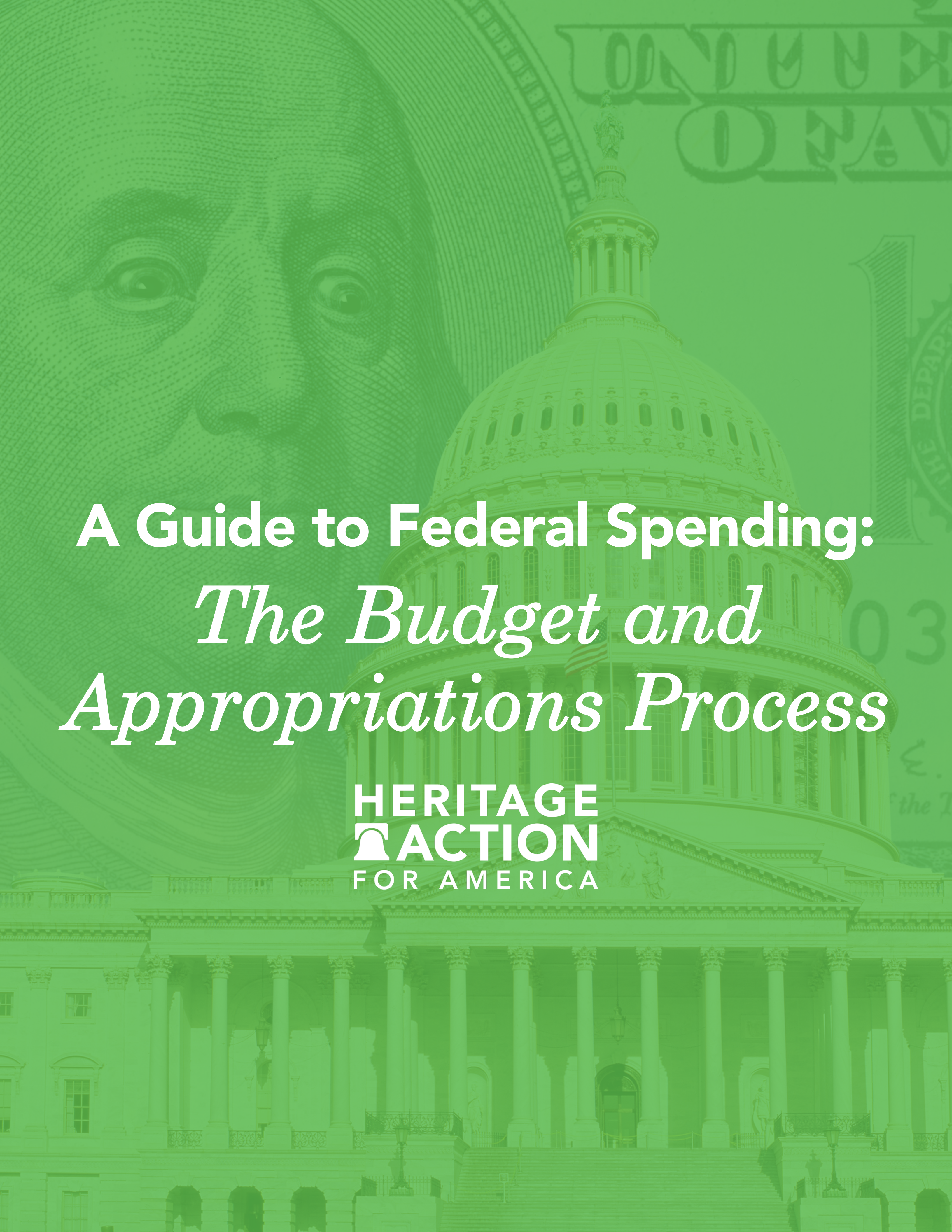


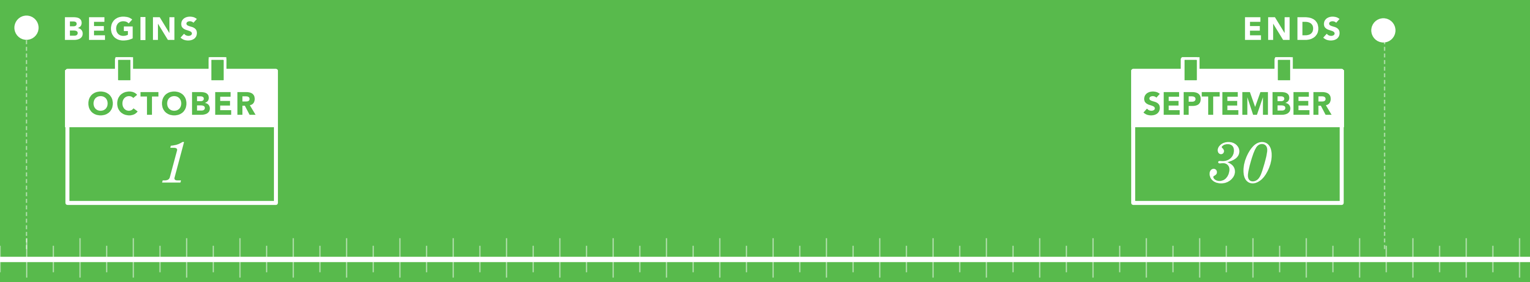
A Guide to Federal Spending: *The Budget and Appropriations Process*

HERITAGE ACTION FOR AMERICA

Each year, Congress uses the budget and appropriations process to fund the discretionary components (departments, agencies, programs, etc.) of the federal government.

The federal government is funded on an annual basis, running on a fiscal year that begins on October 1 and ends on September 30. So the **fiscal year** 2025—or FY2025— begins at 12:00 a.m. ET on October 1, 2024 and ends at 11:59 p.m. ET on September 30, 2025.

THE FISCAL YEAR FOR THE FEDERAL GOVERNMENT



Understanding the budgeting and appropriations process is crucial to understanding how Washington works (and how it's broken). Because each year as the process unfolds, everyone—congressional leaders, members of Congress, the President, lobbyists—is trying to obtain leverage and negotiate a win for their interests.

Admittedly, the budgeting and appropriations process can be difficult to understand, and it's made more difficult because Congress so rarely follows the process to completion. In fact, only four times since 1976 has Congress passed all appropriation bills before the start of the fiscal year (FY1977, FY1989, FY1995, and FY1997). Congress almost always resorts to using procedures outside of the formal appropriations process, like "continuing resolutions" and "omnibus bills," to keep the government running (more on these later).

Despite the complexity of the subject, by the time you finish reading this guide, you will have a foundational understanding of the budget and appropriations process that many congressional staffers lack even after working on the Hill for multiple years. And your deeper knowledge of the process will help you effectively engage members of Congress for years to come.

But perhaps the best place to start is by first discussing the aspects of federal spending that fall outside the Congress annual budget and appropriations process—i.e., mandatory spending. Knowing what the process doesn't cover will help you understand what it does cover.

