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Understanding the Federal Budget Process

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Overview

The Federal government implements, manages and supports a wide variety of programs determined to be critical to national well-being. Some deal with international relations, others with interstate transportation, and many focus on the health and well-being of citizens. Budgeting for these diverse needs is complex. Understanding the process is important because our public investments are the clearest indication of our national priorities.

Spending on federal services falls into two broad categories: **Mandatory or Discretionary.**

Mandatory Services are those governed by permanent law. Examples include:

- Entitlement programs: Medicare, Medicaid and Social Security,
- Most of the Federal Tax Code, and
- Interest payments on the national debt.

Changes in these laws, for instance an increase or decrease in taxes or a change in health care benefits, are reflected in federal budget numbers, but also require separate legislation for changes in policy.

Discretionary Services are those that are not authorized under permanent law and must be renewed every year before money can be appropriated. These programs make up about one-third of federal spending and include:

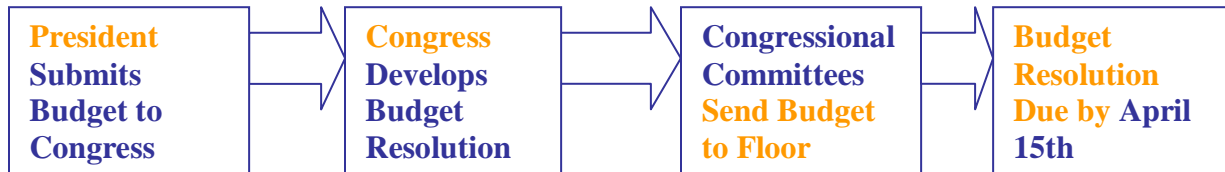
- Defense,
- Education, and
- Housing.

Most congressional committees produce authorizing legislation that includes rules and spending details for federal programs. If that legislation relates to an entitlement program, it automatically has an impact on the budget because that spending is mandatory. It does not have a budgetary impact if the legislation relates to non-entitlement spending. Even though the committee authorizes a certain level of spending, the actual dollar level spent on the program will be determined by the appropriations committee, and is frequently less than the authorized limit.

The Budget Process

The President is required by statute to submit a budget to Congress. This budget establishes a framework for the annual budget debate. It sets spending and revenue requirements, lays out relative priorities, and includes recommended changes in spending and tax policy.

Once Congress receives the President’s budget, they begin work on a **Budget Resolution**, which outlines overall taxation and spending in the upcoming fiscal year. Work on the Budget Resolution occurs in the House and Senate Budget Committees. It is then debated on the floor of the full House and Senate, and amendments may be passed by a majority vote. A conference committee resolves any differences in the versions. **The Budget Resolution is due by April 15th of each year.**



The Budget Resolution does not determine funding levels for specific programs or make actual changes in entitlement or tax law. **Budget Resolutions:**

- Set overall revenue levels (paves the way for tax legislation),
- Set total spending levels for both mandatory and discretionary funding,
- Often include “reserve funds” to provide flexibility for consideration of tax or entitlement legislation,
- May include reconciliation instructions to committees, and
- Create or change budget related rules and establish points of order to enforce them.

Appropriations must be passed by October 1, the beginning of the federal fiscal year. If they are not passed by October 1, Congress must pass a Continuing Resolution, to provide temporary funding until appropriations are made.

Congress sometimes uses a **special “reconciliation” procedure to pass entitlement or tax** legislation. The Budget Resolution must include this language and direct a committee (or committees) to meet certain spending or tax targets. The Budget Committee often packages the results into a single bill and takes it to the floor for an up-or-down vote.

Both House and Senate also have a **“Pay-As-You-Go” rule**, usually referred to as PAYGO, requiring that all entitlement increases and tax cuts be fully offset. For example, a bill that increases Medicaid spending must be offset by a reduction in some other part of Medicaid or in some other entitlement program. This rule does not apply to discretionary spending because it is already limited by annual budget allocation. For more information on the Federal Budget Process: <http://www.cbpp.org/cms/?fa=view&id=155#>.

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