

Federal Budget and Debt: So What

Session 2: When & How
The journey continues!!

*With special thanks to Duke OLLI, Chris McLeod our Duke class
“support” and my co-instructor, Dale Pahl as moderator*

Recap of Session 1 : *Polling Question #1*

The Legislative Branch: Per Constitution, "No money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of Receipts and Expenditures of all public Money shall be published from time to time."

1. Budget Committees*: Sets targets for spending, revenue, surplus/deficit & public debt
2. Appropriations Committees/12 Subcommittees*: Annual spending bills (1/3 of Federal Budget) [Senate now confirmed <https://www.appropriations.senate.gov/about/members>]
3. House Ways & Means/Senate Finance Committees: Taxes, Tariffs & Other Revenue (incl. Social Security)
4. Authorizing Committees: Create, continue or modify an agency, program or activity (i.e., duties, functions, structure, and responsibilities).
5. Other: Congressional Budget Office (independent budget & economic analyses to support Congressional budget action)

* Rep. David Price, NC-4 on House Committees

Recap of Session 1 (continued)

The Executive Branch: Budget and Accounting Act (1921) created the Executive Bureau of the Budget (now OMB) & required the President to submit to Congress a proposed annual budget for the federal government

1. Office of Management & Budget: Prepares/submits President's budget to Congress (incl. setting budget levels by Agency & policies) & oversees the use of funding, federal regulations, and engagement with Congress on all matters.
2. Federal Departments (15)/Agencies: Strategic planning, budget development/execution (consistent with OMB guidelines), financial management and other related actions.
3. Department of the Treasury: Fiscal and tax policies and estimates.
4. Others: Council of Economic Advisers (formulates/recommends economic policies for President's budget request); Bureau of Labor Statistics (produces Consumer Price Index to calculate inflation used to estimate outyear budget estimates/current services); & Census Bureau (data on population tied to entitlement program estimates and grants to States)

Other: (a) Lobbyists; (b) State and Local Government Officials; (c) Public & Public Interest Groups; (d) Federal Reserve (monetary policies & supply of money/credit); (e) Government Accountability Office/GAO, Inspector Generals (IG), Congressional Research Service, & National Commissions (all sources of analysis, data and recommendations) ?? **Press, Foreign entities, ??**

Who, WHEN/HOW and What of the Federal Budget Process

The Budget process is governed by both laws and guidance; executive and congressional

<https://www.cbpp.org/research/policy-basics-introduction-to-the-federal-budget-process>

Federal Departments & Agencies Budget Process (Generally)

Many, **many** steps (top-to bottom, bottom-to-top, & across) to develop and get approval for budget requests for the budget year (BY) AND estimates for future years (e.g., BY+1 through possibly BY+9).

The “**budget development foundation**” includes: (a) current laws; (b) strategic plans (goals, objectives and outcomes); (c) past budget levels (prior year/PY, current year/CY **& IOUs**); (d) Presidential directives; & (e) potential issues (e.g., Congressional, GAO, IG & other reports).

What we are about to discuss and review are the actions for the Congress to complete its Constitutional duty, and for the Executive Branch to meet its legal responsibilities.

STEP 1: 2+ years prior to Presidential Budget Submission (or more for DoD)

Polling Question #2

PPBE: Most Departments and Agencies use a “PPBE process” (continuous cycle) to develop and update resource proposals (and then allocate) based on program priorities consistent with strategic goals.

Who, WHEN/HOW and What of the Federal Budget Process

Planning: The planning phase identifies and communicates long-term strategies to guide and frame resource proposals (and decisions) around operational activities based on a series of analytical efforts.

This phase is driven by the Strategic plan (goals and objectives), including the mission and existing or proposed legislative requirements. The culmination of the planning phase is the issuance of “Resource Planning” guidance. In most cases separate work groups are created to develop proposals (e.g., Investment Review, Infrastructure Modernization, etc.)

Programming: The objective of the programming phase is to translate the Resource guidance into specific budget proposals and decisions for the BY & BY+5 (or 9). Proposals for investments, construction, human capital, IT, operating expenses, etc. Again, work groups define and prepare, as part of the entire budget building process.

