

# ***Around the World of the Federal Budget in 90 Minutes***

*prepared for*  
***The Harris School for Public Policy  
The University of Chicago***



*by*  
***Stephen M. Goldberg  
Special Assistant to the Director  
Argonne National Laboratory***



# *Outline of Today's Lecture*

- What is the Federal Budget?
- What is the Executive Branch's and Legislative's Branch's Budget Cycle
- Who are the Players? What are their responsibilities?
- Summary of the FY 2008 budget priorities
- The Nuts and Bolts of Budgeting – super summary
- A Seat at the “Table”
- Budget platform “Crumbling”

## *What is the Federal Budget?*

- “The **United States federal budget** is a federal document which outlines funding recommendations for the next fiscal year, which begins on October 1st. The U.S. Congress develops a budget resolution, based on recommendations from the President, and approves individual appropriations bills to allocate fundings to various federal programs recommended in the budget.”  
Source: Wikipedia

# Other Terms

- **Balanced Budget:** A budget for which expenditures are equal to income.
- **Scope of Budget:** All three Branches
  - Special Case: Government Supported Enterprises
- **Unified Budget:** Encompasses all of the money flowing into the Federal Government's coffers and all of the money flowing back out
- **Budget Formulation:** Executive Branch prepares the budget
- **Congressional Budget Resolution:** Spending and Revenue Plan
- **Appropriations:** Controls Spending and Receipts
- **Execution:** Obligating funds and, as result, producing outlays
- **Anti-Deficiency:** incurring of obligations or the making of expenditures (outlays) in excess of amounts available in appropriations or funds



# The Executive Budget Process Timetable

Calendar Year Prior to the Year in which Fiscal Year Begins	
Date	Activities
Spring	OMB issues planning guidance to executive agencies for the budget beginning October 1 of the following year.
Spring and Summer	Agencies begin development of budget requests.
July	OMB issues annual update to Circular A-11, providing detailed instructions for submitting budget data and material for agency budget requests.
September	Agencies submit initial budget requests to OMB.
October-November	OMB staff review agency budget requests in relation to President's priorities, program performance, and budget constraints.
<b>November-December</b>	<b>President, based on recommendations by the OMB director, makes decisions on agency requests. OMB informs agencies of decisions, commonly referred to as OMB "passback."</b>
December	Agencies may appeal these decisions to the OMB director and in some cases directly to the President.

# *The Executive Budget Process Timetable (contd.)*

<b>Calendar Year in which Fiscal Year Begins</b>	
<b>Date</b>	<b>Activities</b>
By first Monday in February	President submits budget to Congress.
February-September	Congressional phase. Agencies interact with Congress, justifying and explaining President's budget.
By July 15	President submits mid-session review to Congress.
August 21 (or within 10 days after approval of a spending bill)	Agencies submit apportionment requests to OMB for each budget account.
September 10 (or within 30 days after approval of a spending bill)	OMB apportions available funds to agencies by time period, program, project, or activity.
October 1	Fiscal year begins.

# ***The Executive Budget Process Timetable (contd.)***

<b>Calendar Years in which Fiscal Year Begins and Ends</b>	
<b>Date</b>	<b>Activities</b>
October-September	Agencies make allotments, obligate funds, conduct activities, and request supplemental appropriations, if necessary. President may propose supplemental appropriations and impoundments (i.e., deferrals or rescissions) to Congress.
September 30	Fiscal year ends.

# List of Functional and Subfunctional Categories

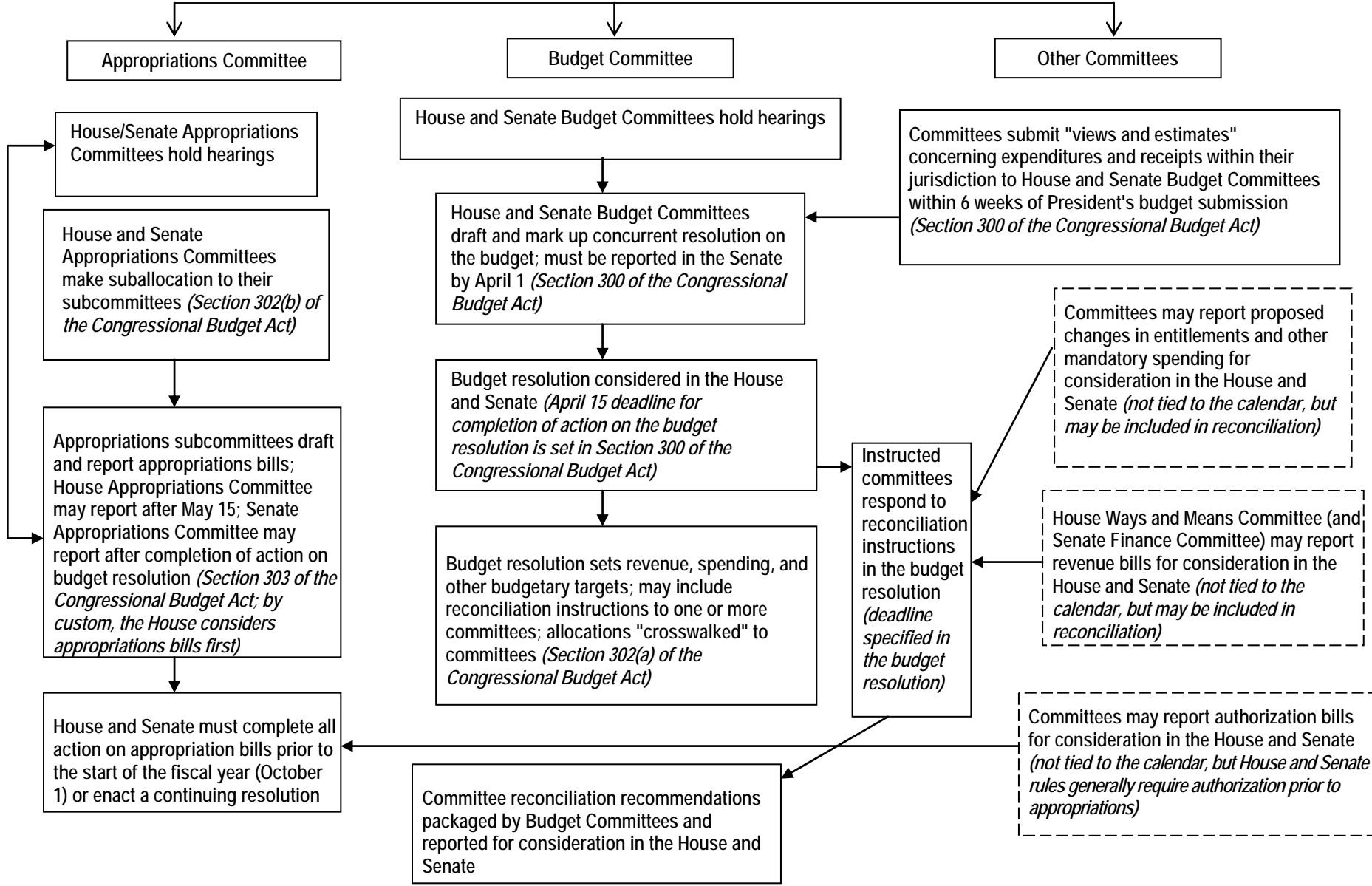
Functional Categories	Subfunctional Categories
National defense (050)	Department of Defense-Military (051); Atomic energy defense activities (053); Defense-related activities (054)
International affairs (150)	International development and humanitarian assistance (151); International security assistance (152); Conduct of foreign affairs (153); Foreign information and exchange activities (154); International financial programs (155)
General science, space, and technology (250)	General science and basic research (251); Space flight, research, and supporting activities (252)
Energy (270)	Energy supply (271); Energy conservation (272); Emergency energy preparedness (274); Energy information, policy, and regulation (276)
Natural resources and environment (300)	Water resources (301); Conservation and land management (302); Recreational resources (303); Pollution control and abatement (304); Other natural resources (306)
Agriculture (350)	Farm income stabilization (351); Agricultural research and services (352)
Commerce and housing credit (370)	Mortgage credit (371); Postal Service (372); Deposit insurance (373); Other advancement of commerce (376)
Transportation (400)	Ground transportation (401); Air transportation (402); Water transportation (403); Other transportation (407)
Community and regional development (450)	Community development (451); Area and regional development (452); Disaster relief and insurance (453)
Education, training, employment, and social services (500)	Elementary, secondary, and vocational education (501); Higher education (502); Research and general education aids (503); Training and employment (504); Other labor services (505); Social services (506)

