Congressional Budget Process

Plus
Overview, History & Landscape

Carl L. Moravitz
Retired, Budget Director
Department of the Treasury
Focus of this Session

➡ Snapshot on Federal Funding & Long-Term Landscape

➡ The Congressional Budget Process
  ❖ History
  ❖ How it works
  ❖ Budget Resolution & Reconciliation
  ❖ Calendar
  ❖ Congressional Decision-making Process
  ❖ Little Bit about Appropriations
  ❖ Little Bill about Earmarks
Background to Take Home with You

Some Facts on the Federal Budget
## 2014 Federal Budget totals $3.7 Trillion

Where Does It Come From?

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>Today</th>
<th>Sept ‘10</th>
<th>Mid ’08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes on Citizens’ Cash Flow (income &amp; other taxes)</td>
<td>38.0%</td>
<td>26.2%</td>
<td>41.4%</td>
</tr>
<tr>
<td>Taxes on Citizens’ Payrolls (Social Sec. &amp; Medicare taxes)</td>
<td>28.0%</td>
<td>25.0%</td>
<td>30.5%</td>
</tr>
<tr>
<td>Taxes on Business Ops. (profits, excise, customs, other taxes)</td>
<td>16.3%</td>
<td>11.4%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Borrowing ($649 Billion)</td>
<td>17.7%</td>
<td>37.4%</td>
<td>13.0%</td>
</tr>
</tbody>
</table>

### Deficit History
- **2013 Deficit ($680 billion)**
- **2012 Deficit ($1.1 trillion)**
- **2011 Deficit ($1.3 trillion)**
- **2010 Deficit ($1.6 trillion)**
How is $3.7 Trillion Distributed?

- **Entitlements/Mandatory**
  - Social Security . . . . . . . . . . . . . . $852
  - Medicare/Medicaid Entitlements, Welfare, Veteran’s, Benefits. . . 1,401
  - NET Interest on Public Debt . . . 223

- Defense 612
- Other Gov’t Agencies 562

$3,651
Federal Budget Shares (1960-2014)

(\% of Total Government Spending)

Source: OMB Historical Tables

FYI: ‘14 Budget lower than 2010 Budget ($3.721 Trillion)
Federal Budget Surplus/Deficits

(Dollars in Billions/Percent of GNP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Surplus/Deficit</th>
<th>Percent of GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2000</td>
<td>$236 (2.4%)</td>
<td></td>
</tr>
<tr>
<td>FY 2008</td>
<td>$459 (3.2%)</td>
<td></td>
</tr>
<tr>
<td>FY 2010</td>
<td>$1,556 (10.6%)</td>
<td></td>
</tr>
<tr>
<td>FY 2011</td>
<td>$1,267 (8.3%)</td>
<td></td>
</tr>
<tr>
<td>FY 2013</td>
<td>$680 (4.1%)</td>
<td></td>
</tr>
<tr>
<td>FY 2015</td>
<td>$564 (3.1%)</td>
<td></td>
</tr>
</tbody>
</table>

UR = Unemployment Rate

SOURCE: Represents unified federal deficit, GDP projections, and unemployment levels reflected in the President’s FY 2015 Budget Request, March 2014, Tables S-1 and S-12 of the Summary Tables
### How Fast Can a Surplus Disappear?

**A Look at How Fast a Surplus Can Disappear**

<table>
<thead>
<tr>
<th>($ in Billions)</th>
<th>2002</th>
<th>2003</th>
<th>2002-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan ’01 Est.</td>
<td>+313</td>
<td>+163</td>
<td>+5,610</td>
</tr>
<tr>
<td><strong>Tax Cut 2001</strong></td>
<td>-42</td>
<td>-99</td>
<td>-1,656</td>
</tr>
<tr>
<td><strong>Econ Slowdown</strong></td>
<td>-321</td>
<td>-306</td>
<td>-2,576</td>
</tr>
<tr>
<td><strong>Other Spending</strong></td>
<td>-108</td>
<td>-153</td>
<td>-1,357</td>
</tr>
<tr>
<td><strong>Jan ’03 Est</strong></td>
<td>-158</td>
<td>-395</td>
<td>+20</td>
</tr>
</tbody>
</table>
**Change in public-sector employment since the start of last four recoveries**

- **1981 recession**
- **1990 recession**
- **2001 recession**
- **2007 recession**

**Notes:** Public data exclude temporary Census workers. The line for each recession begins at the official start of the recession, so the length of the line to the left of zero indicates the length of each recession.

