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Budget Process in a Nutshell

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The author has served as Assistant Director at the White House Office of Management and Budget, General Counsel and minority Chief Health Counsel at the Senate Finance Committee, Minority Chief Counsel at the Senate Rules Committee, Staff Attorney at the Senate Budget Committee, Chief Budget Counsel at the Concord Coalition, and Director of the Bipartisan Domenici-Rivlin Debt Reduction Task Force. He is the founder of FedWeb.com and ***USBudgetAlert.com*** *and Author of* ***America's Priorities: How the U.S. Government Raises and Spends $3 Trillion per Year****. Contact Mr. Konigsberg at the Federal Budget Group LLC, 202-204-2573 or (m) 301-509-5688 or at ckonigsberg@federalbudgetgroup.com.*

The President's Budget

The President's Budget is ordinarily transmitted to Congress each year on the first Monday of February (with the exception of new Administrations, which require additional time). Preparation of the President's Budget typically begins nine months prior to transmittal. For example, formulation of the President's FY 2017 Budget (which was transmitted to Congress in February 2016) began in the spring of 2015 when the President's Office of Management and Budget (OMB) issued guidance to the various departments and agencies to develop budget proposals based on the President's priorities and goals.

After several months of examining program needs and priorities, each department and agency submits to OMB its initial budget request in early fall. OMB then conducts a review of agency budget requests and combines them—with OMB modifications—into a complete set of budget proposals.

Following an opportunity for agencies to review the OMB draft budget (called "passback") and to appeal issues of concern to the OMB Director and the President, OMB makes final adjustments to the budget and transmits the massive documents to Congress on the first Monday of February (or later, in the case of new Administrations). Elements of the upcoming President's Budget are often incorporated into the State of the Union address just prior to budget transmittal.

Congressional Budget Resolution

Following the State of the Union and transmittal of the President's Budget requests, Congress begins its own budget process for making fiscal policy decisions on total spending and revenue

levels, spending levels for individual programs, and changes – if any – to entitlement programs and the tax code.

The Senate and House Budget Committees hold public hearings in February at which they receive testimony on the President's Budget proposals from Administration officials, outside experts, trade associations and other interest groups, Members of Congress, and the general public.

At the same time, the other committees of Congress review the President's Budget proposals and transmit to the Budget Committees their own "views and estimates" on appropriate spending or revenue levels for programs within their respective jurisdictions. The Senate and House Budget Committees – using the President's Budget request, information from their own hearings, views and estimates from other committees of Congress, and projections from the Congressional Budget Office – each draft their own versions of a "Congressional Budget Resolution," typically during March in a series of working meetings known as committee "mark-ups."

It is important to understand that the Budget Resolution does ***not*** become a law and therefore is ***not*** presented to the President for signature. Rather, it is a **congressional blueprint** to guide subsequent action on specific spending and revenue measures. The Budget Resolution: (1) sets total federal spending and revenue levels; (2) sets **total** "discretionary" (i.e. non-entitlement) spending levels which the Appropriations Committees must adhere to as they draft annual appropriations bills; (3) establishes procedures to enforce the budget blueprint; and (4) may include ***optional*** special provisions called reconciliation instructions aimed at expediting changes to entitlement programs or tax laws through a filibuster-proof Budget Reconciliation Bill.

Budget Reconciliation Instructions: A Fast-Track for Entitlement and Tax Reforms

Entitlements are formula-based benefit programs – for example Social Security, Medicare, and Medicaid – where the amount of annual spending is driven by the number of people meeting eligibility requirements for specified benefits. Entitlements are ***not*** subject to annual appropriations decisions. Rather Congress' authorizing committees control entitlement spending by changing the laws that establish benefit levels and eligibility.

Reconciliation instructions set forth in budget resolutions are *not* program specific. Rather, they simply direct specified House and Senate committees to report legislative provisions that achieve specified changes in spending or revenue levels within their committee jurisdiction. While specific entitlement or tax changes are "assumed" by the Budget Committee when the dollar targets are drafted, the authorizing committees need not – and often do not – follow the Budget Committee assumptions.

