

Introduction to the Federal Budget Process

This backgrounder describes the laws and procedures under which Congress decides how much money to spend each year, what to spend it on, and how to raise the money to pay for that spending. The Congressional Budget Act of 1974 lays out a formal framework for developing and enforcing a “budget resolution” to guide the process, but in recent years the process has not always worked as envisioned.

This report addresses:

- The President’s annual budget request, which is supposed to kick off the budget process;
- The congressional budget resolution — how it is developed, what it contains, and what happens if there is no budget resolution;
- How the terms of the budget resolution are enforced in the House and Senate;
- Budget “reconciliation,” an optional procedure used in some years to facilitate the passage of legislation amending tax or entitlement law; and
- Statutory deficit-control measures — spending caps, pay-as-you-go requirements, and sequestration.

Step One: The President’s Budget Request

The federal budget process starts when the President submits a detailed budget request for the coming fiscal year, which begins on October 1. (The President’s request is supposed to come by the first Monday in February, but sometimes the submission is delayed — particularly when a new Administration takes office or congressional action on the prior year’s budget has been delayed.) This budget request — developed through an interactive process between federal agencies and the President’s Office of Management and Budget (OMB) that begins the previous spring (or earlier) — plays three important roles.

First, it tells Congress what the President recommends for overall federal fiscal policy, as established by three main components: (1) how much money the federal government should spend on public purposes; (2) how much it should take in as tax revenues; and (3) how much of a deficit (or surplus) the federal government should run, which is simply the difference between (1) and (2). In most years, actual federal spending exceeds tax revenues and the resulting deficit is financed through borrowing (see chart).

Second, the President’s budget lays out his relative priorities for federal programs — how much he believes should be spent on defense, agriculture, education, health, and so on. The President’s budget is very specific, and recommends funding levels for individual federal programs or small groups of programs called “budget accounts.” The budget typically sketches out fiscal policy and budget priorities not only for the

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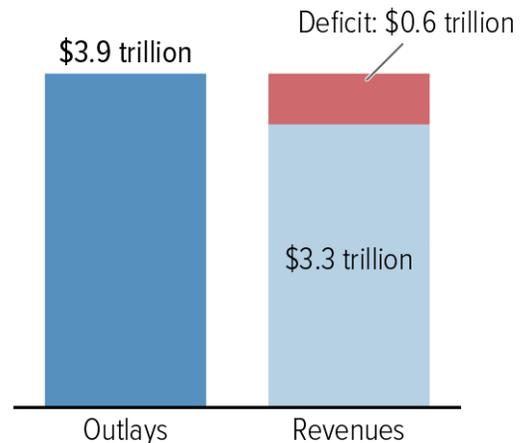
coming year but also for the next ten years. The budget is accompanied by supporting volumes, including historical tables that set out past budget figures.

Third, the President’s budget signals to Congress his recommendations for spending and tax policy changes. As discussed below, the budget comprises different types of programs, some that require new funding each year to continue and others that are ongoing and therefore do not require annual action by Congress. While the President must recommend funding levels for annually appropriated programs, he need not propose legislative changes for parts of the budget that are ongoing.

- **Annually appropriated programs.** These programs fall under the jurisdiction of the House and Senate Appropriations Committees. Funding for these programs must be renewed each year to keep government agencies open and the programs in this category operating. These programs are known as “discretionary” because the laws that establish those programs leave Congress with the discretion to set the funding levels each year. That doesn’t mean the programs are optional or unimportant, however. For example, almost all defense spending is discretionary, as are the budgets for a broad set of public services, including environmental protection, education, job training, border security, veterans’ health care, scientific research, transportation, economic development, some low-income assistance, law enforcement, and international assistance. Altogether, discretionary programs make up about one-third of all federal spending. The President’s budget spells out how much funding he recommends for each discretionary program.
- **Taxes, “mandatory” or “entitlement” programs, and interest.** Nearly all of the federal tax code is set in ongoing law that either remains in place until changed or requires renewal only periodically. Similarly, more than one-half of federal spending is also ongoing. This category is known as “mandatory” spending. It includes the three largest entitlement programs (Medicare, Medicaid, and Social Security) as well as certain other programs (including but not limited to SNAP, formerly food stamps; federal civilian and military retirement benefits; veterans’ disability benefits; and unemployment insurance) that are not controlled by annual appropriations. Interest on the national debt is also paid automatically, with no need for new legislation. (There is, however, a separate limit on how much the Treasury can borrow. This “debt ceiling” must be raised through separate legislation when necessary.)

