal and interest on loans acquired as a result of defaults;

(4) in accordance with agency loan agreements, make claim payments for those guaranteed loans in default;

(5) maintain reserves to cover loan guarantee defaults for these loan guarantees;

(6) credit interest to the Fund periodically on the average amount of the undisbursed cash balances of the Fund during the preceding month at a rate determined by the Secretary, taking into consideration the average time such funds are anticipated to be held in reserve and the current average market yields on outstanding marketable obligations of the United States of comparable maturities;

(c) The Secretary shall, with regard to each Fund:

(1) ensure full accountability for the credit activity of each Federal agency by identifying separately the credit activity of each credit program of such agency on the Fund's books;

(2) ensure that the funds associated with each credit program are not comingled and, subject to subsection 7(c)(6), are available for the purposes of operating that program;

(3) require timely uniform reporting from Federal agencies on loan performance, borrower characteristics, and such other information as the Secretary may require to make subsidy estimates;

(4) monitor due diligence debt collection efforts, assess Federal agency performance, and otherwise study and undertake improvements in Federal agency credit management;

(5) borrow, as necessary to finance the transactions of the Fund as authorized under subsection 10(a), and repay such borrowing with interest, using collections credited to the Fund or funds appropriated pursuant to subsection 10(b);

(6) transfer from time to time to the general fund of the Treasury such balances of funds associated with each credit program as the Secretary determines are in excess of the needs of that program.

(d) The Secretary is authorized to appoint such officers, attorneys, employees, agents, consultants, and financial advisors as may be required, to define their duties, to fix and to pay such compensation for their services as may be determined, subject to the civil service and classification laws, to require bonds for them and pay the premium thereof, to carry out the functions of the Federal credit revolving funds.

(e) The Secretary is authorized to issue such regulations as he deems appropriate to carry out his functions under this Act.

SECTION 8. AGENCY RESPONSIBILITIES.

The head of each Federal agency authorized to make or guarantee loans covered by this Act shall:

(a) provide the Secretary in a timely fashion with information about the Federal agency's direct loan or loan guarantee programs sufficient to enable the Secretary to calculate the estimated subsidy, or shall, as required by the Secretary, estimate the subsidy in accordance with the Secretary's guidance;

(b) request annual appropriations, or limitations on funds otherwise available, for the amount of the subsidies attributable to that Federal agency's direct loan or loan guarantee program in each fiscal year;

(c) carry out the Federal agency's direct loan or loan guarantee programs within the lower of (1) applicable appropriations Act limitations on direct loan obligations or loan guarantee commitments, or (2) annual appropriations or funds otherwise available to cover subsidy costs for the program;

(d) take such action as may be necessary to ensure that loan contracts executed by such agency make explicit the procedural and substantive rights of borrowers and require any purchaser of such loan to afford the borrower those procedural and substantive rights.

(e) except as provided in subsection (f), collect and credit to the Direct Loan Fund all sums received with respect to any direct loan that is an obligation of that Fund and collect and credit to the Guaranteed Loan Fund all sums received with respect to any guaranteed loan that is a commitment of that Fund;

(f) to the extent authorized prior to the enactment of this Act and subject to such limitations as provided in annual appropriations Acts, retain and use sums collected, for the purpose of paying the salaries and expenses of the agency in administering direct loan or loan guarantee programs.

SECTION 9. BUDGETARY TREATMENT.

(a) For the purposes of Chapter 11, Title 31, United States Code, as amended, concerning the executive budget process, and of Titles III and IV of the Congressional Budget Act of 1974, as amended, in the case of any (1) direct loan obligation, or (2) loan guarantee commitment, made by a Federal agency beginning October 1, 1989, the subsidy shall be treated as an obligation of such agency.

(b) For the purposes of Chapter 11, Title 31, United States Code, as amended, concerning the executive budget process, and of Titles III and IV of the Congressional Budget Act of 1974, as amended, obligations for Federal direct loans or for honoring loan guarantees shall be treated as obligations of the Direct Loan Fund or the Guaranteed Loan Fund, as appropriate.

SECTION 10. AUTHORIZATION OF APPROPRIATIONS.