## List of Functional and Subfunctional Categories (contd.)

Functional Categories	Subfunctional Categories
Health (550)	Health care services (551); Health research and training (552); Consumer and occupational health and safety (554)
Medicare (570)	Medicare (571)
Income security (600)	General retirement and disability insurance (excluding social security) (601); Federal employee retirement and disability (602); Unemployment compensation (603); Housing assistance (604); Food and nutrition assistance (605); Other income security (609)
Social security (650)	Social security (651)
Veterans benefits and services (700)	Income security for veterans (701); Veterans education, training and rehabilitation (702); Hospital and medical care for veterans (703); Veterans housing (704); Other veterans benefits and services (705)
Administration of justice (750)	Federal law enforcement activities (751); Federal litigative and judicial activities (752); Federal correctional activities (753); Criminal justice assistance (754)
General government (800)	Legislative functions (801); Executive direction and management (802); Central fiscal operations (803); General property and records management (804); Central personnel management (805); General purpose fiscal assistance (806); Other general government (808); Deductions for offsetting receipts (809)
Net interest (900)	Interest on Treasury debt securities (gross) (901); Interest received by on-budget trust funds (902); Interest received by off-budget trust funds (903); Other interest (908)
Allowances (920)	Varies by year
Undistributed offsetting receipts (950)	Employer share, employee retirement (on-budget) (951); Employer share, employee retirement (off-budget) (952); Rents and royalties on the Outer Continental Shelf (953); Sale of major assets (954); Other undistributed offsetting receipts (959)

# The Congressional Budget Process: Timetable for Annual Action

President submits budget proposal to Congress by 1st Monday in February (31USC 1105(a))



# Budget Resolution Chart of FY 2005 Legislative Action

FY 2005 Budget Resolutions and Votes		Conference Report H. Rept. 108-498 Filed 05/19/2004	
House	Senate	House Vote	Senate Vote <sup>[1]</sup>
H. Con. Res. 393, H. Rept. 108-441; passed by a vote of 215-212, H. vote 92, CR, 3/25/04, p. H.1565	S. Con. Res. 95. The Senate passed S. Con. Res. 95 by a vote of 51-45, S. vote 58, CR, 3/11/04, p. S. 2699. (A report was not issued for S. Con. Res. 95. S. Prt. 108-365 was ordered to be printed.)	Passed 216-213, H. vote 198, CR, 5/19/04, p. H. 3369	
Rejected Amendments:			
Cummings (Congressional Black Caucus and Progressive Caucus) amendment in the nature of a substitute, <i>rejected</i> by a vote of 302-119, H. vote 88, CR, 3/25/04, p. H.1508	The Senate considered 64 amendments; 39 amendments were adopted, 19 amendments were rejected, 4 amendments were withdrawn, and 2 amendments failed on a points of order.		
Stenholm (Blue Dog Coalition) amendment in the nature of a substitute, <i>rejected</i> by a vote of 243-183, H. vote 89, CR, 3/25/04, p. H.1521			
Hensarling (Republican Study Committee) amendment in the nature of a substitute, <i>rejected</i> by a vote of 309-116, H. vote 90, CR, 3/25/04, p. H.1534			
Spratt (Democratic Alternative) amendment in the nature of a substitute, <i>rejected</i> by a vote of 232-194, H. vote 91, CR, 3/25/04, p. H.1552			
House Rule:			
H. Res. 574, H. Rept. 108-446, rule providing for consideration of H. Con. Res. 393, passed by voice vote, 3/25/04			

Note: The President does not sign Congressional budget resolutions.

<sup>[1]</sup> In the absence of an agreement on the FY 2005 budget resolution with the Senate, the House adopted a so-called “deeming resolution.” For more details on actions related to the FY 2005 Budget Resolution, see CRS Report RL32246, *Congressional Budget Actions in 2004*.