For example, the Budget Resolution could direct the Senate Finance and House Ways & Means Committees to report legislation that make changes in programs within their jurisdiction that change spending and/or revenue levels by $__ billion over a certain period of time. The Budget Committees, when drafting the Budget Resolution, will have based the dollar amounts on specific entitlement and tax law reforms, but the Finance and Ways & Means Committees can decide to achieve their spending and revenue targets through **entirely different reforms** – and in

some cases, can even substitute revenue changes for spending changes or vice versa as long as the total deficit impact is achieved.

Reconciliation legislation reported in response to budget reconciliation instructions is considered by Congress under special procedural protections, particularly in the Senate. Amendments on the Senate Floor to change the committee-reported provisions are limited by a very strict **“germaneness” requirement**; and, most importantly, a **reconciliation bill cannot be filibustered.**

In recent years, it has become common to assume that 60 votes are needed in the Senate to pass legislation. This is based on the assumption that opponents of legislation will filibuster, which is simply the act of preventing a vote on a measure by refusing to end debate. Proponents of legislation can shut down filibusters through a procedure known as “invoking cloture” – which requires 60 votes, hence the assumption that major legislation ***in effect*** requires 60 votes. For most of American history, filibusters were rare; today, unfortunately, they are common due to hyper-partisanship in a closely divided Senate.

A Budget Reconciliation bill, however, is protected by limited debate and cannot be filibustered. Therefore, as a practical matter, passage of reconciliation bills only requires 51 votes. Budget Reconciliation has therefore become a **common means of enacting major entitlement and tax reforms**. Contrary to popular belief, reconciliation bills are fairly common and have been passed in most of the years since 1980, when the procedure was first employed.

Adopting the Budget Resolution

When the House and Senate Budget Committees complete committee action on their respective budget resolutions – with or without reconciliation instructions – they report the resolutions (typically in March) to the full House and full Senate, respectively. Members of the House and Senate then have an opportunity to alter the work of their respective Budget Committees by offering amendments to the Budget Resolution as they are debated on the House and Senate Floors.

Senate debate often includes a long series of votes on ***non-binding*** policy statements, which has come to be called the “vote-a-rama.” Unfortunately, the lengthy Senate vote-a-rama obscures votes on amendments that seek to have a concrete impact and would change total spending or revenue levels or reconciliation instructions.

When the Senate and House have both passed their respective versions of the Budget Resolution, they appoint several of their Members to a House-Senate conference committee to resolve differences between the House- and Senate-passed resolutions. When differences have been resolved, each chamber must then vote on the compromise version of the Budget Resolution called a "Conference Report." However, Congress did not complete action on a Budget Resolution for nine fiscal years since the Budget Act was adopted in 1974, including fiscal years 2011 through 2015.

Discretionary Appropriations

Following adoption of a Budget Resolution Conference Report, the Budget Committees "allocate" total spending among the various committees of the House and Senate based on jurisdiction, with all discretionary (i.e. non-entitlement) spending allocated in one lump sum to the House and Senate Appropriations Committees, respectively. (These are called "302(a) allocations," based on the relevant section of the Congressional Budget Act.)

The Appropriations Committees then subdivide their allocations among their 12 subcommittees, respectively. These allocations of discretionary spending (more than $1 trillion) by the full Appropriations Committees among their 12 subcommittees are called "**302(b) allocations**" and are a key decision point in the budget process; 302(b) allocations determine how much spending is allocated to defense vs. health research vs. food safety vs. law enforcement, etc.

Following 302(b) allocations, the 12 appropriations subcommittees "mark-up" lengthy and detailed appropriations bills for the upcoming fiscal year. The bills then go to the full Appropriations Committees for consideration. Following full committee action, appropriations bills travel to the House and Senate Floors, respectively, for consideration by the full chamber, typically during the summer.

After Floor action, the appropriations bills then go to a House-Senate Conference Committee, generally composed of senior members of the relevant appropriations subcommittees. The task of the conferees is to resolve all differences between the House and Senate versions of the bill, producing a conference report. The major constraint under which the conferees operate is to produce a conference report consistent with the 302(b) spending allocations (explained above).

Due to disagreements on appropriate levels of federal spending, in recent years it has become increasingly ***uncommon*** for Congress to enact 12 separate appropriations bills. As explained below, Congress often passes short-term stop-gap measures, called "continuing resolutions," to keep the federal government operating at current spending levels when a new fiscal year begins on October 1, while congressional appropriators and the Administration negotiate "omnibus" appropriations that combine all of the appropriations measures into one or more massive bills.