TERMS TO KNOW

Fiscal Year: The U.S. Government's fiscal year does not align with the calendar year. The year begins on October 1 and ends on September 30.

Mandatory (Non-Discretionary) Spending

Mandatory spending falls outside the budget and appropriations process and is the largest part of federal spending; it accounts for an estimated 63 percent of all federal spending in 2023.

Government programs such as Social Security, Medicare, and Medicaid are often referred to as "mandatory" or **"non-discretionary" spending** because Congress does not specify a budget for these programs on an annual basis. The spending for these programs is "mandated" by pre-existing law. Other mandatory spending includes funding for programs like the Supplemental Security Income (SSI), unemployment insurance, and the Supplemental Nutrition Assistance Program (SNAP), as well as other federal employee benefits.

If an individual meets the eligibility requirements for programs like Social Security or Medicare, they are legally entitled to the benefit, and the federal government must spend the money to provide it. It's why these programs are often referred to as "entitlements." Congress does not appropriate funds for these programs on an annual basis, because in effect, they appropriated the funds indefinitely when they created the programs, promising the benefits to everyone who met the eligibility requirements.

While entitlement programs make up the vast majority of mandatory spending, mandatory spending is not only limited to entitlement programs. Congress has turned other discretionary programs into mandatory spending for political reasons, such as a perceived need to protect the programs' funding from yearly appropriation fights. This allows Congress to duck responsibility for tough budgetary decisions each year on politically sensitive programs. As examples, annual funding for the Land and Water Conservation Fund and a Department of Veterans' Affairs program that provides coverage for medical conditions caused by burn pit exposure have both been converted to mandatory spending.

