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The Federal Budget Process

The way in which Congress develops tax and spending legislation is guided by a specific set of procedures. Congress is required every year to develop a “budget resolution” setting overarching limits on spending and on tax cuts. This all begins with the President’s budget.

Step One: The President’s Budget Request

On or about the first Monday in February, the President submits to Congress a detailed budget request for the next fiscal year. The budget request plays three important roles. First, it tells Congress what the President believes overall federal fiscal policy should be for the next year. Second, the request lays out the President’s relative priorities for federal programs - how much he believes should be spent on defense, agriculture, education, and so on. The budget usually sketches out budget priorities not only for the coming year, but for the next five years. Third, the President’s budget signals to Congress what spending and tax policy changes the President recommends. The President does not need to propose legislative change for parts of the budget that are governed by permanent law if he feels no change is necessary. The federal tax code is permanent law; as are programs called **mandatory or entitlement programs**, such as Medicaid, Medicare, Social Security, etc. The President does however, have to ask for funding each year for **discretionary or appropriated programs**; such as defense, education, and housing, just to name a few. The president spells out how much funding should be appropriated to each program.

Step Two: The Congressional Budget Resolution

After receiving the President’s budget request, Congress then develops its own budget resolutions, sometimes using the President’s request as a guideline. The budget resolutions are drafted by the House and Senate Budget Committees. Once the committees are done, their respective budget resolutions go to the House and Senate floors, where they can be amended. Once passed, the resolutions go to the House-Senate conference committee to resolve any differences.

Step Three: The Conference Committee

The House and Senate Budget bills are examined by the Conference Committee and they try to address the differences between the House and the Senate versions of the budget bill. Once an agreement is reached, the conference version of the bill returns to both the House and the Senate for a straight yes or no vote. The conference version cannot be amended. If the conference version passes both the House and the Senate, the House and Senate Committees will then address any specific instructions given to them in the bill. The budget resolution requires a

majority to pass (51 votes in the Senate). If the budget does not pass then the previous year's resolution stays in effect.

Step Four: Appropriations Starts

Once the Budget Agreement has been reached, congressional committees begin preparing legislation that sets the funding levels for the programs under their jurisdiction.

Step Five: Reconciliation Deadlines

Sometimes Congress chooses to use a special budget mechanism called Reconciliation. If this process is utilized, it creates some additional steps in the budget process. More information on reconciliation is provided below. If reconciliation directives are included in the Congressional budget plan, certain committees in each body have until September to produce legislation containing a specified level of tax cuts or spending cuts (such as \$10 billion in cuts to Medicaid by September); this legislation will be considered under fast-track "reconciliation" procedures designed to ease its passage.

Step Six: Fiscal Year 2007 Starts

All appropriations bills are supposed to be signed by the President by October 1, though Congress can pass temporary spending measures to fund government operations if it misses this deadline.

The Budget "Reconciliation" Process

From time to time, Congress opts to use a special procedure known as "reconciliation." The purpose of this process is to facilitate the passage of deficit-reducing legislation such as tax increases or entitlement cuts. It is a form of protection because it cannot be filibustered and needs only a majority vote (51 in the Senate) to pass. Reconciliation instructions are part of the budget bill that will come out of the conference committee. Once a reconciliation instruction passes it cannot be altered. The instruction goes to the particular committee for which it was written, such as the Ways and Means Committee. For example, if the Ways and Means Committee was given a reconciliation instruction for \$50 billion, the committee would have to cut \$50 billion from programs under its jurisdiction. Each committee will treat the reconciliation instruction like a regular bill. It will have to be advanced out of committee, receive a vote on the floor, and then go through the conference process. If the committee fails to make the requested cuts/changes, the chair of the finance committee is granted the authority to decide how the cuts will be achieved.

Where Are We in the Process?

The President's Budget Proposal

The federal government is in a massive budget deficit. Many in Congress and on the hill feel that cuts are needed across the board. The President's budget proposal called for large cuts to discretionary spending, such as education, health, food programs, housing programs, and more.

While cutting many low-income programs, the President sought to continue current tax levels and make some of the tax cuts enacted in the past several years permanent, even though the federal government is taking in the lowest revenues (as a share of the economy) since the 1950s.¹ These tax cuts are tilted primarily toward high income households.²

Congress' Budget Resolution

On March 16, 2006, the Senate passed the budget resolution by a very close vote of 51-49 largely along party lines. Senator Ben Nelson voted in opposition to the bill and Senator Chuck Hagel voted in support of the bill. The Senate's bill would reduce expenditures for domestic programs by \$106 billion over five years, with the cuts totaling \$92 billion in domestic discretionary, or annually appropriated, programs and \$14 billion in entitlement programs. In contrast, spending for defense and international programs would be *increased* by \$121 billion, with nearly all of the increase coming in the defense area. The plan also calls for tax cuts totaling \$228 billion over the next five years. When additional interest costs are included, the net increase in the deficit amounts to \$266 billion over five years. The Senate did, however, approve the Specter/Harkin Amendment that added an additional \$7 billion for education, health and worker safety programs. It passed 73-27 with both Senator Ben Nelson and Senator Chuck Hagel supporting the amendment.

House's Budget Resolution

On May 18, 2006, the House passed the budget resolution by a vote of 218-210. Nebraska Representatives Lee Terry, Jeff Fortenberry, and Tom Osborne all voted in favor of the House budget resolution. The bill cuts funding for domestic "discretionary" (or non-entitlement) programs by \$10.3 billion in fiscal year 2007 and \$167 billion over five years. The plan also reduces entitlement programs by \$5.1 billion over five years. During the days leading up to the vote, a number of moderate Republican House members pushed for an amendment similar to the Specter/Harking amendment passed by the Senate, that would have increased the overall appropriation to the Labor/HHS Committee in the House. However, the amendment that was passed does not require an increased level of appropriation. Instead, the amendment maintains the total amount of discretionary funding at \$873.8 billion, as proposed by the President, but allows for funding for the Labor-HHS appropriation bill to be increased by at least \$7.158 billion if that funding is offset by mandatory or discretionary savings in negotiations with the Senate.



Conference Committee

¹Center on Budget and Policy Priorities "Assessing the Budget Plan Approved by the House Of Representatives." By Kogan, Freidman, et. Al. 2005.

²Center on Budget and Policy Priorities "Assessing the Budget Plan Approved by the House Of Representatives." By Kogan, Freidman, et. Al. 2005.

³Center on Budget and Policy Priorities "**Capital Gains and Divident Tax Cuts: Data Make Clear That High-incom Households Benefit the Most.**" By, Freidman, Richards et. Al 2006

Now that the Senate and the House Budget resolutions have been passed for the 2007 fiscal year, the Conference Committee will examine both budgets and attempt to resolve differences between the two bills.

What You Can Do

Nebraska Appleseed is part of a statewide coalition opposing cuts to programs that help our most vulnerable residents, but we need more organizations and individuals throughout the state to join the effort. We need people to **be informed**, make calls, write letters to state and federal representatives, and be engaged on this issue. We can provide all the talking points and messages for you to add to your individual experience. Contact Becky Gould at Nebraska Appleseed (402) 438-8853, at 1-800-845-3746, or at bgould@neappleseed.org to receive updates, which include specific steps you can take to join the effort.