**Source:** Authors' analysis of Bureau of Labor Statistics Current Employment Statistics public data series
Figure 1
Non-Defense Discretionary Funding Projected to Fall to Historically Low Levels

Funding for discretionary programs other than defense, as a percent of GDP

*Historical funding levels are from OMB but adjusted to eliminate effects of timing shifts and other budget anomalies.

Note: The funding spike in 2009 reflects the discretionary portion of the Recovery Act, which constituted a one-time appropriation. The smaller spike in 2005 reflects disaster relief after Hurricane Katrina.

Source: Center on Budget and Policy Priorities based on Office of Management and Budget and Congressional Budget Office data.
“THE FUTURE JUST AIN’T WHAT IT USED TO BE!”

--Great American Philosopher,

Yogi Berra
Federal Profile Over Time

Revenues: 18.3% of GDP

Some Budget History
Formulation and Control of the U.S. Budget

1) U.S. Constitution provides checks and balances to control of spending: *The President is Commander-in-Chief, but only Congress can appropriate funding.*

2) President sets total, but the Secretaries of Departments make most major decisions for annual request.

3) The Office of Management and Budget (OMB) allocates Congressional appropriations to government departments, generally, for each 3-month period, although some agencies get longer funding time periods.

4) Control of expenditures with each of the Departments rests primarily with its staffs.

5) Independent accounting and auditing is in place for use of appropriated funding.

6) Oversight committees in Congress also closely monitor agency’s execution of budgets.
Evolution of Federal Budget Management

- Legislative Dominance (1789 - 1921)

- Presidential Budgeting (1921 - 1974)

- Shared – Congress/Presidential Leadership (1974 - Today) – *Varies w/ Alternative Power Settings*
1789 - 1921: Legislative Dominance

- Constitution gives Congress broad powers to tax & spend.
- Does not expressly provide any role for President in financial matters or federal budget process.
- All power rested with House Ways & Means & Senate Finance
- No Appropriations Committees until 1865-67
- Concept of budgeting imported from Europe, not independently derived.
The Early Days . . .

- **Before 1870, no organized budget process**
  - Agencies could write contracts and obligate gov’t to payments not approved by Congress
  - Legally, contracts were binding, but, constitutionally, no actual cash payments could be made w/o appropriations from Congress.

- **Anti-Deficiency Act in 1870**
  - No obligations in excess of Appropriations
  - **Practical Effect**: Required Agencies, for the first time, to submit budgets to Congress for annual approval
  - Budget still no major Presidential involvement
1913 Taft Commission . . .

- **Commission Noted:**
  - Agencies were submitting budgets directly to Congress (*most wish it were the same today*)
  - Met basic requirements, but with little information included
  - Failed to reflect full cost of long-term plans
  - Led to conflicts between President/Congress

- **In 1921:** Congress pushes through wide range of Wilson legislation (from Taft Commission) greatly expanding Government
  - *Wilson’s success broadens federal role and sets new standard for Presidential influence on Congress.*
What Did the 1921 Legislation Do?

1921 -- Passage of Budget & Accounting Act

- President becomes an Agent in Congressional budget process [Creates OMB (BoB) & GAO]
- Congress coordinates revenues & spending decisions with overall recommendations of President.
- Agencies barred from submitting budgets directly to Congress [President & budget aides decide how much to request]
- Spending decisions in Congress returned to Appropriations Committees (Removed, 1897-1921)
- Congress adds teeth to the accountability of Gov’t operations
- Legislation puts in place operational guidelines for expenditure and reporting of government operations
Evolution of Federal Budget Management

1921 to Today: Establishing the “Tool Kit”


1985-1990: Deficit Management

1991-Present: Spending Management (plus “On-Budget” policy controls)
Up to 1974: **ONE LAW . . . Since then -- Many**

New Legislation & Mandates

- **Legislative Changes:**
  - [1974] **CBA:** Congressional Budget Act (*Deferral/Rescissions*)
  - [1988] **FMFIA:** Federal Management Financial Integrity Act
  - [1990] **CFO Act I:** Chief Financial Officers Act
  - [1993] **GPRA:** Gov’t Performance & Results (*Results Act*)
  - [1994] **GMRA:** Gov’t Management & Reform Act
  - [1996] **FFMA I:** Federal Financial Management Act
  - [1996] **Debt Collection:** Federal Debt Collection Act
  - [1996] **ITRMA:** Information Tech. Reform Management (*Clinger Cohen*)
  - [1997] **FASA:** Federal Acquisition Streamlining Act
  - [1998] **FFMA II:** Federal Financial Management Act
New Legislation & Mandates [Con’t]