Concurrent: Department & Agency (awaiting OMB “rules”), then back & forth between the Department & Agency for review of proposals and decisions.

Polling Question #3

The Resource Allocation Process (aka Proposal)/RAP and the Resource Allocations Decision/RAD is the back & forth. The Agency can appeal a RAD but the Department has the “final say” 😊 😊.

Not really because before the Budget Phase, OMB “sets” the rules

Who, WHEN/HOW and What of the Federal Budget Process

STEP 2: 1+ year prior to official Presidential Budget Submission

OMB issues its own budget guidance for the development of Department budgets (e.g., top-line spending levels, transfers, new program requirements including efficiencies and savings, and A LOT MORE).

OMB also updates its “roadmap” for preparing the Executive Budget request; OMB Circular A-11. This **852** page “instruction manual” (updated annually) provides **detailed** instructions on the “Preparation, Submission and Execution of the Budget”. A few A-11 topics include:

- a) Policies, laws, & other general requirements for budget estimates (*incl. proposed legislation*);
- b) *Personnel compensation, benefits, and related costs (and FTEs)*;
- c) Basic justification materials (*incl. “Congressional Justifications/CJs”*);
- d) Information technology investments;
- e) Development of baseline estimates & Scorekeeping guidelines (and MUCH MORE)**

[Note: In addition to A-11, Federal budgetary guidance includes other OMB circulars (<https://www.whitehouse.gov/omb/information-for-agencies/circulars/>) and memoranda (e.g., OMB Circular A-129, “Policies for Federal Credit Programs and Non-Tax Receivables; A-130, “Managing Information as a Strategic Resource”)]

Who, WHEN/HOW and What of the Federal Budget Process

NOW BACK TO PPBE

Programming (again, although certain actions may fall into the Budgeting phase):

Based on OMB resource guidance, the Department and all Agencies may need to review Budget assumptions and estimates to be INITIALLY in compliance with OMB. HOWEVER, the “back & forth” budget ping pong game continues.

- (a) First, the “Department” submits/defends its budget to OMB (within OMB guidance???).
- (b) OMB creates a “pass-back” document providing its budget decisions.
- (c) The Department can appeal pass-back; initially to OMB & finally (rarely) to the President
- (d) After final appeals and decisions, the “Budget Phase” begins.

Budgeting: Based on the decisions/outputs of the Programming phase, the objective of the budgeting phase is to develop a fully justified one-year budget submission for the Department, with outyear costs identified.

The principal outputs are the budget justification materials for OMB and Congress, including the Congressional Justification (all on line), e.g., <https://www.dhs.gov/publication/congressional-budget-justification-fy-2021> for DHS that includes CJs per agency, organization, and types of resources. (LET’S TAKE A PEEK)

Who, WHEN/HOW and What of the Federal Budget Process

STEP 3: *The Budget race begins to the new Fiscal Year*

Polling Question #4

JANUARY or FEBRUARY (hopefully) President's State of the Union Address: includes budget priorities. [*Constitution Article II, Section, 3, Clause 1: The President "shall from time to time give to the Congress Information of the State of the Union, and recommend to their Consideration such measures as he shall judge necessary and expedient."*]

<https://www.congressionalinstitute.org/2019/01/29/the-state-of-the-union-address-a-primer/>

<https://www.c-span.org/video/?174785-1/presidents-radio-address> (start at .57)

<https://www.c-span.org/video/?162798-1/presidential-radio-address> (start at .35)

***This sets the stage for the release of the formal Federal Budget request with key talking points, although also depends on timing of the previous years budget!!!
[President Reagan story and his finger]***

Who, WHEN/HOW and What of the Federal Budget Process

STEP 3: The Budget race to the new Fiscal Year (continues)

FIRST MONDAY, FEBRUARY: President transmits Budget Request to Congress, per 1921 Budget Act [<https://www.govinfo.gov/app/collection/budget>]. **The documents include:**

- a. “Budget of the U.S. Government”: President’s Budget Message, Priorities & Summary tables
- b. “Analytical Perspectives”: Highlights specific subjects or significant budget data, & includes economic & accounting analyses, info on Federal receipts & collections, Federal spending analyses, Federal borrowing & debt info, baseline or current services estimates, etc.
- c. “Appendix: The (excruciating) detailed info on all appropriations and funds for the budget AND is primarily for the Appropriations Committees’ use. Consistent with “Departmental” CJs and by PPA, and also includes legislative language changes/proposals
- d. “Major Savings and Reforms” for both discretionary & mandatory programs (e.g., eliminations or reductions)
- e. “Historical Tables” and “Federal Credit Supplement”: good view of the past to present

Let’s take a peek!!