Reconciliation Bill

If the Budget Resolution includes "reconciliation instructions" to change revenue levels or entitlement spending levels, the authorizing committees named in the instructions (usually including the Senate Finance, House Ways & Means and other committees) are required to develop reconciliation legislation at the same time the Appropriations Committees are assembling their appropriations bills.

As explained above, the Budget Resolution's reconciliation instructions direct authorizing committees to change spending and/or revenue levels by a specified dollar amount over a certain number of years, but leave the programmatic details entirely to the committees' discretion.

After the authorizing committees report their respective reconciliation legislation, it is packaged by the Budget Committees into a single Reconciliation bill for House and Senate Floor consideration, followed by a House-Senate conference and a final vote on a Conference Report.

Because budget reconciliation is a major departure from the Senate's tradition of unlimited debate and amendments, the Senate's "Byrd Rule" restricts reconciliation bills to legislative provisions that are "budgetary" in nature. In addition, reconciliation bills cannot increase deficits beyond the budget window covered by the budget resolution – typically, 10 years.

The New Fiscal Year and Continuing Resolutions

Congress' annual objective is to complete action on all twelve appropriations bills as well as Budget Reconciliation legislation by October 1, when the new fiscal year begins. However, if action on particular appropriations bills is not completed by the start of the new fiscal year, Congress passes a "continuing resolution" (CR) to keep agencies operating at a particular level of funding (often the previous year's funding level, with some adjustments, or the lower of House- or Senate-passed bills) while they endeavor to complete appropriations action. Sometimes, multiple CRs are adopted until final agreement is reached. And occasionally, political gridlock prevents adoption of a CR and the federal government shuts down. Lengthy government shutdowns occurred in 1995 and 2013.

Enforcement: Points of Order and PAYGO

During the course of the new fiscal year, Senators and Representatives can raise parliamentary objections on the Senate or House Floor to block consideration of legislation that would cause a breach of the total spending or revenue levels, or a breach of the committee allocations established by that year's Budget Resolution. These parliamentary "points of order" are used most often to ensure that annual appropriations bills remain within their 302(b) subcommittee allocations (explained above). In addition, the House has a rule to prohibit consideration of legislation that increases long-term mandatory spending and the Senate has a similar rule prohibiting legislation that increases long-term deficits.

In addition, the **Statutory Pay-As-You-Go Act of 2010** (usually known as "PAYGO") requires that the cost of new tax cuts or new entitlement spending (often called "mandatory spending") must be fully offset by other entitlement spending cuts or revenue increases. The objective of PAYGO – which was originally adopted in 1990 – is to prevent new tax cuts or entitlement spending legislation from increasing deficits. However, provisions designated as emergencies are exempt from PAYGO, as are costs associated with Medicare physicians' payments, the estate and gift tax, the alternative minimum tax, and certain "middle-class" tax cuts.

Violation of statutory PAYGO **triggers automatic cuts** (called "sequestration") in entitlement programs. Sequestration cuts in Medicare are limited to 4% and many other spending programs are **fully exempt** from sequestration including: Social Security, veterans' programs and low-income programs including Medicaid, food stamps (now called SNAP), children's health insurance (CHIP), temporary assistance for needy families (TANF), and supplemental security income (SSI).

In addition to the PAYGO statute, the Senate also has its own PAYGO rule which prohibits consideration of bills or amendments unless the cost of new tax cuts or entitlement spending is fully offset. The rule was first established by a Budget Resolution in 1993 and has been extended by subsequent resolutions.

Budget Control Act of 2011, Bipartisan Budget Acts of 2013 and 2015, Spending Caps, and Sequestration

The **Budget Control Act of 2011 ("BCA") --** negotiated during a lengthy political impasse over raising the debt ceiling – added a new layer of enforcement in the budget process in order to reduce deficits. Tight **statutory spending caps** were imposed on total defense and *non*-defense discretionary spending for **each year through FY 2021** in order to reduce deficits by more than $900 billion* over 9 years. The caps are enforced by automatic across-the-board budget cuts ("sequestration") in appropriations bills if the caps are breached in any year. [*including interest]

In addition, the BCA established a congressional **"Super Committee"** to achieve another $1.2 trillion* in long-term deficit reduction **through entitlement and tax reforms**. However, because the Super Committee failed to agree on a long-term deficit reduction package in the allotted time, **additional budget cuts of $1.2 trillion*** over nine years went into effect in the form of further reductions in the **annual discretionary spending caps for each year through FY '21**. [*including interest payments]