- **Legislative Changes:**
  - [1998] **GPEA:** Gov’t Paperwork Elimination Act
  - [2002] **ATDA:** Accountability of Tax Dollars Act
  - [2004] **CFO Act II:** DHS Financial Accountability Act
  - [2006] **FFARA:** Federal Funding Accountability & Transparency Act
  - [2010] **GPRA Modernization Act:** GPRA II

- **Recent Executive Mandates:**
  - [2001-2005] *President’s Management Agenda*
  - [2002-2008] **OMB PART:** Program Assessment Review Tool
  - [2005] **Fin Mgmt:** New OMB A-123/130
What is the Process and How Does it Work?
BUDGET FORMULATION
• Agency Budgets Prepared
• Dept. and OMB Review & Decide

BUDGET EXECUTION
• Apportionment & Allotment of
• Deferral or Rescission Messages
• Reports on Program/Financial Performance

U.S. CONGRESSIONAL ACTION
• President’s Budget Presented to Congress
• Agency Presentation to Appropriations Comms.
• Congressional Enactment of Appropriations
• Congressional Budget Direction for Federal Spending

AUDIT AND REVIEW
• Agency Evaluation of Programs and Finances
• GAO Conducts Audits; Prepares Reports
Developing & Managing the Budget

Pre-budget Formulation
(Financial data linked to Accounting)

Strategic Business Assessments
(Financial Reports & Dashboards available to Management)

Dept/Agency Submission
(Core Data structured to BF&E processes)

Dept/Agency Submission to OMB
(Electronic submission)

OMB Prepares & Publishes
President's Budget
(Electronic publishing)

OMB Internal Decision Making
(Electronic review & approval)

Approved

Not Approved

Congressional Submission by
Dept/Agency
(Electronic Publishing and BI Tools)

Tracking Congressional Action
(Electronic annotation & Workflow)

Agencies Receive Enacted Appropriations
(Electronic Plans)

Agencies Develop Apportionment
(Web based reprogramming)

Apportionments Distributed
(Web-enabled & Core-financials compatible)

Performance Measures
(BI Portal)

Update Performance Measures & Targets

Budget Execution
(Web-enable and Core financials compatible)

Additional Factors

Execution

Congressional Process

August 12, 2014
Major Legislative Drivers for Budget Process

- **Process Mechanics**
  - A Set of Rules and Institutions for Making Tax and Spending Decisions

- **A Result of Many Different Laws**
  - *Budget and Accounting Act of 1921*(Core Legislation)
  - Congressional Budget and Impoundment Control Act of 1974
  - Balanced Budget and Emergency Deficit Control Act of 1985
    *(Gramm-Rudman-Hollings)*
  - Budget Enforcement Act of 1990 (BEA)
  - Budget Control Act of 2011 (BCA) *(Sequestration a Caps thru 2021)*
  - Bipartisan Budget Act of 2013 (BBA) *(Revised Caps, Sequestration Modified for 2014 and 2015)*
Budget Approval

The Budget Resolution and Reconciliation

- Development of Budget Resolution (Not Enacted Law)
  - “Concurrent” resolution (set of rules to govern Congressional budget actions)
  - Under the jurisdiction of House and Senate Budget Committees
  - Congress focuses on the whole budget
  - Scheduled to be adopted by April 15 (Rarely is)
  - Two key components
    - Aggregate numbers
    - Committee allocations

- The Reconciliation Process (Enacted Law)
  - Optional process, covering taxes and mandatory spending
  - Has been used for recent major policy actions
Budget Resolution

- Jurisdiction of House and Senate Budget Committees (*Administration testifies here first on budget request*)
- Must pass House and Senate in identical form (*does not need POTUS signature*)
- Establishes Overall Budget Expectations – Spending, Revenue, Borrowing
- Includes spending limits for Appropriations (*discretionary spending*)
- Projection of the budget deficit (*and therefore agreement on tax revenues and any changes in mandatory spending*)
- Base for Budget Controls – Pay-Go
Pay-As-You-Go

- Budget Enforcement Act of 1990 established PAYGO procedures
- Generally – Requires that new direct spending and revenue legislation be deficit neutral.
- Direct Spending is spending that does not require appropriations
- If proposed legislation causes an increase in direct spending or a reduction in revenue – then it must be offset by an equivalent amount of direct spending reductions, revenue increases, or both.
BUDGET PROCESS in Congress . . .

