The How's of Government Spending: A Primer on the Budget Process

Center Forward Basic
February 2017

Overview

Each year, one question drives the bulk of Congress' work: how to spend taxpayer dollars. This process enables the Administration and Congress to set forth policy priorities in a practical and specific way. However, the failure of Congress to come to an agreement on budget and spending is the source of some of the most contentious debates in Washington and frequently leads to potential government shutdowns.

How does Congress make decisions on spending?

Ideally, the annual budget and spending process looks like this:

- Step 1—The President sends a budget wish list to Congress (February). Since 1921, federal law has required the President to send an annual budget proposal to Congress with requests for each agency and program. The President's proposed budget is due to Congress by the first Monday in February. When a new Administration comes in, however, they are given more latitude. They generally unveil a broader outline in mid-to-late February and a specific proposal in the spring. President Obama, for example, released a broad outline in late February 2009, followed by a detailed plan on May 7th.

- Step 2—Congress decides <u>how much</u> to spend. After the President's budget arrives, Congressional committees hold hearings on programs they oversee, such as education or highways, and prepare their own "views and estimates" on what the budget should be. The House and Senate Budget Committees then draft a budget resolution that spells out overall limits on government spending, including 20 general program categories. The deadline for a resolution is generally April 15th.

- Step 3—Congress decides <u>where</u> to spend it. Because the budget dictates only overall spending, Congress must next make specific spending decisions in each funding category. Congress does this through new or existing laws that authorize programs to spend money. Some programs, such as Social Security, can spend directly. But others—most agencies in fact—need a second step: an appropriation of funds from Congress, which specifies to the dollar how much a program can spend in a fiscal year.

Key Facts

In 2017, it is estimated that the U.S. government will spend 3.65 trillion in revenue and will have collected 3.21 trillion in tax revenue, leaving the country with a 443 billion deficit.

Deadline for submission of the President's Budget to Congress: First Monday in February. For a new Administration this date generally slips to late February and takes the form of a more detailed outline with a full proposal in the spring.

Currently a full FY 2017 budget has not been passed. The government is running on what is called a "Continuing Resolution," or "CR," that keeps the government running until a full budget can be agreed upon. This current CR expires at the end of April.

About Center Forward

Contact:
Cori Kramer, Executive Director
www.center-forward.org

What happens if (or rather, when) Congress can't agree?

Whether it's the overall amount or the spending for each budget category or program, disputes on priorities and specifics are common when 535 Members of Congress are trying to come to an agreement.

If Congress fails to pass a budget: The 1974 Congressional Budget Act generally prohibits Congress from considering tax or spending bills without a budget, although there are many exceptions. For example, Congress can still consider regular appropriations bills after May 15.

If Congress fails to pass spending bills: Because appropriations bills expire when the fiscal year ends September 30th, Congress must approve next year's spending before then to avoid a shutdown of the programs that must be funded annually. If Congress misses this deadline—which is often—a continuing resolution (a "CR") can provide stopgap funding until there's a deal. Without a CR spending authority expires and government risks a shutdown. Currently, the government is operating on a CR that expires on April 27, 2017 for FY 2017. This means Congress will be considering funding for the rest of FY 2017 and FY 2018 concurrently.

Key additional budget terms

- Budget authority and outlays: Appropriations to an agency or program do not come as cash. Instead, programs get the Congressional equivalent of a debit card in the form of "budget authority." This is the legal authority to ask the Treasury to pay for expenses, contracts and other obligations up to the appropriated amount. Budget authority represents the maximum a program can spend. "Outlays," on the other hand, are what is actually spent.

- PAYGO: Congress has created a variety of "budget enforcement" mechanisms—such as the "PAYGO" rules in both the House and Senate—to ensure that it lives by its budgets. PAYGO requires all bills that increase spending or lower revenues to have a corresponding offset (in other words, they can't add to the deficit). Likewise, the 1974 Congressional Budget Act bars Congress from considering bills that would spend more than the budget allows. Bills violating budget enforcement mechanisms can be blocked by "points of order" from reaching debate in Congress.

- Reconciliation: As mentioned above, the budget resolution passed by Congress dictates the overall amount of spending in a fiscal year, including both "discretionary" and "mandatory" spending. From time to time, the spending or revenue numbers included in a budget resolution may be very different from what would be spent or raised under existing law. When this happens, the budget resolution may order Congress to "reconcile" existing law with the budget resolution so the numbers come into line. During "reconciliation," specific committees in Congress are "instructed" to propose changes in the law to save or generate money. For more information on the reconciliation process, please see Center Forward's Basic on the topic here.