(a) The Secretary is authorized, at his discretion, to use the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act: (1) to finance direct loans from the Direct Loan Fund to the extent not covered by the monies received under section 7(a)(4) of this Act; and (2) to pay claims, resulting from federally guaranteed loans, in excess of the reserves of the Guaranteed Loan Fund. Interest shall be paid from the borrowing Fund to the Treasury on any borrowing to meet such purposes at rates determined under section 7(b)(6) of this

Act.

(b) In the event that either Fund sustains losses on its operations, there are authorized to be appropriated to such Fund such sums as may be necessary for the purposes of liquidating debt.

(c) There are authorized to be appropriated to each Federal agency otherwise authorized to make obligations for direct loans, such sums as may be necessary for the subsidies associated with proposed direct loan obligations, including current indefinite budget authority for the subsidies associated with entitlements.

(d) There are authorized to be appropriated to each Federal agency otherwise authorized to make guaranteed loan commitments, such sums as may be necessary for the subsidies associated with proposed loan guarantee commitments, including current indefinite budget authority for the subsidies associated with entitlements.

(e) There are authorized to be appropriated to the Secretary such sums as may be necessary for the salaries and expenses incurred to carry out his responsibilities under the Act.

SECTION 11. TREATMENT OF DEPOSIT INSURANCE AGENCIES.

(a) Notwithstanding any other provision of this Act, the credit activities directly related to the insurance operations of the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, the National Credit Union

Administration, the Pension Benefit Guaranty Corporation, and the Securities and Exchange Commission shall be treated as follows:

(1) Obligations to make direct loans to the public or to assume loan assets shall remain obligations of the agencies.

(2) Commitments to guarantee a loan shall remain commitments of the agencies.

(3) For each fiscal year beginning with FY 1990, such agency shall include in its budget proposal the estimated subsidy cost associated with proposed direct loan obligations, including acquisitions of loan assets.

(4) For each fiscal year beginning with FY 1990, such agency shall include in its budget proposal the estimated subsidy cost associated with proposed loan guarantee commitments. The estimated subsidy costs associated with proposed loan guarantee commitments shall constitute an obligation of the agency.

(5) No appropriations or limitations on the use of funds otherwise available shall be required for subsidies.

(b) Nothing in this section shall be construed as amending the authority of such agencies to determine the terms and conditions of, eligibility for, or the amount of assistance provided by these agencies.

SECTION 12. EFFECT ON OTHER LAWS AND CONFORMING AMENDMENTS.

(a) Nothing in this Act shall be construed as limiting the authority of any Federal agency to enter into agreements to make or to guarantee loans under statutes that existed prior to the enactment of this Act or that may be enacted subsequently, or to administer such direct loans or loan guarantees: Provided, That all such agreements shall be contingent upon meeting the requirements of this Act.

(b) This Act shall supersede, modify, or repeal any provision of law heretofore enacted to the extent such provision is inconsistent with this Act.

(c)(1) A Federal agency other than the Department of the Treasury may not issue, sell, or guarantee an obligation of a type that is ordinarily financed in investment securities markets, as determined by the Secretary, unless the terms of the obligation provide that it may not be held by any person or entity other than the Secretary. The Secretary may waive this requirement with respect to the obligations that the Secretary determines are (1) not suitable investments because of the risks entailed in such obligations, (2) financed in a manner that is least disruptive of private financial markets and institutions, or (3) financed in a manner that is least disruptive of Government securities markets. To the extent that the head of a Federal agency other than the Department of the Treasury is authorized by any law other than this Act to issue, sell, or guarantee such obligations, the head of such agency is authorized to issue, sell, or guarantee such obligations to the Secretary. Any purchases by the Secretary under this subsection shall be upon such terms and conditions as to yield a rate of return which shall not be less than a rate determined by the Secretary, taking into consideration current market yields on outstanding marketable obligations of the United States of comparable maturity.

(c)(2) Any obligation guaranteed by a Federal agency and financed by the Secretary pursuant to this section shall be deemed to be a direct loan of the Direct Loan Fund, not withstanding any other provision of law, and shall be subject to section 4 of this Act.