- Overall Budget Responsibilities
  - Manage Congressional Budget Process [Maintain]
    - (BUDGET RESOLUTION)
  - Oversee Deficit Reduction Process [Manage Change]
    - (RECONCILIATION)
Congressional Budget Decision Framework

**SPENDING MANAGEMENT**
- Statutorily defined in law, adjusted for:
  - Disaster Spending
  - Inflation Impacts
  - Special 1990 Rules [Expired]
- Non-entitlement spending for all Federal agencies
- Enacted Appropriations within Budget CAPS

**REVENUE & ENTITLEMENTS MANAGEMENT**
- Legislation/Executive actions must be revenue neutral (PAYGO)

- Economic impacts across economy automatic

- Legislation/Executive actions must be revenue neutral (PAYGO)

- Demographic adjustments (age, economic status, etc) automatic
HOW IS IT MANAGED?

BUDGET RESOLUTION

Discretionary Spending
  Appropriations Committees
    Appropriation Subcommittees
      Presidential Signature

Tax Changes
  Authorizing Committee
    Reconciliation (81,85,87,90,93,97)
      Presidential Signature

Entitlement Changes

Reconciliation

August 12, 2014

OBJECTIVE
Protect Tax & Revenue Baseline

Discretionary Caps
Pay As You Go (Neutral)

Revenue/Entitlements
Pay As You Go (Neutral)

Surplus/Def (On-Budget)

**OBJECTIVE**
Protect Social Security Trust Fund Balances

Discretionary Caps
Pay As You Go (Neutral)

Revenue/Entitlements
Pay As You Go (Neutral)

**OBJECTIVE**
Protect Tax and Revenue Baseline

Surplus/Def (On-Budget)

August 12, 2014
Congressional Process
**Federal Budget Decision Framework**  
*In Place 2003 - 2010*

**OBJECTIVE**
Protect balance of Social Security Trust Fund exclusively

**OBJECTIVE**
Protect Tax and Revenue Baseline

---

**Discretionary Caps**  
Pay As You Go (Neutral)

**Revenue/Entitlements**  
Pay As You Go (Neutral)

---

**Spend**  
(Politically Controlled)
Federal Budget Decision Framework
[2010 – Re-Instated]

Objectives:
- Protect Tax & Revenue Baseline

Outside:
- Iraq, Afgan and AMT

Discretionary Caps
- Pay As You Go (Neutral)

Revenue/Entitlements
- Pay As You Go (Neutral)

Surplus (or) Deficit

Originally in Place
1991-2002
THE POWER OF PAYGO

25 YEARS OF FEDERAL DEFICIT/SURPLUS (IN BILLIONS)

Source: Office of Management and Budget. Years referenced are fiscal years.
The Federal Budgeting Process

Planning and Budgeting Process Flow

- Departments and Agencies prepare budget estimates and proposals
  - Planning Phase
  - Budgeting Phase

- OMB reviews submissions of Departments and Agencies – Recommends budget levels to President

- President submits budget to Congress

- Congress appropriates and authorizes funding for the Departments
  - Budget Legislation
    - (Authorization & Appropriation)

The Cabinet Departments Moving Closer to Performance Results to Link Strategy to Resources
[SAMPLE] CONGRESSIONAL CALENDAR

January 25 - Feb. 1st  → SOTU/Budget Committee/CBO Overview
February – 1st Monday → President’s FY 2011 Budget Released
February

March 1-Mid April → HOUSE/SENATE: Appropriation & Budget
 committees Review of Total Fed Budget

By Mid April → HOUSE: Agency-Level Appropriation Hearings

May/June/July → SENATE: Agency-Level Appropriation Hearings

During July → HOUSE: Budget Comm. Markup (Mid-March)

EARLY August → HOUSE/SENATE: Complete Budget Resolution

September/October → HOUSE: Approp. Markup (May Mark; June Floor)

November & Dec (?) → SENATE: Approp. Markup (June Mark; July Floor)

CONGRESS: Works Thru Other Auth. Leg.