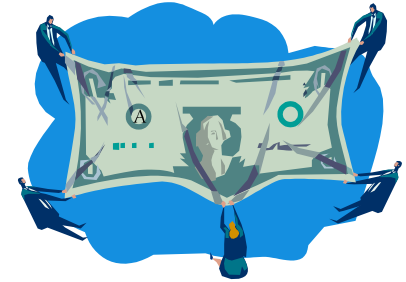
# Overview of the Budget Process

MAJOR STEPS IN THE CONGRESSIONAL PHASE	
What happens?	When?
Congressional Budget Office (CBO) reports to Budget Committees on the economic and budget outlook.	January
CBO reestimates the President's Budget based on their economic and technical assumptions.	February
Other committees submit "views and estimates" to House and Senate Budget Committees. Committees indicate their preferences regarding budgetary matters for which they are responsible.	Within 6 weeks of budget transmittal
The Congress completes action on the concurrent resolution on the budget. The Congress commits itself to broad spending and revenue levels by passing a budget resolution.	April 15
The Congress needs to complete action on appropriations bills for the upcoming fiscal year or provides a "continuing resolution" (a stop-gap appropriation law).	September 30

# Overview of the Budget Process (contd.)

MAJOR STEPS IN THE EXECUTION PHASE	
What happens?	When?
Fiscal year begins.	October 1
OMB apportions funds made available in the annual appropriations process and other available funds. Agencies submit apportionment requests to OMB for each budget account by <i>August 21</i> or within <i>10 calendar days</i> after the approval of the appropriation, whichever is later. OMB approves or modifies the apportionment specifying the amount of funds agencies may use by time period, program, project, or activity.	September 10 (or within 30 days after approval of a spending bill)
<p>Agencies incur obligations and make outlays to carry out the funded programs, projects, and activities. Agencies hire people, enter into contracts, enter into grant agreements, etc., in order to carry out their programs, projects, and activities.</p> <p>Agencies record obligations and outlays pursuant to administrative control of funds procedures (see Appendix H), report to Treasury (see the Treasury Fiscal Requirements Manual and Section 130), and prepare financial statements.</p>	Throughout the fiscal year
Fiscal year ends.	September 30
<p>Expired phase (no-year funds do not have an expired phase). Agencies disburse against obligated balances and adjust obligated balances to reflect actual obligations during the period of availability.</p> <p>Agencies continue to record obligations and outlays pursuant to administrative control of funds procedures, report to Treasury, and prepare financial statements.</p>	Until September 30, fifth year after funds expire

# Budget Cycle Example

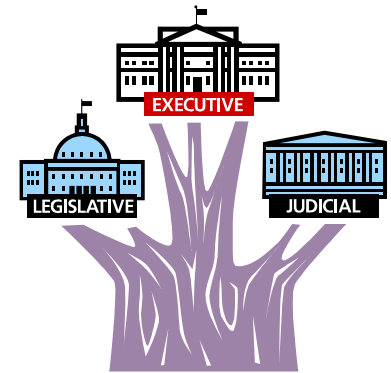


As of April 2007:

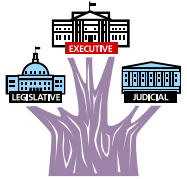
- The FY '07 budget was being executed. Money was being spent from Oct 2006, through September 2007. While spending the money, agencies were also dealing with Congress on suggested fine-tuning (reprogrammings) or requesting more money (supplemental appropriations).
- The FY'08 budget was making its way through the Congressional process.
- The FY'09 budget was just getting under way. The Administration was deciding on the basics of the FY'09 budget, and OMB was getting ready to issue initial budget targets to the agencies.

# Executive Branch – Beginning of the Process

- Fiscal Policy Decisions – NEC/OMB/CEA – Development of Fiscal Targets – Inputs: Projected Inflation, Unemployment, GDP Growth, etc.
- OMB Guidance to Agencies – based on economic models - Spring (FY 2009)
- Agencies submit budget – budget requests – early September (FY 2009)
- Competition intense – Presidential initiatives
- OMB review – very hectic time – passback – Wednesday before Thanksgiving (FY 2009)
- Passback – allowances to agencies – equal or less than the request
- Appeals – both agency and Presidential – resolved by early January (FY 2009)
- President's budget request – early February (FY 2009) – many of the program funds are set
- Baseline vs. Policy – two sets of budgets
- Budget Year (FY 2009) and Outyears (FY 2010 – 2013) (FY 2010 – 2018)

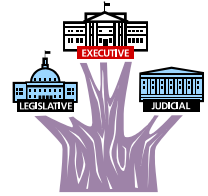


# Legislative Branch – Middle of the Process – Appropriations



- Under the Budget Act, CBO Does its own analysis – sets targets (5 Years)
- Budget Targets are Established by Budget Committees for each Appropriation Subcommittee – College of Cardinals
- Annual appropriations acts identify amount of new spending authority that each project, program, or activity will have each year – includes earmarks
- Chairs and Ranking members have a disproportionate amount of “influence”
- Discretionary part of Budget is decided by appropriators
- Typically hearings are held and appropriation decisions are made in the Summer (FY 2009)
- Individual bills signed by September 30 (FY 2009)

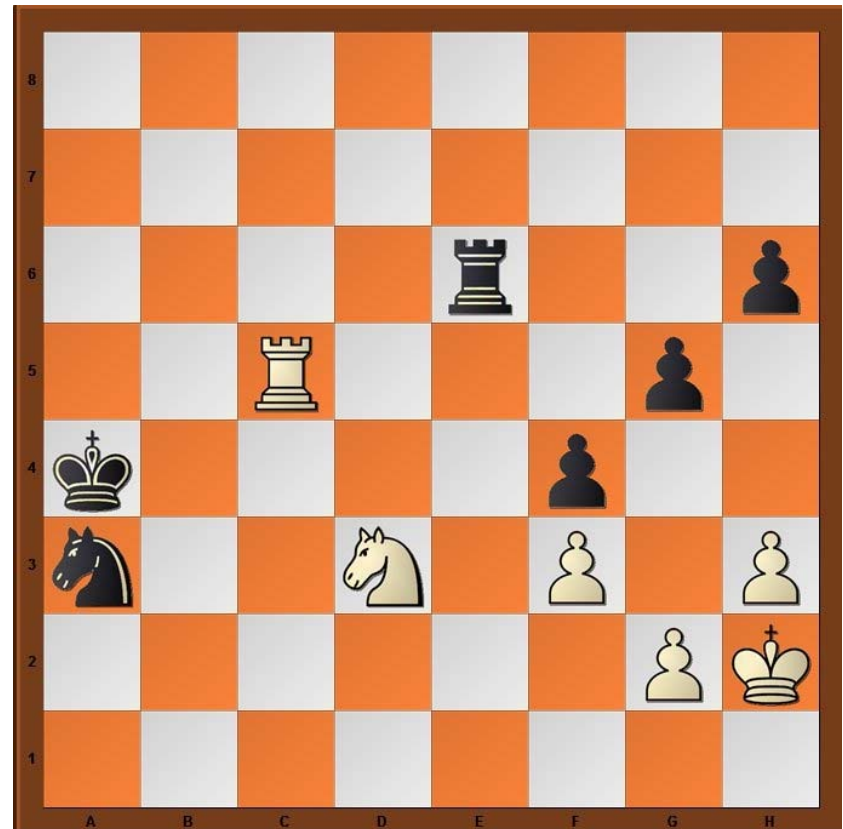
# Legislative Branch – Middle of the Process – Authorizations