(d)(1) Notwithstanding any other provision of this Act, the purchase by the Secretary under subsection (c) of this section of the obligations of any local public body or agency within the United States shall be made upon such terms and conditions as may be necessary to avoid an increase in borrowing costs to such local public body or agency as a result of the purchase of the Secretary of its obligations. The head of the Federal agency guaranteeing such obligations, in consultation with the Secretary, shall estimate the borrowing costs that would be incurred by the local public body or agency if its obligations were not sold to the Secretary.

(d)(2) The Federal agency guaranteeing obligations purchased by the Secretary under subsection (c) of this section may contract to make periodic payments to the Secretary that shall be sufficient to offset the costs to the Secretary of purchasing obligations of local public bodies or agencies upon terms and conditions as prescribed in this section. Such contracts may be made in advance of appropriations therefor, and appropriations for making payments under such contracts are hereby authorized.

(e) Collections resulting from direct loans obligated or loan guarantees committed prior to October 1, 1989 shall be credited to the same accounts to which such collections would have been credited prior to this Act. Amounts so credited shall be available, to the same extent that they were available prior to the enactment of this Act, to liquidate obligations arising from such direct loans obligated or loan guarantees committed prior to October 1, 1989, including repayment of any obligations held by the Secretary or the Federal Financing Bank. From time to time, the unobligated balances of such accounts that are in excess of current needs shall be transferred to the general fund of the Treasury.

(f) Section 3(a) (2) of the Congressional Budget and Impoundment Control Act of 1974, as amended, is amended by adding thereto the following: "Such term includes the subsidy for direct loan and loan guarantee programs, as those terms are defined by the Credit Reform Act of 1989."

SECTION 13. EFFECTIVE DATE.

This Act shall take effect upon enactment.

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DRAFT: June 9, 1990
5:44pm

TITLE V

SUPPLEMENTARY BUDGET PRESENTATION

Section 501. Section 1105(a) of Title 31, of the United States Code is amended by adding, at the end thereof, the following --

"(27) a supplementary presentation of appropriations, outlays, and receipts for the prior fiscal year, the current fiscal year, the budget year, and the succeeding three fiscal years broken down by operating and capital purposes and distinguishing among Federal, trust, and enterprise funds."

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July 6, 1990
5:17pm

TITLE VI

AGENCY AUDITS AND FINANCIAL SYSTEM IMPROVEMENTS

Section 601. INTEGRATED FINANCIAL MANAGEMENT SYSTEMS-- Section 3512 of title 31, United States Code, is amended by striking out the title thereof, redesignating subsections (a) through (f) as subsections (b) through (g), and by inserting a new title and new subsection (a) to read as follows:

"3512. Executive agency accounting and other financial management systems

"(a)(1) The Director of the Office of Management and Budget shall, in consultation with the Secretary of the Treasury, develop and maintain a Government-wide financial management plan which:

(i) assesses the available resources and actions of each agency to improve financial management systems, to develop and audit financial management systems, and to develop and audit the financial statements required by Sections 3513(a)(1) and 3521(e), and ensures that sufficient resources are devoted to these purposes; and

(ii) describes the activities the Office of Management and

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Budget, the Department of the Treasury, and the agencies will conduct over the next five fiscal years to improve the financial management of the Federal Government.

"(2) The five-year plan shall--

"(A) describe the existing financial management structure of the Federal Government and the changes needed to establish and maintain an integrated financial management system;

"(B) contain requirements, consistent with applicable accounting principles, standards, and requirements, to govern the type and form of the information generated by financial management systems;

"(C) provide a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems to ensure adequacy and consistency of financial statement information;

"(D) identify and eliminate duplicative and unnecessary systems by encouraging agencies to share systems which have sufficient capability to perform the functions needed;

"(E) identify projects to bring existing systems into compliance with applicable standards and requirements;

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"(F) contain milestones for equipment acquisition and other actions necessary to implement the five-year plan consistent with the requirements of this section;

"(G) identify financial management personnel needs and actions to ensure those needs are met; and

"(H) estimate the costs of fulfilling the five-year plan.