Spending, Revenues, and the Deficit

In trillions of dollars, fiscal year 2016



Source: Office of Management and Budget

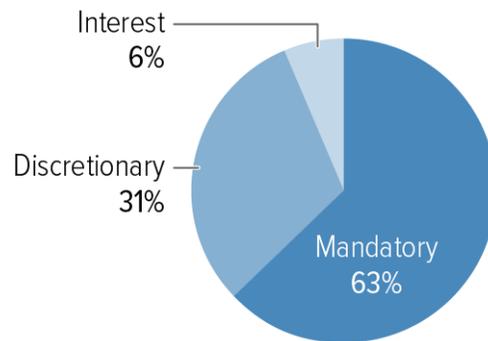
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As noted, the President’s budget does not need to include recommendations to ensure the continuation of ongoing mandatory programs and revenues, but it will nonetheless typically include proposals to alter some mandatory programs and revenue laws.

- **Recommendations for mandatory programs** typically spell out changes to eligibility criteria and levels of individual benefits but do not specify overall funding levels. Rather, the funding levels effectively are determined by the eligibility and benefits rules set in law.
- **Changes to the tax code** will increase or decrease tax revenues. Such proposals will be reflected as a change in the amount of federal revenue that the President’s budget projects will be collected the next year or in future years, relative to what would otherwise be collected.

Components of Federal Spending, Fiscal Year 2016



Source: Office of Management and Budget

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Step Two: The Congressional Budget Resolution

Next, Congress generally holds hearings to question Administration officials about their requests and then develops its own budget plan, called a “budget resolution.” This work is done by the House and Senate Budget Committees, whose primary function is to draft and enforce the budget resolution. Once the Budget Committees pass their budget resolutions, the resolutions go to the House and Senate floors, where they can be amended (by a majority vote). A House-Senate conference then resolves any differences, and the budget resolution for the year is adopted when both houses pass the conference report.

The budget resolution is a “concurrent” congressional resolution, not an ordinary bill, and therefore does not go to the President for his signature or veto. It also requires only a majority vote to pass, and its consideration is one of the few actions that cannot be filibustered in the Senate. Because it does not go to the President, a budget resolution cannot enact spending or tax law. Instead, it sets targets for other congressional committees that can propose legislation directly providing or changing spending and taxes.

Congress is supposed to pass the budget resolution by April 15, but it often takes longer. In recent years it has been common for Congress not to pass a budget resolution at all. When that happens, the previous year’s resolution, which is a multi-year plan, stays in effect, although the House, the Senate, or both can — and typically do — adopt special procedures to set spending levels (see box: What if There Is No Budget Resolution?).

- **What is in the budget resolution?** Unlike the President’s budget, which is very detailed, the congressional budget resolution is a very simple document. It consists of a set of numbers stating how much Congress is supposed to spend in each of 19 broad spending categories (known as budget “functions”) and how much total revenue the government will collect, for each of the next five years or

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more. (The Congressional Budget Act requires that the resolution cover a minimum of five years, though Congress now generally chooses a longer period, such as ten years.) The difference between the two totals – the spending ceiling and the revenue floor – represents the deficit (or surplus) expected for each year.

- **How spending is defined: budget authority vs. outlays.** The spending totals in the budget resolution are stated in two different ways: the total amount of “budget authority,” and the estimated level of expenditures, or “outlays.” Budget authority is how much money Congress allows a federal agency to commit to spend; outlays are how much money actually flows out of the federal Treasury in a given year. For example, a bill that appropriated \$50 million for building a bridge would provide \$50 million in budget authority for the coming year, but the outlays might not reach \$50 million until the following year or even later, when the bridge actually is built.