- Reconciliation – Budget Committee provides instructions for legislation passed by the authorization committees
- Authorization Act can create mandatory spending – Drug Benefit to Seniors
- Authorization committees hold hearings and mark-up bills – Spring, Summer, Fall (FY 2009)
- Bills are Passed and Signed Into Law – all within budget targets agreed to by both the Administration and the Congress

# End Game Authorizations, Appropriations, Both Branches – During FY 2009

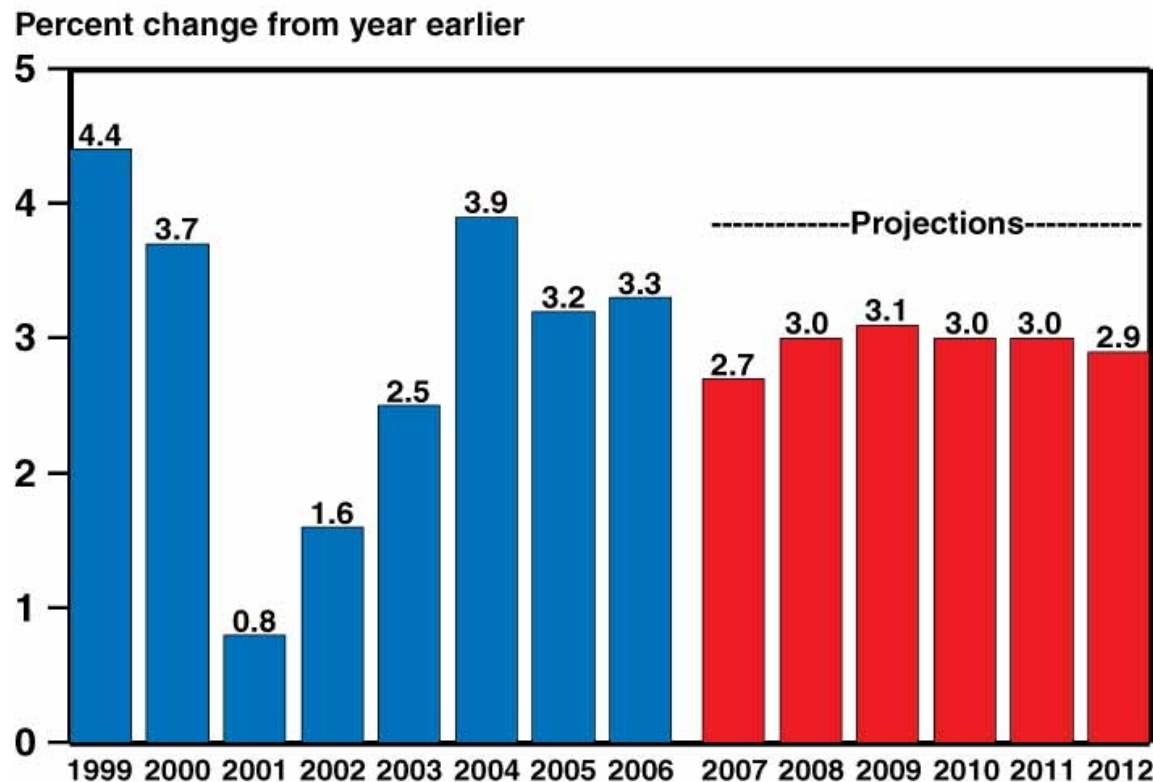
- CRs as a prelude to an Omnibus, possibly
- Final Reconciliation – Taxes, SS, Medicare, etc.
- Recissions
- Supplementals
- Reprogramming
- Debt Ceiling Limit
- Government Closures
- Apportionments



# Summary of the FY 2008 Budget Priorities – FY 2008, 2009, ?)

- Keeping the Economy Strong – “Pro growth, pro growth, pro growth
- Spending \$ Wisely
- Protect the Homeland and Strengthen National Security

## Strong Economic Growth Continues



# ***One Example of the Nuts and Bolts of Budgeting – Role of OMB***

- FY 2008 Request for the Office of Science – about \$4.4 Billion
- FY 2008 Request – Needs to Fit Presidential Initiative – Competitiveness
- FY 2008 Request – Needs to Fit DOE Theme – “Transformational Science for Energy, Environment, and America’s Competitiveness”
- Represents 7.2% increase over the FY 2007 Request and about 20% increase of FY 2006 enacted
- Transform Budgetary authority to obligations to outlays – spend rates
- Use of prior year balances – spend rate transformed into outlays
- Cash account established within Treasury, Financial Management Service



# *A Seat at the Table*



Three Ingredients – need all three:

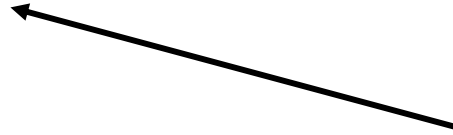
1. Policy Driver – high up in the power chain possible
2. Numbers have to work!!
3. Staff work has to be there – timing is everything

# HEU Agreement

- Characteristics
  - Government-to-Government Agreement for the Purchase of 500 metric tons of highly-enriched uranium from FSU dismantled nuclear weapons (1993-2013)
  - Negotiate a detailed implementing contract establishing annual prices and quantities
  
- How It Occurred
  - Peace Dividend
  - Existing Power Contracts
  - No need of Congressional Action
  - Off-Budget
  
- The Seat at the Table
  - OMB had the numbers to set the road framework of the deal
  - OMB was there for the final negotiations
  - OMB was there for execution
  - OMB was there for encouragement, cajoling, whatever it took.



The *Let Us Beat Swords into Plowshares* statue at United Nations Headquarters, New York.