CONGRESS: Limited CONFERENCE on Approps

CONGRESS: Recess Until After Labor Day

CONGRESS: Selected Approps Approved (9/30)

CONGRESS: Omnibus Approp.; Remaining Uncompleted., Plus Other Issues

Congressional Process August 12, 2014
Congressional Review Process

White House

1. Administration submits budget

Cabinet Departments & Agencies

2. Budget Justification Material

Detailed justification material provided to Congress

Congressional Action

3. HASC/SASC

4. Hearings

Briefings

Multiple Committees and subcommittees oversee Agency budgets

5. Committee / Subcommittees Marks

House Floor

6. House Floor

Senate Floor

Conference

Multiple Committees and subcommittees oversee Agency budgets

Congress acts to approve, modify or disapprove

House and Senate resolve differences

House and Senate send bill to President

White House

8. Veto

If the President “Signs” it immediately becomes Law

If the President “Vetoes” it returns back to Congress

Public Law

9. Authorization

Appropriation

These Public Laws are then executed as the DoD Budget

August 12, 2014
12 Appropriations Bills *(Subcommittees)*

- Agriculture, Rural Development, & Related Agencies
- Commerce, Justice, Science, & Related Agencies
- Defense
- Energy and Water
- Financial Services and General Government
- Homeland Security
- Interior, Environment, & Related Agencies
- Labor, Health and Human Services, Education, & Related Agencies
- Legislative Committee *(at Full Committee Level Only)*
- Military Construction, Veterans Affairs, & Related Agencies
- State, Foreign Operations, & Related Agencies
- Transportation, HUD, & Related Agencies
## Budget Functions of Congressional Committees

<table>
<thead>
<tr>
<th>Authorizing Committees</th>
<th>Appropriations Committees</th>
<th>Revenue Committees</th>
<th>Budget Committees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report authorizing and direct spending legislation</td>
<td>Report appropriations bills</td>
<td>Report revenue legislation</td>
<td>Report budget resolution, including reconciliation instructions</td>
</tr>
<tr>
<td>Submit views and estimates to budget committee</td>
<td>Submit views and estimates to budget committee</td>
<td>Report direct spending legislation</td>
<td>Allocate new budget authority, outlays, and other aggregates to committees</td>
</tr>
<tr>
<td>Recommend changes in law pursuant to reconciliation instructions</td>
<td>Provide guidance to agencies on expenditure of funds</td>
<td>Submit views and estimates to budget committee</td>
<td>Monitor budget and budgetary legislation</td>
</tr>
<tr>
<td>Review proposed rescissions; Establish account structure; Establish reprogramming rules</td>
<td>Recommend changes in laws pursuant to reconciliation instructions</td>
<td></td>
<td>Compile and report reconciliation legislation</td>
</tr>
</tbody>
</table>
Important Committees BEYOND Appropriations

- House Budget Committee – Leads Budget Resolution Process
- Senate Budget Committee – Leads Budget Resolution Process
- Joint Committee on Taxation – Technical Revenue Analysis Only
- Numerous Authorization Committees
  - House Ways & Means
  - Senate Finance
  - Armed Services
  - Science & Technology
  - Judiciary
  - Agriculture
  - Oversight and Government Reform
  - Etc.
May Include “Joint Explanatory Statements”

Congressional Appropriations Process
OMB Definition of Earmark:

- Funds provided by the Congress for projects or programs where the congressional direction (in bill or report language) circumvents Executive Branch merit-based or competitive allocation processes, or specifies the location or recipient, or otherwise curtails the ability of the Executive Branch to manage critical aspects of the funds allocation process.

Earmarks Include:
- Add-ons. If the Administration asks for $100 million for formula grants, for example, and Congress provides $110 million and places restrictions (such as site-specific locations) on the additional $10 million, the additional $10 million is counted as an earmark.
- Carve-outs. If the Administration asks for $100 million and Congress provides $100 million but places restrictions on some portion of the funding, the restricted portion is counted as an earmark.
- Funding provisions that do not name a recipient, but are so specific that only one recipient can qualify for funding.
New Earmark Rules

- Members must post Earmarks on Website
- Members must pledge no financial interest
- Executive Branch must review to confirm earmark meets program requirements
- Each bill must list Earmarks and Member sponsor
- Earmarks must be limited to 50% of the 2006 levels and no more than 1% of discretionary budget
- Members may offer floor amendments on earmarks
- Earmarks directed to for-profit entities will undergo a competitive bidding process
Carl L. Moravitz

- Senior Managing Consultant, Fulcrum VETS L.L.C. *Also, supporting the Budget Formulation and Execution Line of Business*

- Former Federal Budget Director *Treasury, Internal Revenue Service, Homeland Security, Voice of America*

- Over 30 Years of Budget Experience
  - Budget & Policy Leader at Agency & Cabinet Department Levels
  - Operational experience in financial plan management


- Broad Knowledge of: Federal Government Budgeting and the Associated Fiscal Economic Landscape

- M.S. Degree in Economics from Virginia Tech

- Visiting Professor -- Graduate programs at Va Tech, George Washington Univ., Georgetown Univ., MBA/Washington Campus Consortium & CapitolNET