"(3) Within one year after enactment of this Act, the President shall transmit the first five-year plan to the Congress. Each year thereafter, the President shall transmit, with the budget, a revised plan to cover the succeeding five fiscal years and a report of the accomplishments of the executive branch in implementing the plan during the preceding fiscal years."

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Section 602. FINANCIAL REPORTING AND AUDITS--Section 3513 of Title 31, United States Code, is amended by redesignating subsections (a), (b), and (c) as subsections (b), (c) and (d) respectively, and by inserting a new subsections (a) to read as follows:

"(a)(1) By December 31 each year, each executive agency specified in subsection (a)(2) shall prepare financial statements that include the accounts of all of its offices, bureaus, and activities for the preceding fiscal year. The statements shall reflect the overall financial position (including assets and liabilities), results of operations, the cash flows or changes in financial position, and the reconciliation to agency budget reports. The Director of the Office of Management and Budget, in consultation with the Secretary of the Treasury, shall prescribe the form and content of the financial statement, consistent with applicable accounting principles, standards, and requirements.

"(2) The executive agencies subject to the requirements of this subsection are:

"(1) The Department of Agriculture.

"(2) The Department of Commerce.

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"(3) The Department of Defense.

"(4) The Department of Education.

"(5) The Department of Energy.

"(6) The Department of Health and Human Services.

"(7) The Department of Housing and Urban Development.

"(8) The Department of Interior.

"(9) The Department of Justice.

"(10) The Department of Labor.

"(11) The Department of State.

"(12) The Department of Transportation.

"(13) The Department of Treasury.

"(14) The Department of Veterans Affairs.

"(15) The Department of the Army.

"(16) The Department of the Navy.

"(17) The Department of the Air Force.

"(18) The Defense Logistics Agency.

"(19) The Environmental Protection Agency.

"(20) The General Services Administration.

"(21) The National Aeronautics and Space Administration.

"(22) The Small Business Administration.

"(23) The Agency for International Development.

"(24) The Federal Emergency Management Agency.

"(25) The Office of Personnel Management.

"(26) The National Science Foundation."

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(a) Section 3521 of Title 31, United States Code, is amended by adding at the end thereof the following new subsections:

"(e) The financial statements prepared under section 3513(a) of this title for the most recently completed fiscal year shall be audited annually. The financial statement audit shall be performed by an independent external auditor or an Inspector General subject to the Inspector General Act of 1978, as amended.

"(f) The Comptroller General may review an audit conducted by an independent external auditor or an Inspector General. The Comptroller General shall report to the Congress, the Director of the Office of Management and Budget, and the head of the executive agency, the results of any review conducted under this subsection, and shall include in his report any recommendations the Comptroller General considers appropriate.

"(g) For each financial statement audit conducted under this section, a report which contains an opinion on the financial statements, a report on internal controls, and a report on compliance with laws and regulations, shall be obtained by the head of the executive agency by March 31 following the end of the fiscal year for which such audit was conducted.

"(h) The head of each executive agency shall transmit by April 30 of each year a report to the President and the Congress. The report shall include--

"(A) the annual financial statement prepared under section 3513(a) of this title;

"(B) the audit report obtained by the head of the executive agency under subsection (g) of this section; and

"(C) other information the head of the executive agency considers appropriate to fully inform the Congress concerning the annual financial statement and the results of audit."

(b)(1) Within one year after enactment of this Act, the Director of the Office of Management and Budget, in consultation with the Secretary of the Treasury, shall prepare a plan to assure that by the fourth full fiscal year completed after the enactment of this act, an annual audit of agency financial statements is conducted in accordance with this section for each agency listed in section 3513(a)(2); provided that the Director may extend the time for completion by an agency of the first of such audits by up to two years where he finds that adherence to the schedule is impracticable, in which event the Director and relevant agency head shall report to the President and the Congress on the reasons for such extension.

(2) The President shall submit the plan required by this subsection to the Congress. The President shall annually report to the Congress on any substantive changes to the plan submitted. Progress in implementing the plan shall be reported to the Congress in the report described in section 3512(a)."