**"Facial tissues such as Kleenex were originally created while attempting to develop better gas mask filter membranes."**



# DPRK Agreement (October 21, 1994)

## ■ Characteristics

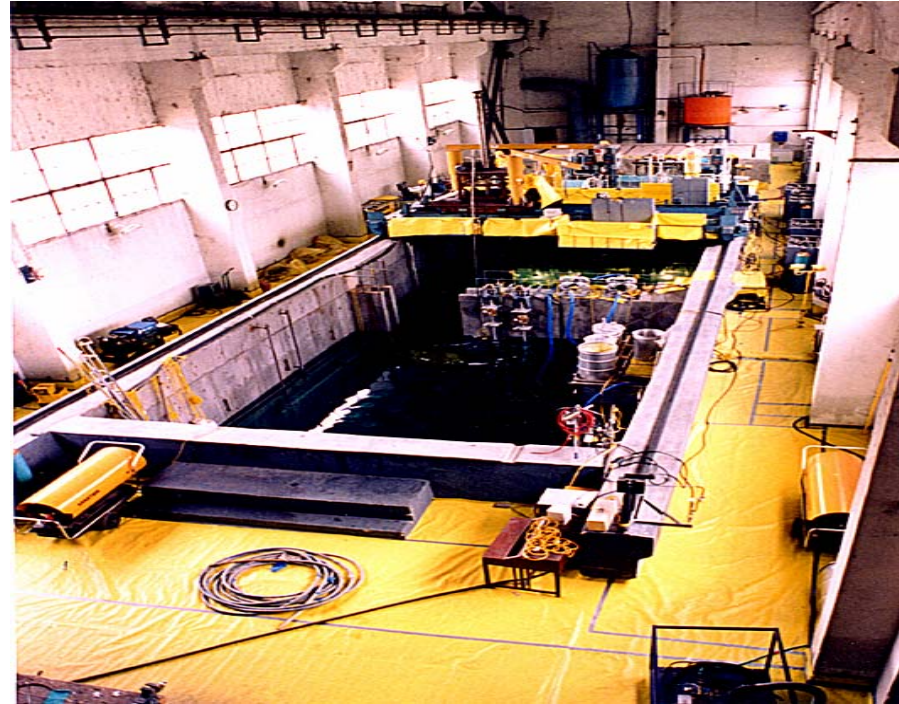
- Agreement to curtail DPRK operations at their nuclear material production sites
- In return, KEDO (2000 MWe LWR), heavy oil, canning their spent fuel (i.e., store safely spent fuel from the 5 MWe Experimental Reactor at Yongbyon)
- Goal: Denuclearization of the Korean Peninsula

## ■ How It Occurred

- Secret negotiations
- The 5% Rule for the Heavy Oil

## ■ The Seat at the Table

- Direct involvement of the OMB Director
- OMB having the numbers to make it work
- Encouragement, cajoling, etc



# Superconducting Super Collider

- Characteristics
  - \$10 billion project
  - Ring particle accelerator which was planned to be built in the area around Waxahachie, Texas
  - Ring circumference of 87 km (54 miles) and an energy of 20 TeV per beam,
  - Potentially enough energy to create a Higgs boson, a particle predicted by the Standard Model, but not yet detected.
  - Cost overruns (GAO and DOE IG Reports)
- How It Occurred
  - In October 1993 Congress voted to discontinue funding for the Super Collider.
  - SAPs were neutral to slightly positive
  - Tone established during the Clinton Transition
- The Seat at the Table
  - Direct involvement of the OMB Director and senior Clinton officials
  - “Unstable Funding Profile”
  - Closed set of players dominated by OMB



# SAP Letter Re: SSC

THE WHITE HOUSE WASHINGTON

June 16, 1993

Dear Mr. Chairman:

As your Committee considers the Energy and Water Appropriations Act for Fiscal Year 1994, I want you to know of my continuing support for the Superconducting Super Collider (SSC).

The most important benefits of the increased understanding gained from the SSC may not be known for a generation. We can, however, be certain that important benefits will result simply from making the effort. The SSC project will stimulate technologies in many areas critical for the health of the U.S. economy. The superconductor technologies developed for the project's magnets will stimulate production of a material that will be critical for ensuring the competitiveness of U.S. manufacturers, for improving medical care, and a variety of other purposes. The SSC will also produce critical employment and educational opportunities for thousands of young engineers and scientists around the country.

Abandoning the SSC at this point would signal that the United States is compromising its position of leadership in basic science - a position unquestioned for generations. These are tough economic times, yet our Administration supports this project as a part of its broad investment package in science and technology. Our support requires making sure that the project is well managed and that the Congress is informed of the full costs and anticipated benefits of the program. **The SSC previously had an unstable funding profile.** The stretched-out funding proposed by our Administration of \$640 million in FY 94 will allow better control of project costs. **The full cost and scheduling implications of this stretch-out will be complete in the early fall, and will be examined carefully by the Administration at that time.**

I ask you to support this important and challenging effort.

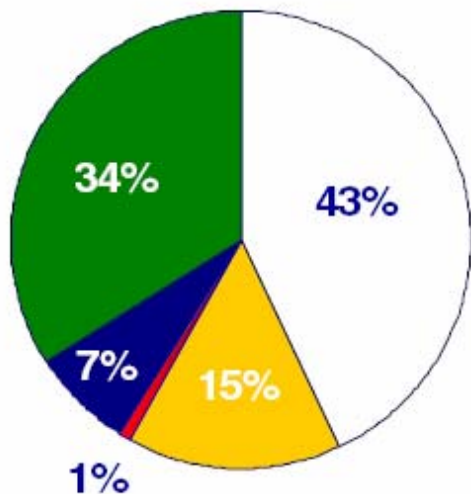
Sincerely, (Bill Clinton signature)

The Honorable William H. Natcher Chairman Committee on Appropriations House of Representatives<sup>26</sup>  
Washington, D.C. 20515