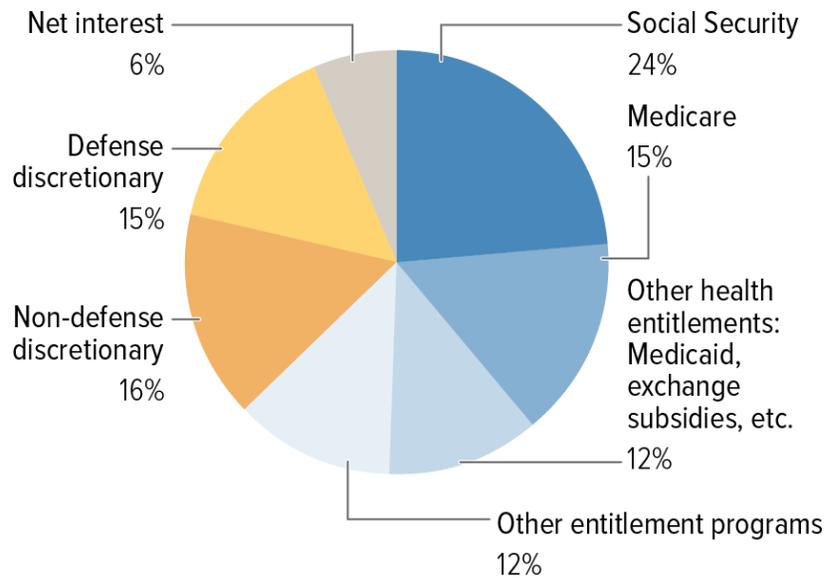
Budget authority and outlays thus serve different purposes. Budget authority represents a limit on the new financial obligations that federal agencies may incur (by signing contracts or making grants, for example), and is generally what Congress focuses on in making most budgetary decisions. Outlays represent actual cash flow, and thus help determine the size of the overall deficit or surplus.

- **How committee spending limits get set: 302(a) allocations.** The report that accompanies the budget resolution includes a table called the “302(a) allocation.” This table takes the spending totals that are laid out by budget function in the budget resolution and distributes them by congressional committee instead. The House and Senate tables differ from one another, since committee jurisdictions vary somewhat between the two chambers.

In both the House and Senate, the Appropriations Committee receives a single 302(a) allocation for all of its programs. It then decides how to divide this funding among its 12 subcommittees, creating what are known as 302(b) sub-allocations. Similarly, the various committees with jurisdiction over mandatory programs each get an allocation that represents a total dollar limit on all of the legislation they produce that year.

The spending totals in the budget resolution do not apply to “authorizing” legislation that merely establishes or changes rules for federal programs funded through the annual appropriations process. Unless it changes an entitlement program (such as Social Security or Medicare), authorizing legislation does not actually have a budgetary effect. For example, the education committees could produce legislation that authorizes a certain amount to be spent on the Title I education program for disadvantaged children. However, none of that money can be spent until the annual Labor-Health and Human Services-Education appropriations bill – which includes education spending – sets the actual dollar level for Title I funding for the year, which is frequently less than the authorized limit.

Federal Spending, Fiscal Year 2016



Source: Office of Management and Budget

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Often the report accompanying the budget resolution contains language describing the assumptions behind it, including how much it envisions certain programs being cut or increased. These assumptions generally serve only as guidance to the other committees.

The budget resolution can also include temporary or permanent changes to the congressional budget process.

Step Three: Enacting Budget Legislation

Following adoption of the budget resolution, Congress considers the annual appropriations bills that are needed to fund discretionary programs in the coming fiscal year and legislation to enact changes to mandatory spending or revenue levels as specified in the budget resolution. Mechanisms exist to enforce the terms of the budget resolution during the consideration of such legislation, and a special mechanism known as “reconciliation” exists to expedite the consideration of mandatory spending and tax legislation.

Enforcing the Terms of the Budget Resolution

The main enforcement mechanism that prevents Congress from passing legislation that violates the terms of the budget resolution is the ability of a single member of the House or the Senate to raise a budget “point of order” on the floor to block such legislation. In some recent years, this point of order has not been particularly important in the House because it can be waived there by a simple majority vote on a resolution

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developed by the leadership-appointed Rules Committee, which sets the conditions under which each bill will be considered on the floor.