ATTACHMENT 2

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GENERIC BUDGET PROCESS CONTROLS ON CONTINGENT LIABILITIES

<u>Implementation of Triggers and Remedies</u>

- Triggers would be reviewed as part of the GRH review process. Baseline estimates would be included in the Budget and in the August and October GRH Reports.

- Remedies would take effect on the sequester schedule.

- Reporting requirements of CBO, OMB, and GAO would be modified to accommodate the new triggers and remedies.

<u>Other Proposals</u>

- Any Congressional action which increases the Government's contingent liability over the baseline estimate to be developed by CBO would be subject to a point of order and require a supermajority vote.

- Insurance agencies and GSEs would be required to report and analyze appropriate measures of their potential costs.

  -- The deposit insurers would report the present value of their net reserves, including the cost of resolving institutions that are currently insolvent or expected to become insolvent, net of future premiums. They would report the number of firms with negative net worth and the distribution of these negative amounts by size class. Their analysis would include potential variations in cost due to credit risk, interest rate risk, fraud, and industry consolidation.

  -- The GSEs would be required to obtain credit ratings from at least two nationally recognized private rating agencies and report on these ratings assuming no implicit guarantee from Government, as recommended by Treasury.

  -- The PBGC would report on the size and distribution of its liability for underfunded pensions, including concentration by industry and expected trends.

- OMB and CBO would be required to study the extension of credit reform principles to other contingent liabilities and report by January 1992.

- Regulators would be required to report to the President and the Congress 30 days in advance any regulatory change which increases either the outstanding value of contingent liabilities or the exposure to losses.

DIRECT AND GUARANTEED LOANS

Trigger Point

Two triggers would be set for loans: the total of outstanding direct and guaranteed loans, and the total of new direct and guaranteed loan obligations and commitments. If the trigger for either the total amount outstanding or the total new activity were exceeded on the snapshot date(s), special remedies would go into effect on all credit programs to reduce further increases in contingent liabilities.

Although both triggers are on aggregates, the calculation requires program-by-program adjustments. For discretionary programs, the triggers for the following year would be calculated by using the best estimate of actual activity in the current year adjusted for inflation and statutory changes. For mandatory programs, the triggers would be based on the best estimate of the amount of activity in the following year, based on demand as estimated for legislation in effect on January 1. 1/

Remedies

Upon reaching either trigger, actions would be implemented for all credit programs to reduce the Government's exposure. These remedies would be specific to each credit program in order to match program design.2/ The proposed remedies are:

Direct Loans:

- Increase downpayment or up-front fees:
  - Overseas private investment corporation
  - FmHA - Rural housing insurance fund
  - State - Emergencies in diplomatic and consular service
  - VA - Vendee Loans
  - VA - Direct loan revolving fund
  - VA - Education and vocational rehabilitation loans
  - EXIM Bank direct loans
  - NCUA - Share insurance fund
  - NCUA - Central liquidity facility

- Increase interest rates on highly subsidized loans:
  - REA - Revolving fund
  - REA - Rural telephone bank
  - Education - College housing and academic facilities
  - EPA - Abatement, control, and compliance
  - SBA - Business loan and investment fund
  - SBA - Disaster loans
  - TVA - Power program loans

- Decrease maximum loan level for individual direct loans:
  - FmHA - Rural development loan fund

- Decrease loan volume:
  - AID - Private sector revolving fund
  - FmHA - Agriculture credit insurance fund
  - HUD - Housing for elderly/handicapped
  - HUD - Rehabilitation loan fund
  - HUD - Nonprofit sponsor assistance
  - HUD - Self-help housing
  - Interior - Bureau of Reclamation loan fund
  - Interior - Bureau of Indian Affairs

<u>Guaranteed loans</u>:

- Reduce Federal guarantee as a percent of the loan:
  - Overseas private investment corporation
  - AID - Private sector revolving fund
  - AID - Housing and other credit guarantees
  - FmHA - Agriculture credit insurance fund
  - HUD - FHA
  - VA - Loan guaranty revolving fund
  - VA - Guaranty and indemnity fund
  - SBA - Business loan and investment fund
  - EXIM Bank guarantees

- Reduce the maximum individual loan amount that can be insured:
  - FmHA - Rural development insurance fund

- Increase fees or premiums or related changes:
  - REA - Revolving fund
  - REA - Rural telephone bank
  - Education - Guaranteed student loans
  - HHS - Health professional graduate student loans
  - HUD - GNMA
  - NCUA - Share insurance fund

- Decrease loan volume:
  - HUD - Sec. 108 community development loans
  - Interior - Bureau of Indian Affairs

<u>Important Considerations</u>

- Credit reform would add further control by requiring appropriations for the subsidy cost of these programs.