For FY 2021 <https://www.govinfo.gov/app/collection/budget/2021> [FY 2022 is pending]

Who, WHEN/HOW and What of the Federal Budget Process

STEP 3: *The Budget race to the new Fiscal Year (continues)*

FEBRUARY post-BUDGET RELEASE (into March if needed): Departments & Agencies brief Congressional Committees on the President's Request (Appropriations & Authorizing Committees). [**YOU MUST follow the company line – “Dog and Pony”**]

- Typically led by Chief Financial Officer, Budget Director & with key Program Executives
- Includes Q&A session & also followed by more detailed discussions with key staff members
- First gauge of reactions to President's budget (?dead on arrival?) – watch the body language and who stays for the entire briefing.

MARCH 15TH Congressional Budget Office “Scoring” of President's: Analysis of the President's Budget Request to the House/Senate Budget Committees; emphasis on long-term fiscal and economic outlooks (and **reality check on budget assumptions**, e.g., rosy economic forecasts for growth or employment, inflation, actual costs for proposals, etc.

<https://www.cbo.gov/publication/56278> & <http://wqw.crfb.org/papers/cbos-analysis-presidents-fy-2021-budget>

Who, WHEN/HOW and What of the Federal Budget Process

STEP 4: The Budget race to the new Fiscal Year (continues): Congressional Action

APRIL 1st 😊: Budget Committees Submit “Concurrent Budget Resolutions: first step to House & Senate passage of respective Budget Resolutions to set revenue and spending targets including for Appropriations Committees <https://www.congress.gov/bill/117th-congress/senate-concurrent-resolution/5/text> [*Let’s take a look*]

[The Robert C. Byrd Senate Rule – 51 years Senate and 6 years in House & Quote Prohibition from considering “extraneous matter” as part of a reconciliation bill or resolution – point of order and Parliamentary issue]

APRIL 15TH: Deadline for Congress to Pass Budget Resolutions and after for Appropriations Committees to set 302b allocations --- **SAY WHAT?**

<https://appropriations.house.gov/news/press-releases/appropriations-committee-approves-fy-2021-subcommittee-allocations>

Who, WHEN/HOW and What of the Federal Budget Process

Example of the FY 2021 “302(b)” Allocations (House version) (totaling \$1.298 trillion in discretionary funding but excluding mandatory programs)

\$ in million	Discretionary			Mandatory			Total	
	BA	Outlays	BA%	BA	Outlays	BA%	BA	Outlays
Agriculture	\$ 23,980	\$ 24,150	2%	\$ 112,486	\$ 92,902	10%	\$ 136,466	\$ 117,052
Commerce, Justice, State	\$ 71,473	\$ 74,000	6%	\$ 342	\$ 340	0%	\$ 71,815	\$ 74,340
Defense	\$ 626,190	\$ 646,172	48%	\$ 514	\$ 514	0%	\$ 626,704	\$ 646,686
Energy & Water	\$ 49,607	\$ 49,000	4%	\$ -	\$ -		\$ 49,607	\$ 49,000
Financial Svcs. & General Government	\$ 24,636	\$ 24,800	2%	\$ 23,024	\$ 23,016	2%	\$ 47,660	\$ 47,816
Homeland Security	\$ 50,718	\$ 61,000	4%	\$ 1,870	\$ 1,863	0%	\$ 52,588	\$ 62,863
Interior, Environment	\$ 36,760	\$ 36,750	3%	\$ 64	\$ 65	0%	\$ 36,824	\$ 36,815
Labor, Health & Human Svcs., Education	\$ 182,914	\$ 196,200	14%	\$ 907,880	\$ 907,266	77%	\$1,090,794	\$1,103,466
Legislative Branch*	\$ 5,300	\$ 5,300	0%	\$ 155	\$ 155	0%	\$ 5,455	\$ 5,455
Military Construction, Veterans Affairs	\$ 102,648	\$ 102,800	8%	\$ 126,202	\$ 126,202	11%	\$ 228,850	\$ 229,002
State, Foreign Operations	\$ 47,850	\$ 50,500	4%	\$ 159	\$ 159	0%	\$ 48,009	\$ 50,659
Transportation, HUD	\$ 75,924	\$ 139,500	6%	\$ -	\$ -		\$ 75,924	\$ 139,500
TOTAL	\$1,298,000	\$1,410,172		\$1,172,696	\$1,152,482		\$2,470,696	\$2,562,654