What If There Is No Budget Resolution?

Congress has seldom completed action on the budget resolution by the April 15 target date specified in the Budget Act, and it failed to complete action on a resolution for fiscal years 1999, 2003, 2005, 2007, and each year from 2011 through 2015. In the absence of a budget resolution, the House and Senate typically enact separate budget targets, which they “deem” to be a substitute for the budget resolution. Such deeming resolutions typically provide spending allocations to the Appropriations Committees but may serve a variety of other budgetary purposes. Unless the House or Senate agrees to such a deeming resolution, the multi-year revenue floors and spending allocations for mandatory programs that had been agreed to in the most recent budget resolution remain in effect.

The Bipartisan Budget Act of 2013 described below took a different tack, establishing a “Congressional Budget” for fiscal years 2014 and 2015 in statute as an alternative to the concurrent budget resolution called for in the Congressional Budget Act.

However, the budget point of order is important in the Senate, where any legislation that exceeds a committee’s spending allocation — or cuts taxes below the level allowed in the budget resolution — is vulnerable to a budget point of order on the floor that requires 60 votes to waive.

Appropriations bills (or amendments to them) must fit within the 302(a) allocation given to the Appropriations Committee as well as the committee-determined 302(b) sub-allocations for the coming fiscal year. Tax or entitlement bills (or any amendments offered to them) must fit within the budget resolution's spending limit for the relevant committee or within the revenue floor, both in the first year and over the total multi-year period covered by the budget resolution. The cost of a tax or entitlement bill is determined (or “scored”) by the Budget Committees, nearly always by relying on the nonpartisan Congressional Budget Office (CBO). CBO measures the cost of tax or entitlement legislation against a budgetary “baseline” that projects mandatory spending and tax receipts under current law.

The Budget “Reconciliation” Process

From time to time, Congress makes use of an optional, special procedure outlined in the Congressional Budget Act known as “reconciliation” to expedite the consideration of mandatory spending and tax legislation. This procedure was originally designed as a deficit-reduction tool, to force committees to produce spending cuts or tax increases called for in the budget resolution. However, Congress used it several times during the George W. Bush Administration to enact tax cuts, thereby increasing projected deficits. House rules now prohibit using it to increase mandatory spending.

- **What is a reconciliation bill?** A reconciliation bill is a single piece of legislation that typically includes multiple provisions (generally developed by several committees), all of which affect the federal budget — whether on the mandatory spending side, the tax side, or both. A reconciliation bill, like the budget resolution, cannot be filibustered by the Senate, so it only requires a majority vote to pass.
- **How does the reconciliation process work?** If Congress decides to use the reconciliation process, the budget resolution must include language known as a “reconciliation directive” instructing committees to produce legislation by a specific date that meets certain spending or tax targets. (If they fail to

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produce this legislation, the Budget Committee chair generally has the right to offer floor amendments to meet the reconciliation targets for them, a threat that usually produces compliance with the directive.) The Budget Committee then packages all of these bills together into one bill that goes to the floor for an up-or-down vote, with limited opportunity for amendment. After the House and Senate resolve the differences between their competing bills, a final conference report is considered on the floor of each house and then goes to the President for his signature or veto.

- **Constraints on reconciliation: the “Byrd rule.”** While reconciliation enables Congress to bundle together several different provisions from different committees affecting a broad range of programs, it faces one major constraint: the “Byrd rule,” named after the late Senator Robert Byrd of West Virginia. This Senate rule provides a point of order against any provision of (or amendment to) a reconciliation bill that is deemed “extraneous” to the purpose of amending entitlement or tax law. If a point of order is raised under the Byrd rule, the offending provision is automatically stripped from the bill unless at least 60 senators vote to waive the rule. This makes it difficult, for example, to include any policy changes in a reconciliation bill unless they have direct fiscal implications. Under this rule, changes in the authorization of discretionary appropriations are not allowed; nor, for example, are changes to civil rights or employment law or even the budget process. Changes to Social Security also are not permitted under the Byrd rule, even if they are budgetary.