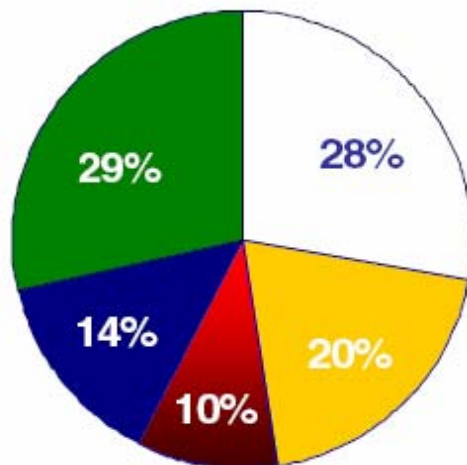
# ***Backup Slides***

# Composition of Federal Spending

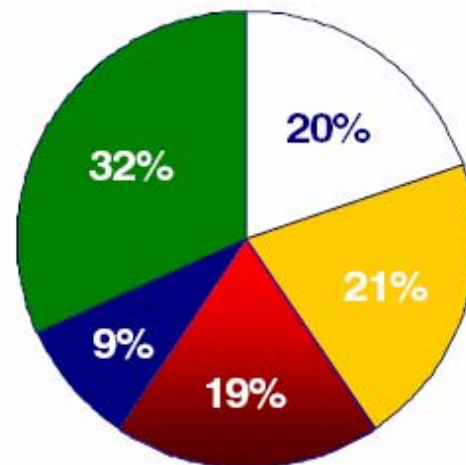
1966



1986



2006



Defense



Net interest



Social Security



All other spending

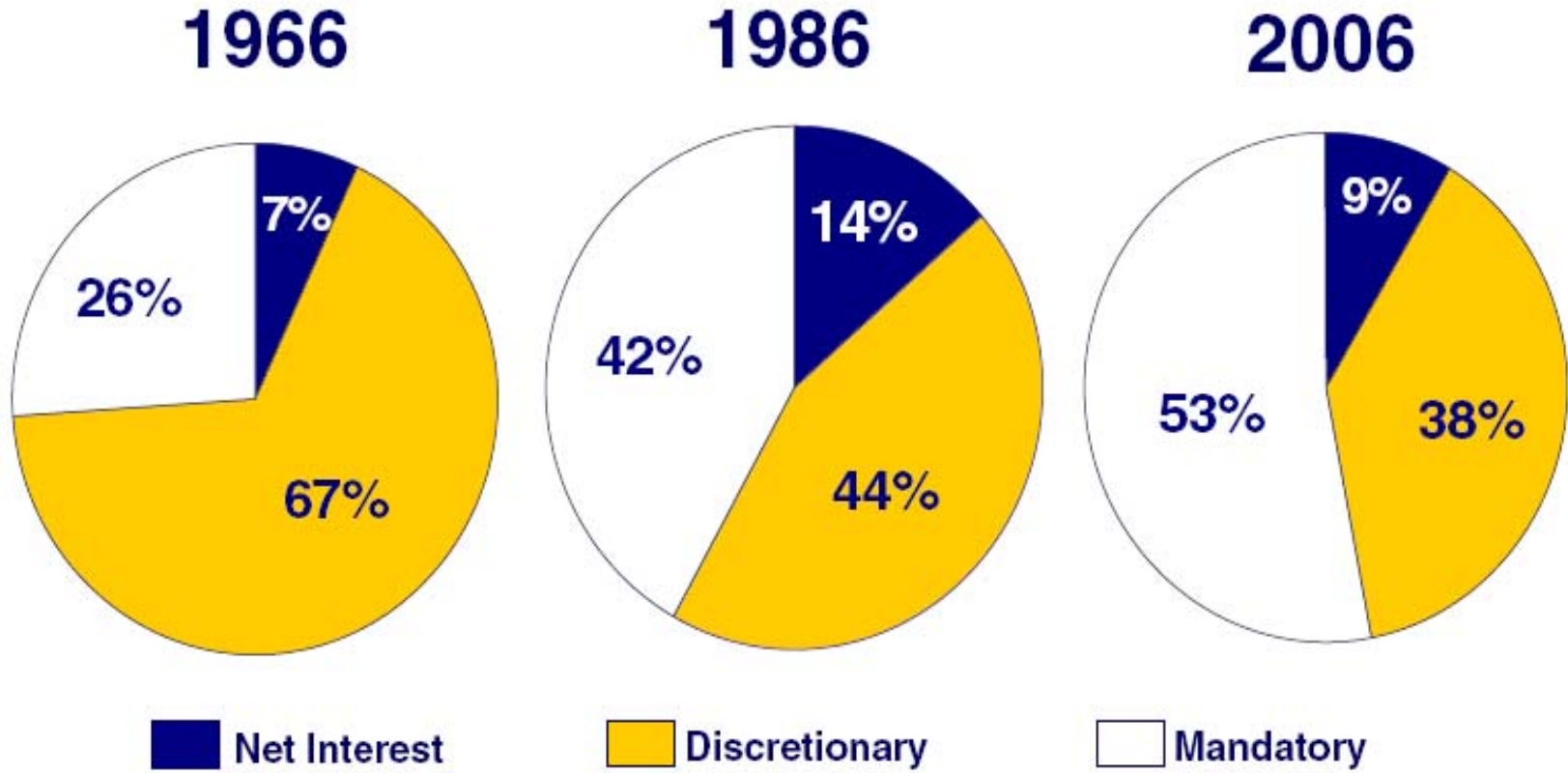


Medicare & Medicaid

Source: Office of Management and Budget and the Department of the Treasury.

Note: Numbers may not add to 100 percent due to rounding.

# Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

# Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

	Fiscal Year 2005	Fiscal Year 2006
	(\$ Billion)	
<b>On-Budget Deficit</b>	<b>(494)</b>	<b>(434)</b>
<b>Unified Deficit<sup>a</sup></b>	<b>(318)</b>	<b>(248)</b>
<b>Net Operating Cost<sup>b</sup></b>	<b>(760)</b>	<b>(450)</b>

Sources: Office of Management and Budget and Department of the Treasury.

<sup>a</sup>Includes \$173 billion in Social Security surpluses for fiscal year 2005 and \$185 billion for fiscal year 2006; \$2 billion in Postal Service surpluses for fiscal year 2005 and \$1 billion for fiscal year 2006.

<sup>b</sup>Fiscal year 2005 and 2006 net operating cost figures reflect significant but opposite changes in certain actuarial costs. For example, changes in interest rates and other assumptions used to estimate future veterans' compensation benefits increased net operating cost by \$228 billion in 2005 and reduced net operating cost by \$167 billion in 2006. Therefore, the net operating costs for fiscal years 2005 and 2006, exclusive of the effect of these actuarial cost fluctuations, were (\$532) billion and (\$617) billion, respectively.

# Major Fiscal Exposures

(\$ trillions)

	2000	2006	% Increase
<b>• Explicit liabilities</b>	<b>\$6.9</b>	<b>\$10.4</b>	<b>52</b>
<ul style="list-style-type: none"> <li>• Publicly held debt</li> <li>• Military &amp; civilian pensions &amp; retiree health</li> <li>• Other</li> </ul>			
<b>• Commitments &amp; contingencies</b>	<b>0.5</b>	<b>1.3</b>	<b>140</b>
<ul style="list-style-type: none"> <li>• E.g., PBGC, undelivered orders</li> </ul>			
<b>• Implicit exposures</b>	<b>13.0</b>	<b>38.8</b>	<b>197</b>
<ul style="list-style-type: none"> <li>• Future Social Security benefits</li> </ul>	3.8	6.4	
<ul style="list-style-type: none"> <li>• Future Medicare Part A benefits</li> </ul>	2.7	11.3	
<ul style="list-style-type: none"> <li>• Future Medicare Part B benefits</li> </ul>	6.5	13.1	
<ul style="list-style-type: none"> <li>• Future Medicare Part D benefits</li> </ul>	--	7.9	
<b>Total</b>	<b>\$20.4</b>	<b>\$50.5</b>	<b>147</b>

Source: 2000 and 2006 Financial Report of the United States Government.