* 79% of which is for the House of Representatives (and House is 81% of total members of Congress)

Who, WHEN/HOW and What of the Federal Budget Process

STEP 4: The Budget race to the new Fiscal Year (continues): Congressional Action

FEBRUARY THROUGH MAY/JUNE (typically): Hearings by Appropriations Committees, Subcommittees & Authorizing Committees with formal testimony (OMB-cleared) by the Department or Agency head. Authorizing committee may address potential changes to mandatory spending or tax laws. And draft appropriations bills are being prepared for mark-up/hearings.

MAY 15th: House of Representatives Begins Approving Annual Appropriations Bills: Subcommittee to Full Committee (A Bill and Report)

<https://crsreports.congress.gov/AppropriationsStatusTable?id=2021>

*[This website tracks all Appropriations bills and Budget Resolutions: **Let's look**]*

Unfortunately, over the past decade, my friends on the Appropriations Committees have had these processes truncated and reliant on political deals at the very end of the process with “questionable results”

JUNE 10TH: Deadline for House Appropriations Committee’s last Annual Appropriations Bill for final House floor action.

Who, WHEN/HOW and What of the Federal Budget Process

STEP 4: The Budget race to the new Fiscal Year (continues): Congressional Action

JUNE 15th: Deadline for Congress' "Reconciliation " legislation (IF required by April Budget Resolution)

JUNE 30th: Deadline for House Approval of all annual Appropriations Bills; **Rarely happens** ☹️
And Senate is supposed to wait for House Appropriations bills (supported to but!!)

Polling Question #5

MAY THROUGH SEPTEMBER: Senate approve annual Appropriations Bills, Subcommittee to Full Committee (Bill and Report) [Note: For FY 2021, the House passed all 12 appropriations bills and the Senate, **ZERO**.

What is the difference between and Appropriations Act and an accompanying House & Senate Report and between "Shall" and "May" (legally vs. congressional intent)? Let's take a look

(a) *Financial Services and General Government Appropriations Act, 2021*
<https://www.congress.gov/116/bills/hr7668/BILLS-116hr7668rh.pdf>

(b) *Report on the "Financial Services and General Government Appropriations Act, 2021*
<https://www.congress.gov/116/crpt/hrpt456/CRPT-116hrpt456.pdf>

Who, WHEN/HOW and What of the Federal Budget Process

STEP 4: The Budget race to the new Fiscal Year (continues): Congressional Action

BEFORE SEPTEMBER 30th: Senate and House Appropriations Bills Reconciliation and Passage: Joint House/Senate Bills with all differences resolved. [NOTE: No date for final proposed budget to President other than constitutionally, President must either approve or veto within 10 days of receiving it; and a veto means ???? start again]

Congressional action (e.g., an enacted appropriation) **completes PPBE's Budgeting Phase.**

OCTOBER 1ST: **New Fiscal Year Starts** with or without enacted appropriations **BUT IF NO enacted appropriations**, then what?

- (a) Hopefully a Continuing Resolution (CR) – Stop gap funding “UNTIL” or appropriations act(s) is enacted (incl. the lately popular omnibus “All in One” appropriations act. Unfortunately, use of CRs is often (<https://www.gao.gov/products/GAO-18-368T>))
- (b) Government shut-down (full or partial) – 20 times with four lasting more than one day. Last one December 2018 into January 2019 for 35 days; longest ever!! (<https://www.crfb.org/papers/qa-everything-you-should-know-about-government-shutdowns>)

Who, WHEN/HOW and What of the Federal Budget Process

NOW BACK TO PPBE

Execution (*I didn't forget 😊 😊*): With an enacted budget, OMB executes Apportionments (hopefully) to release funds to Departments and Agencies including any specific instructions.