In addition, the Byrd rule bars any entitlement increases or tax cuts that cost money beyond the five (or more) years covered by the reconciliation directive, unless other provisions in the bill fully offset these “out-year” costs.

What If Appropriations Bills Are Not Passed on Time?

If Congress does not complete action on an appropriations bill before the start of the fiscal year on October 1, it must pass, and the President must sign, a continuing resolution (CR) to provide stopgap funding for affected agencies and discretionary programs. If Congress doesn’t pass or the President will not sign a CR because it contains provisions he finds unacceptable, agencies that have not received funding through the ordinary appropriations process must shut down operations.

A dispute over delay or defunding of health reform legislation between President Obama and congressional Republicans led to a 16-day shutdown of ordinary government operations beginning October 1, 2013. A dispute between President Clinton and congressional Republicans in the winter of 1995-96 produced a 21-day shutdown of substantial portions of the federal government.

Statutory Deficit-Control Mechanisms

Separately from the limits established in the annual budget process, Congress operates under statutory deficit-control mechanisms that prevent tax and mandatory spending legislation from increasing the deficit and constrain discretionary spending.

- **PAYGO.** Under the 2010 Statutory Pay-As-You Go (PAYGO) Act, any legislative changes to taxes or mandatory spending that increase multi-year deficits must be “offset” or paid for by other changes to taxes or mandatory spending that reduce deficits by an equivalent amount. Violation of PAYGO triggers across-the-board cuts (“sequestration”) in selected mandatory programs to restore the balance between budget costs and savings.

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- **Discretionary funding caps.** The 2011 Budget Control Act (BCA) imposed limits or “caps” on the level of discretionary appropriations for defense and for non-defense programs in each year through 2021. Appropriations in excess of the cap in either category trigger sequestration in that category to reduce funding to the capped level.
- **BCA sequestration.** On top of any sequestration triggered by PAYGO or funding cap violations, the BCA also requires additional sequestration each year through 2021 in discretionary and select mandatory programs, split evenly between defense and non-defense funding. This BCA sequestration was implemented as a result of the failure of a BCA-created congressional joint select committee to propose a legislative plan that would reduce deficits by \$1.2 trillion over ten years. In the case of discretionary programs, for 2014 and after this special sequestration mechanism operates by reducing the appropriations caps below the level that the BCA originally set.

If budget legislation violates these statutes, the relevant sequestration penalties apply automatically, unless Congress also modifies the requirements. For example, policymakers modified the 2013 BCA sequestration requirement in the American Taxpayer Relief Act of 2012. Similarly, the Bipartisan Budget Act of 2013, worked out by Senate Budget Committee Chair Patty Murray (D-WA) and House Budget Committee Chair Paul Ryan (R-WI), reduced sequestration cuts in 2014 and 2015 while extending BCA sequestration of mandatory programs through 2023. Congress approved another budget deal in 2015 to provide even bigger sequestration relief for 2016 and 2017.

Conclusion

The annual federal budget process begins with a detailed proposal from the President; Congress next develops a blueprint called a budget resolution that sets limits on how much each committee can spend or reduce revenues over the course of the year; and the terms of the budget resolution are then enforced against individual appropriations, entitlement bills, and tax bills on the House and Senate floors. In addition, Congress sometimes uses a special procedure called “reconciliation” to facilitate the passage of deficit-reduction legislation or other major entitlement or tax legislation. Moreover, the budget is subject to statutory deficit-control requirements. Legislation implementing a budget resolution that violates those requirements could trigger across-the-board budget cuts to offset the violations.

Updated August 23, 2017

For more information on the federal budget process see:

Introduction to Budget “Reconciliation”

<https://www.cbpp.org/research/federal-budget/introduction-to-budget-reconciliation>

Policy Basics: The “Pay-As-You-Go” Budget Rule

<https://www.cbpp.org/research/federal-budget/policy-basics-the-pay-as-you-go-budget-rule>

Policy Basics: Non-Defense Discretionary Programs

<https://www.cbpp.org/research/policy-basics-non-defense-discretionary-programs>