Subsequently, however, the automatic spending cuts for FY 2013, were delayed for two months and modestly reduced by the January 1, 2013 "Fiscal Cliff Agreement," which also extended most of the expiring Bush tax cuts. (The anticipated expiration of the Bush tax cuts along with the January 2013 sequester had been dubbed a "fiscal cliff" that could cause another recession and generated a great deal of economic angst – eventually leading to the Fiscal Cliff Agreement.) Under the Fiscal Cliff Agreement, the modestly reduced FY '13 spending cuts went into effect in the Sequester of March 2013.

The $1.2 trillion in additional discretionary spending cuts over nine years -- triggered by the Super Committee's failure – have been criticized because **nearly the entire burden of this additional deficit reduction (more than 80%) was placed on discretionary spending** – even though rapid growth in entitlement spending and tax expenditures are the principal drivers of long-term deficits.

The additional layer of cuts resulted in even tighter defense *and* nondefense discretionary caps for each year through 2021 – with levels that, in the view of many policymakers, did not adequately accommodate national security needs, annual inflation, a growing and aging population, necessary infrastructure growth and repairs, or rapidly growing veterans' healthcare costs (which are funded by discretionary appropriations). Consequently, in late 2013, after political gridlock lead to a **government shutdown** in October, Congress and the White House agreed in the "**Bipartisan Budget Act of 2013**" to a two-year deal to increase the spending caps for FY 2014 and FY 2015.

Two years later, in the fall of 2015, Congress and the Administration faced a nearly identical budget stand-off and again came to a similar agreement to increase the spending caps for FY 2016 and FY 2017 in the "Bipartisan Budget Act of 2015" (HR 1314, Public Law 114-74). The 2015 budget agreement increased total discretionary spending by $80 billion over the two-year period, plus an additional $32 billion in war funding. The budget law also avoided a debt crisis by suspending the federal debt ceiling through March 15, 2017.

Deficits, Public Debt, and the Debt Ceiling

The nation's *public debt* – which is the *accumulated* debt of the nation – increases when Congress enacts total spending for a fiscal year that exceeds total revenues, in other words, when the nation runs an *annual deficit*. When Congress passes spending and tax laws that result in an annual deficit, the U.S. Treasury must borrow sufficient funds to cover the deficit, and the *accumulated public debt* goes up.

Total public debt also increases when the Social Security Trust Funds, and other government trust funds, invest their cash surpluses in Treasury securities for safekeeping, as required by law.

The **statutory limit on the public debt**, often called the "debt ceiling," is an artificial legal limit on the Treasury's ability to borrow the funds necessary to finance ***already incurred obligations*** of the United States. If Congress passes spending measures that exceed incoming revenues, but prevents the Treasury from borrowing funds to cover the deficit, the nation would ***default*** on its legal obligations to lenders, Social Security beneficiaries, veterans, Medicare providers and any others to whom payments are legally owed.

A default has never occurred and would have **catastrophic effects** on: (1) the ability of the U.S. Treasury to issue bonds in the future; and (2) the stability of global financial markets.

Important Note: The debt ceiling roughly approximates **Total Public Debt –** which includes: **(1) Debt Held by the Public** (money borrowed by selling Treasury securities to various buyers including foreign investors, mutual funds, state and local governments, commercial banks, insurance companies and individuals); **plus (2) Debt Held by Federal Government Accounts**, such as the Social Security Trust Funds and various federal retirement trust funds.

While a lot of political attention is paid to the debt ceiling due to its symbolism, **most economists view Debt Held by the Public as more significant than Total Public Debt**, because Debt Held by the Public reflects the total amount the Federal Government is borrowing from private credit markets – with all the implications that has for available credit. As of January 2017, debt held by the public was $14.4 trillion, while total public debt was $19.9 trillion. See **FedWeb.com/real-time-numbers** for up-to-the-minute data on federal debt, foreign holders of U.S. debt, and other real-time economic data.

Questions or Assistance: Contact Charles S. Konigsberg at the Federal Budget Group LLC, 202-204-2573 or (mobile) 301-509-5688 with questions about this publication or assistance by the Federal Budget Group with the following:

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