- This method would strengthen controls on aggregate new direct loan obligations and loan guarantee commitments by applying triggers on actual levels, establishing binding targets, and establishing realistic remedies.

Notes:

1/ The base for setting these triggers would be the actual level of the preceding fiscal year (for example, total outstanding direct and guaranteed loans were $795 billion in FY 1989, and actual loan obligations and commitments made were a total of $121 billion). In contrast, the current credit budget controls are based on enacted limitations on new direct loan obligations and loan guarantee commitments. In 1989 the enacted limitations for guaranteed loans exceeded actual loans guaranteed by over $55 billion.

2/ An alternative to enforcement measures specifically designed for each program would be across-the-board cuts in volume comparable to G-R-H sequester provisions for spending. This is set forth in the credit authority sequester proposal.

GOVERNMENT-SPONSORED ENTERPRISES

GSE Reforms

Legislative language will include four main principles for reforming Federal oversight of Government-sponsored enterprises (GSEs) recently proposed by Treasury:

- o Each GSE shall be required to obtain annually a credit rating from each of two nationally recognized credit rating agencies. Each enterprise that does not obtain two ratings of triple-A -- absent any implicit Federal Government guarantee of the GSE's debt or mortgage-backed securities (MBS) -- shall be required to submit a plan to the Secretary of the Treasury for obtaining such a rating within five years.

- o (In evaluating such plans, Treasury intends that the Secretary seek to increase the capital of the GSE.)

- o Treasury shall therefore have the role of regulator of financial safety and soundness for all GSEs, and this function shall be independent of the program oversight provided by other agencies (e.g., HUD). Treasury shall coordinate with the program regulator -- including the sharing of all information it receives.

- o The President's budget shall include a complete range of programmatic and financial information, including estimates of the value to each GSE of the Government's financial backing, the amount of contingent liabilities outstanding, the degree of risk incurred from such liabilities and other relevant information.

The Secretary of the Treasury is authorized to modify these requirements with respect to the Farm Credit System.

Trigger

Failure to obtain two triple-A ratings in any year by any government-sponsored enterprise triggers Treasury business plan requirement and fees (see below) for that GSE.

Remedies

Treasury shall have the power to enforce compliance with the terms of any business plan it approves. If the total amount of debt and MBS of the GSEs outstanding at any time is in excess of $400 billion, then Treasury shall impose fees on a sliding scale to compensate for the risk borne by the Government for any GSE rated less than triple-A.

DEPOSIT INSURANCE

[TO BE DISCUSSED]

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OTHER INSURANCE PROGRAMS

Trigger Points

- Limits would be set for each of the following insurance programs:
  - Pension Benefit Guarantee Corporation
  - VA life insurance
  - flood insurance
  - crop insurance
  - Overseas Private Investment Corporation
  - Securities Investors Protection Corporation.

- For these insurance programs, the limit would be on:
  - the unfunded liability in nominal value or as a percent of insurance outstanding; or the level of funded reserves, or [and]
  - the face amount of insurance outstanding increased from its actual 1989 level by the growth of nominal GNP since that time.

Remedies ..

- When the limit is reached, the following types of remedies are available:
  - Prohibit or limit new coverage
  - Raise the deductible or limit the amount or percentage of indemnity on new or (with notice) existing business
  - Raise or place a surcharge on the premium paid (with a lag if necessary)
  - Require increases in funding rates for underfunded pensions
  - Other program changes that would reduce program risk.

- The proposed remedies would be tailored to the different characteristics of each program.
  - [Program specific remedies to be defined.]