Execution activities are continuous throughout the fiscal year to responsibly expend resources (*with Congressional oversight & reporting*) and to account for cost and performance to determine if value is delivered to our stakeholders (Dale will cover). This includes monthly analysis and reporting on all financial expenditures and quarterly performance measure results. [NOTE: USASpending.gov is the official data source of federal spending & tracks how federal money is spent in communities across America <https://www.usaspending.gov/> Let's check out.

Strategic Reviews are also used to assess progress, accomplishments, challenges/risks, & seek ways to continuously improve. Also, execution information is critical to all phases of PPBE.

How are Budget changes and the unexpected handled

The world constantly changes as do budget estimates and requirements. The formal process for handling these changes include:

1. **Budget amendments** to the President's Budget: before final Congressional action
2. **“Emergency” or “Unexpected” requirements** requiring **Supplemental appropriations** requests (e.g., Disasters, like Hurricanes; Emergencies like Defense or Terrorism, COVID, etc.) Offsets or not?
3. **Deferrals or Rescissions** of Funds (when funds are considered unneeded, change in priorities, offset new funding, or temporarily delays use.
4. **Reprogramming**: Use of appropriated funds in manner different from appropriations bill (i.e., budget activity), “below” or “above” threshold” (i.e., 10% or \$5 million, whichever is less). Required NLT June 30th by law.

Polling Question #6

AND there are ongoing reviews during the FY that impact/influence budget actions: Mid-year review by OMB & CBO, incl. Sequestration estimate; OMB & Congressional review & approval/disapproval of Agency Spending Plans; & Ongoing (an Ongoing) OMB and Congressional briefings and updates

Many, many Congressional oversight committees!!!!!!!

Budget Laws to Control Spending

Believe it or not 😊, there are laws in place to control spending, separate from limits in budget bills (e.g., 302(b)s). Statutory deficit-control mechanisms that prevent tax & mandatory spending bills from increasing the deficit and that constrain discretionary spending incl. the “Sequestration” Budget Act of 1985.

- **2010 PAYGO Act**: Pay-As-You Go Act requires ANY legislative changes to taxes or mandatory spending that increase projected multi-year deficits must be “offset” (paid for) by other changes to taxes or mandatory spending that reduce deficits by an equivalent amount.
- **2011 Budget Control Act**: BCA set limits (“caps”) on discretionary appropriations for defense & non-defense programs each year through 2021. Appropriations in excess of the cap in either category trigger sequestration (automatic cuts) in that category to reduce funding to the capped level.

AND BCA added sequestration for both defense/non-defense appropriations (discretionary and some mandatory) thru 2021 because of failure of the BCA joint select committee identify \$1.2 trillion over ten years.

Budget Laws to Control Spending (continued)

If budget legislation violates these statutes, the applicable sequestration penalties occur automatically, ***unless Congress also modifies the requirements (which they have!!)***:

- ✓ Modified the 2013 BCA sequestration requirement in the American Taxpayer Relief Act of 2012.
- ✓ The Bipartisan Budget Act of 2013 reduced sequestration cuts in 2014 and 2015 while extending BCA sequestration of mandatory programs through 2023.
- ✓ Congress approved three subsequent budget deals in 2015, 2018 and 2019 to provide even bigger relief for 2016-2017 and 2018-2019, respectively.

[Note: Enforcement through points of order that can be raised on the House and Senate floors when the appropriations measures are considered].

[BUT key exception language: “Provided, That such amount is designated by the Congress as being for an emergency requirement pursuant to section 251(b)(2)(A)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985.”]

Setting up the What” of the Federal Budget Process (Session 3)

The budget is more than \$: it is a policy, psychology, philosophy & political document, and **MUCH MORE**. Let’s briefly consider some historical events that have and continue to shape and drive our budgets today (and debt)!