Note: Totals and percent increases may not add due to rounding. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.

# How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

<b>Total –major fiscal exposures</b>	<b>\$50.5 trillion</b>
<b>Total household net worth<sup>1</sup></b>	<b>\$53.3 trillion</b>
<b>Burden/Net worth ratio</b>	<b>95 percent</b>
<b>Burden<sup>2</sup></b>	
<b>Per person</b>	<b>\$170,000</b>
<b>Per full-time worker</b>	<b>\$400,000</b>
<b>Per household</b>	<b>\$440,000</b>
<b>Income</b>	
<b>Median household income<sup>3</sup></b>	<b>\$46,326</b>
<b>Disposable personal income per capita<sup>4</sup></b>	<b>\$31,519</b>

Source: GAO analysis.

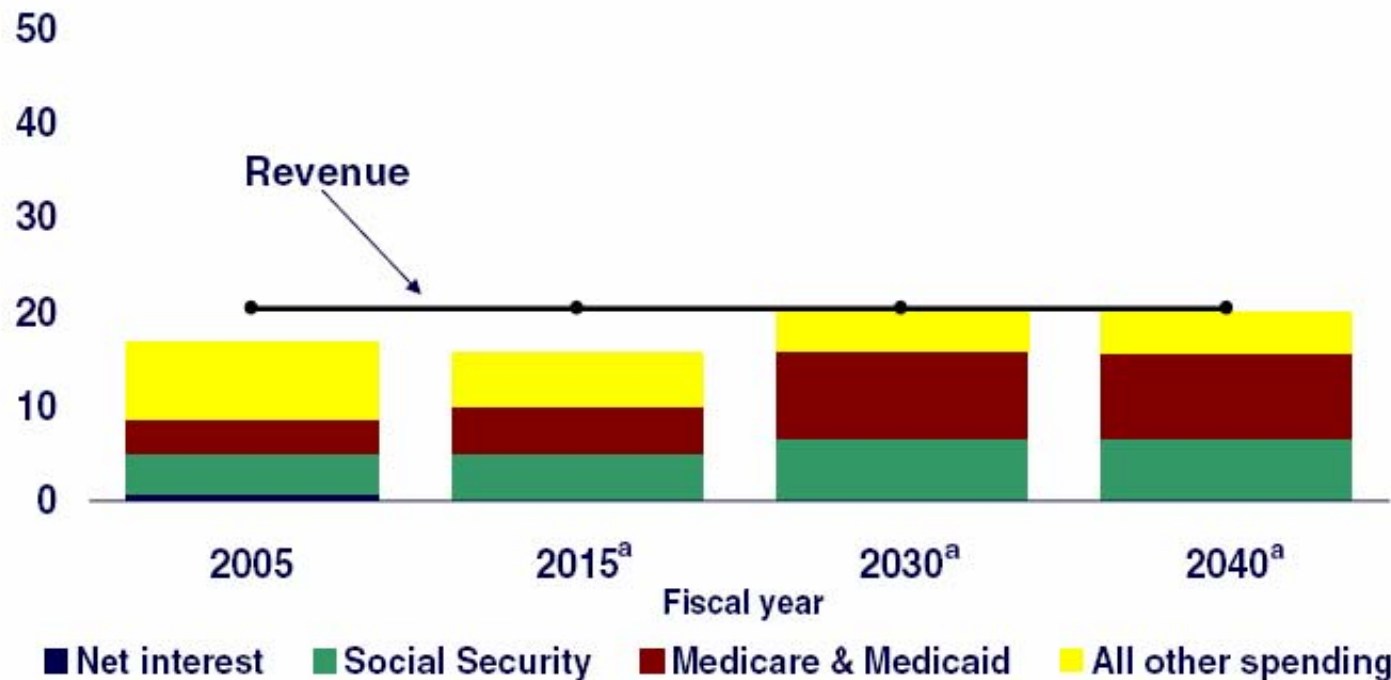
Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); and households reported by the U.S. Census Bureau, in [Income, Poverty, and Health Insurance Coverage in the United States: 2005](#) (Aug. 2006); (3) U.S. Census Bureau, [Income, Poverty, and Health Insurance Coverage in the United States: 2005](#) (Aug. 2006); and (4) Bureau of Economic Analysis, [Personal Income and Outlays: October 2006](#), table 2, (Nov. 30, 2006).

# Potential Fiscal Outcomes

Under Baseline Extended (January 2001)

