THE PERIODIC COUNSEL ADVISORY

The Deficit-Neutral Reserve Fund

What is it? How Does It Work? Do I Really Care?

What Is It?

A deficit-neutral reserve fund is affectionately known (not so much among some) as a DNRF. Budget resolutions include for the most part numbers ("levels") that assume certain policies. The resolution itself makes no direct policy changes and even many of the numbers are for display purposes only. The very first budget resolution was only a page long and could fit in a reasonably sized endnote (see reasonably sized endnote).

One method by which budget resolutions can influence policy, though, is through the reserve fund. These "funds" allow the spending and revenue levels included in the budget to be revised for the purposes of policy specific legislation. In a nutshell: If your bill meets a policy goal of the budget, we'll make it easier for Congress to pass it.

How Does It Work?

The term "deficit-neutral reserve fund" sounds like it should be complicated, but it's not. There are two basic elements – the questions you have to say yes to for the reserve fund to turn on and the things that happen once it's on.

Deficit-Neutrality. DNRFs are just a subset of reserve funds – which work the same way except a DNRF always has the same first question: Is your bill deficit neutral? The term "deficit neutral" can be a little misleading since the actual meaning isn't really neutral, it means the deficit doesn't change at all or goes down.

The next related question: Is your bill deficit-neutral over the right periods of time? Periods of time will vary – the most common in recent budget resolutions has been the 10-year test, which are the first year and the total number of years covered by the budget resolution. Other periods have been used though: The rural school reserve fund which shows up with some regularity is usually a first, five, and ten-year test. Others might be first and ten, and still others might be an annual test – each year in the window must be revenue neutral.[1]

Reserve Fund Policy. If you're still at "yes" then the most fundamental question has to get a "yes" too: Does your bill meet the policy goal of the reserve fund? The sponsor of the legislation will always say "yes" – but a more objective assessment is required. That job almost always falls to the Budget Committee Chairman. It can be an easy one to answer: The previously mentioned rural schools DNRF: If it "…provides for the reauthorization of the Secure Rural Schools and Community Self Determination Act of 2000 (Public Law 106-393)" then the on switch is hit. This includes lots of specific guidance.

There are others which are more notional. H. Con. Res. 96, the budget resolution passed for fiscal year 2015[2], included a reserve fund that would be triggered "if such measure reforms policies and programs to reduce poverty and increase opportunity and upward mobility, but only if such measure would not adversely impact job creation." This language is a little more elusive.

Chairman's Role. The Chairman of the Budget Committee usually determines whether a bill qualifies for a reserve fund. This is particularly the case if the language of the fund uses the term "may" as in the allocations and aggregates "may" be adjusted for a purpose. If a reserve fund is specific enough and the term "shall" is used in such a circumstance, an argument might be made that the act of adjusting the levels is ministerial and hence must be done

[1] For the truly inquisitive, see section 302(g) of the Budget Act. Though in statute, it can be argued it really is just a very complicated deficit-neutral reserve fund to allow for higher spending on any policy if higher taxes can be found to make the bill deficit-neutral in each year of the budget resolution. It is colloquially called "The Rosty Exception" after the late Rep. Dan Rostenkowski, former Chairman of the Ways and Means Committee who could always find a way to raise taxes if he wanted. He spent time in jail.

[2] H. Con. Res. 96, while wonderfully written, never was used for substantive purpose except to provide examples as to what constitutes a well-crafted deficit-neutral reserve fund.

under the terms of the budget resolution whether the Chairman says so or not.

Levels of Adjustment. Another variable related to reserve funds is the amount the budget is adjusted for the bill in question. This too can vary – it can be as much as whatever is in the bill, or it can be limited to a more specific amount. Amounts might be straight amounts of budget authority, outlays, revenue, or any combination of those.

Since a DNRF is just that – deficit neutral, one might ask why adjustments are made at all. If no adjustments were needed then it would largely obviate the need for the DNRF. Luckily for those who want to know about DNRFs, it is not the case. Deficit-neutrality is a test based on outlays and revenue, just like a deficit is calculated using those terms.

The Budget Act and other points of order like Cutgo, though, are based on the two sides of the ledger: Revenue and spending. Those points of order are not predicated on deficit neutrality. The DNRF connects revenue and spending and erases points of orders that would otherwise apply.

Other Questions That Need A "Yes". Once deficit-neutrality over the proper time periods and the specific policy subject questions have gotten the "yes" answer, there may be other requirements, other hoops to jump through, a bill must meet. They can vary widely: A fund might be predicated on an event – "emergency reserve funds" have been proposed instead of the current system of emergency spending designations (rich territory for arcana better left ignored for now). Almost any sort of condition could be created to be met before a DNRF (or other reserve fund) is turned on: economic conditions, international conflicts, or perhaps legislative action that might occur or not occur.

BUMBLE QUERY: What is a 306? This is a section of the Budget Act that says other committees can't touch HBC jurisdiction, like saying: No getting around the umpire (that's HBC) by messing with the rules. Appropriations Committee violates it most often because designations for things like OCO/GWOT or emergency are in HBC territory. They decide when to use the designation even though it's not there's to say. Changing this practice, though, would cause ...

Free Riders. A question in drafting a DNRF is the breadth of its application. If a bill meets the requirement, but also includes other legislative text, perhaps related, perhaps entirely unrelated, significant or just a small element, the course of action to be taken must be determined before the reserve fund goes into effect.

Do I Really Care?

For most on Capitol Hill, the answer is “no”. A reasonable response to this negative: “You probably should.” Even though it’s a simple concept, it seems complicated when tucked into the thicket of budget process laws and rules. It falls into that category of things where the amount of effort it takes to figure it out appears to be a lot more than anything that might be gained.

As with all rules, though, budget controls are only worth knowing about if there’s someone around that cares enough to try and get people to pay attention to them.

Quote of the Day

“For some, budget laws aren’t made to be broken, they’re made to be waived.”

Reasonably Sized Endnote:

The entire first budget resolution (no deficit-neutral reserve fund included):

CONCURRENT RESOLUTION
ON THE BUDGET FOR FISCAL YEAR 1976

H. Con. Res. 218

Congress hereby determines, pursuant to section 301(a) of the Congressional Budget Act of 1974, that for the fiscal year beginning on July 1, 1975 –

(1) the appropriate level of total budget authority is $367,000,000,000;

(2) the appropriate level of total budget authority is $395,800,000,000;

(3) the amount of the deficit in the budget which is appropriate in the light of economic conditions and all other relevant factors is $68,820,000,000;

(4) the recommended level of Federal revenues is $298,180,000,000, and the amount by which the aggregate level of Federal revenues should be decreased is $3,400,000,000; and

(5) the appropriate level of the public debt is $617,600,000,000 and the amount by which the temporary statutory limit on such debt should accordingly be increased is $86,600,000,000.

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