1929 & 1933: (a) Stock market crash precipitates the Great Depression (Oct. 29) and (b) New Deal recovery measures are enacted by Congress (March 9–June 16)

1935: Social Security Act is passed (Aug. 14)

1938: Fair Labor Standards Act is passed, setting the first minimum wage in the U.S. at 25 cents per hour (June 25)

1948: Congress passes foreign aid bill (& Marshall Plan) for European postwar recovery (April 2)

1965 (and after): President Johnson proposes his Great Society program (Jan. 4), which included Medicare and Medicaid

1974: President Nixon resigns (Aug. 9) & Congress also passed the Budget and Impoundment Control Act (July 12)

And more “budget-related” historical events (stage-setting for Session 3):

1979: FEMA created by **Executive Order** of President Carter (**April 1st**)

1981 & 1986: Economic Recovery Tax Act of 1981 (Aug. 13) & Tax Reform Act of 1986 (Oct. 22):
Reagan

1985: Republicans gain control of both House and Senate (first House majority since 1952) and Gramm–Rudman–Hollings Balanced Budget and Emergency Deficit Control Act of 1985 (and later the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987) **first** binding spending constraints on the federal budget

1989: President Bush signs legislation for federal bailout of nearly 800 insolvent savings and loan institutions (Aug. 9)

2001 & 2002: World Trade Center bombing (Sept. 11) and President Bush signs legislation creating Department of Homeland Security, including TSA (Nov. 25)

2003: President Bush signs \$350 billion tax-cut bill (May 28)

2005: Hurricane Katrina’s catastrophic damage to Mississippi and Louisiana (Aug. 29–30)

And more “budget-related” historical events (stage-setting for Session 3):

2006: U.S. Census Bureau estimates U.S. population has reached 300 million (Oct. 17)

2008: *The Great Recession (near Depression): Stock Market “crash”; Fannie Mae/Freddie Mac under fed conservatorship; \$80.7b bailout of the auto industry; \$168b tax aid package to assist individuals/ families; \$787b stimulus bill to create 3.5 million jobs; Insurance giant AIG is nearly insolvent & with fed loans (\$90 billion), government owns 80%*

2010: Affordable Care Act enacted (March 23)

2011: President Obama proposes \$400 billion of federal deficit reductions (over 10 years) including spending freeze on many domestic programs (Jan. 24)

2011: For the first time in history, the U.S. has its credit rating lowered (from AAA to AA+) and removing U.S. from list of risk-free borrowers (Aug. 5).

2013: Congressional Supercommittee in charge of finding \$1.2 trillion in deficit **reductions fails to agree** on programs to cut; automatic cuts to military and domestic programs go into effect (Nov. 21)

And more “budget-related” historical events (stage-setting for Session 3):

2017: Tax Cuts and Jobs Act enacted (Dec. 22) – deficit increased by \$2 trillion over 10 years and the most severe disaster season ever.

2019: \$2.7 trillion budget agreement for FYs 2020 and 2021 signed by President Trump; holds off \$126 billion in automatic spending cuts and suspends the debt ceiling through July 2021

2019/2020: Administration transfers without Congressional approval \$10+b to fund Border “wall” and delays funding for Ukraine: political and legal processes for which GAO opined were illegal.

2020/2021: COVID!!!

2020/2021: Election and new Administration with different priorities

Are we the “MAYPO Generation” as Dick Darman called us? The budget is about policy driving spending and revenue based on philosophy, psychology, history, politics, ROLE/PURPOSE of the government and so much more.

END OF SESSION 2: OUTSTANDING QUESTIONS

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For our next “What” session (#3), we will do a “deep dive” into specific appropriation, federal spending, and revenue sources to show where the dollars go and ask why? Also, we will examine the rate of spending & revenue, and changes over the years, particularly with entitlement programs. This session will set the stage for our Debt discussion (Session 6).

I hope to have a CFRB representative join us for either Session 3 or 6, as well as Representative Price or his representative.

REMINDERS

1. The next session (Session 3) is March 18th @ 11:00am (but sign-in early)
2. This presentation will be uploaded to our Website in the next couple of days
<https://olli-federal-budget.weebly.com/>
3. For any questions not addressed, please submit to Dale and me through the OLLI course website or our personal emails that we provided.

TURN-OFF SCREEN SHARE 😊 😊 😊