*Revenues and Composition of Spending as a Share of GDP*

Percent of GDP



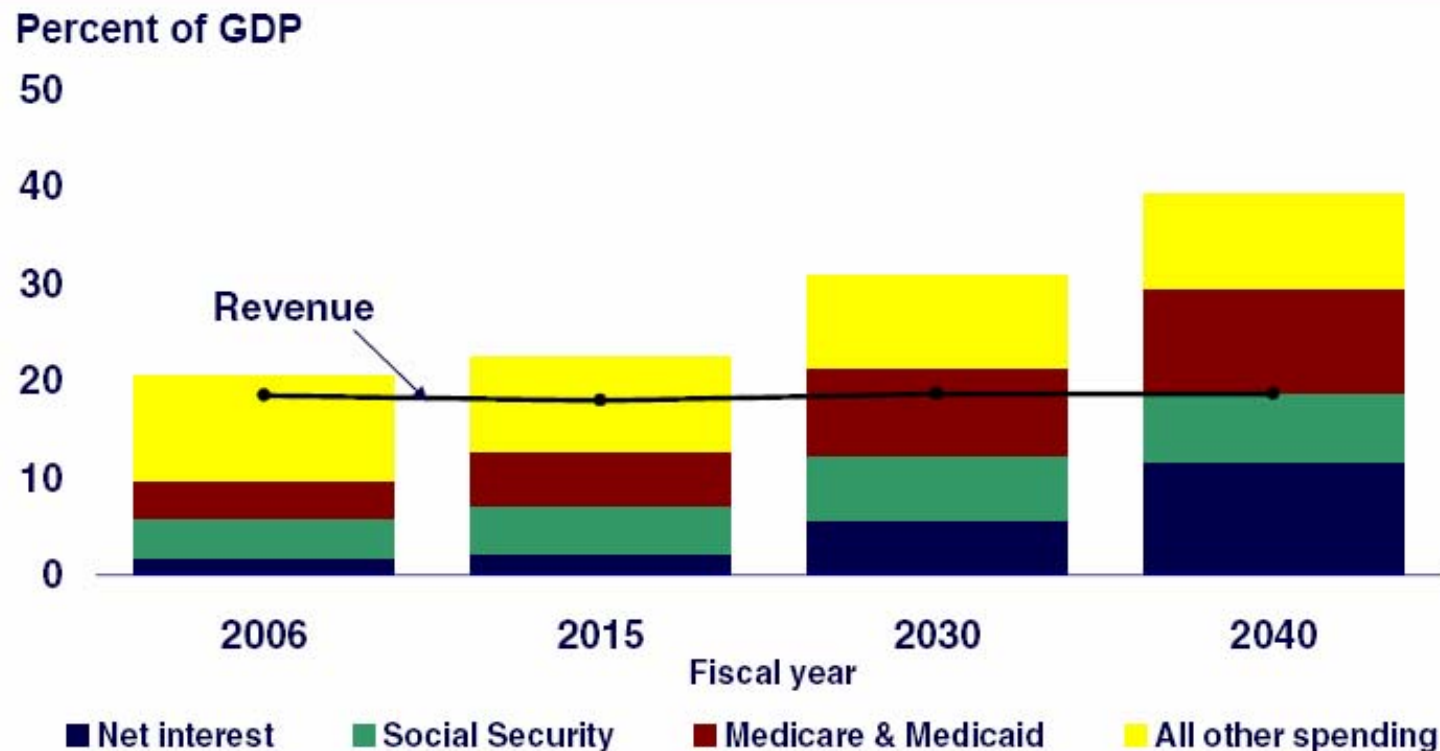
Source: GAO's January 2001 analysis.

<sup>a</sup>All other spending is net of offsetting interest receipts.

# Potential Fiscal Outcomes

## Under Alternative Simulation

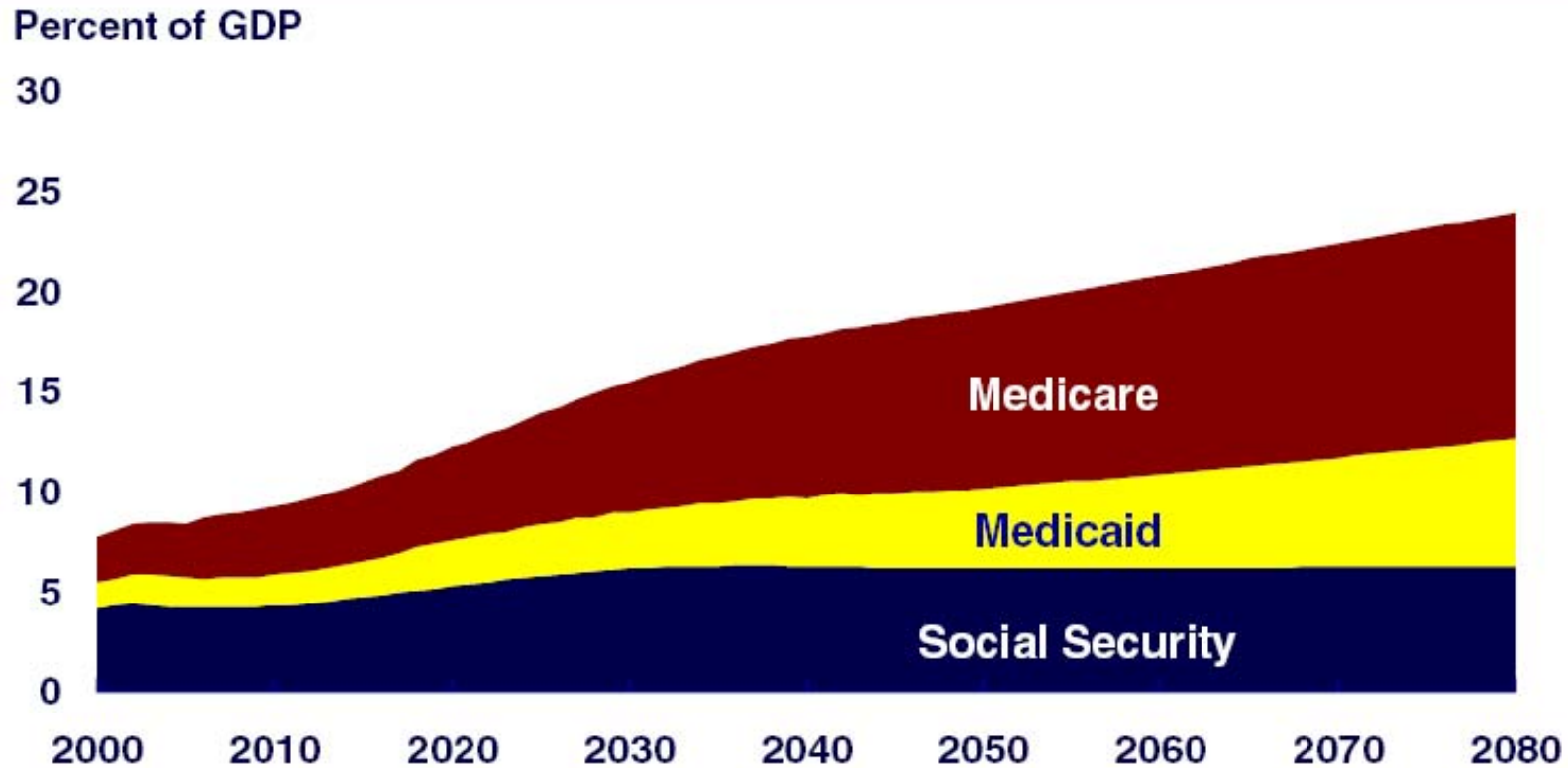
### Revenues and Composition of Spending as a Share of GDP



Source: GAO's August 2007 analysis.

Notes: AMT exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees April 2007 projections adjusted for the Centers for Medicare and Medicaid Services alternative assumption that physician payments are not reduced as specified under current law.

# Social Security, Medicare, and Medicaid Spending as a Percent of GDP



Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Note: Social Security and Medicare projections based on the intermediate assumptions of the 2007 Trustees' Reports. Medicaid projections based on CBO's August 2007 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under mid-range assumptions.