Although Congress has authority to create mandatory programs, conservatives generally oppose shifting spending from discretionary to mandatory because it removes Congress' ability to evaluate and change spending levels each year through the annual appropriations process. It also makes spending levels less responsive to the will of citizens as reflected through the electoral process.

Keep in mind, mandatory spending is only "mandatory" spending because a previous Congress and President made a law mandating it. Together, any Congress and President could pass a new law to alter how these programs are funded and administered. To control federal spending and get our fiscal house in order, America must eventually address the growth of mandatory spending, primarily through reforming America's entitlement programs.

TERMS TO KNOW

Non-Discretionary Spending: Also called mandatory spending, the largest parts of non-discretionary spending are entitlement programs such as Social Security, Medicare, and Medicaid. Mandatory spending also includes other discretionary programs that Congress has turned into mandatory spending by legislating their funding for multiple years.

Discretionary Spending

Discretionary spending is the category of spending that Congress must annually determine and establish during the annual appropriations process.

Unlike mandatory spending for Social Security, no pre-existing law requires the government to spend money each year to buy tanks, fund the Department of Justice, or pay the salaries of congressmen and their staff. Each year, Congress and the President must enact one or more laws to fund these programs and departments.

Discretionary spending is commonly discussed as being divided into two categories:

Defense Discretionary	Non-Defense Discretionary (NDD)
Discretionary spending on the Department of Defense	All other discretionary spending that is not for the Department of Defense, such as the Departments of Justice, Treasury, Interior, etc.

This division is somewhat arbitrary: one bill can—and often does—contain both the defense and non-defense spending.

The conceptual division between "defense" and "non-defense" spending is important for three reasons:

1. **Importance of Function:** According to our Constitution, a primary reason for the federal government's very existence is to "provide for the common defense." In contrast, the Constitution doesn't even hint at a Department of Education or an EPA or an OSHA. And so it is only logical that any discussion of federal spending recognizes the critical difference between defense and non-defense spending.
2. **Relative Size:** In 2023, defense spending was $797.7 billion while non-defense discretionary spending was $919 billion. This isn't exactly equal, but the similarity in size makes for a natural compare and contrast analysis.
3. **Politics in Washington:** "Big government" liberals are endlessly trying to grow the federal bureaucracy and so they continually advocate for increasing non-defense spending. Democrats in Washington have frequently held military spending hostage in order to get these non-defense spending increases, and past deals have frequently resulted in "defense" and "non-defense" spending receiving equal funding increases (by percentage).

TERMS TO KNOW

Discretionary Spending: This is the portion of government spending that Congress must budget for and appropriate each year. Congress sets spending levels for specific departments, agencies, and programs and directs how the money is to be spent.

Defense Discretionary Spending: Funding for the Department of Defense (a small portion of defense funding is also administered through the Department of Energy for nuclear weapons maintenance). Article I of the Constitution specifically states that "no Appropriation of Money" to the army "shall be for a longer Term than two Years."

Non-Defense Discretionary Spending: Funding for all non-defense departments and agencies that are funded with discretionary spending, such as the Departments of Commerce, Transportation, NASA, etc.

The Budget and Appropriations Process

For Annual Discretionary Spending

An **appropriations bill** provides funding authority to agencies for specified purposes, expiring at the end of the federal fiscal year. This legislation obligates the U.S. Treasury to make payment on an expenditure that a federal agency makes.

The Constitution gives Congress the power of the purse but does not detail an exact process for using it. Instead, the Constitution states that "Each House may determine the Rules of its Proceedings," and over time the House and Senate have developed a process where the following committees have been delegated responsibilities for the process:

House Committee on the Budget

House Committee on Appropriations

Senate Committee on the Budget

Senate Committee on Appropriations

To understand how recent this process is, just know that the House Committee on the Budget was only made a permanent "standing" committee in 1974.

TERMS TO KNOW

Appropriation Bill: A bill to fund part or all of the federal government (departments, agencies, and programs). Importantly, an appropriation is more than a grant of money, it is also a direction on how to spend it. For instance, Congress doesn't simply grant money to the Department of Homeland Security, but also instructs how that money should be used to pay border security measures, detention facilities, internal enforcement programs, etc.

The Role of the Budget Committees

Congress has developed a process that begins with budgeting. The President of the United States informs and influences the process by proposing a budget in February before Congress sets to work. But Congress is under no obligation to consider the President's budget, and will openly attack it if the President is of the opposing party.

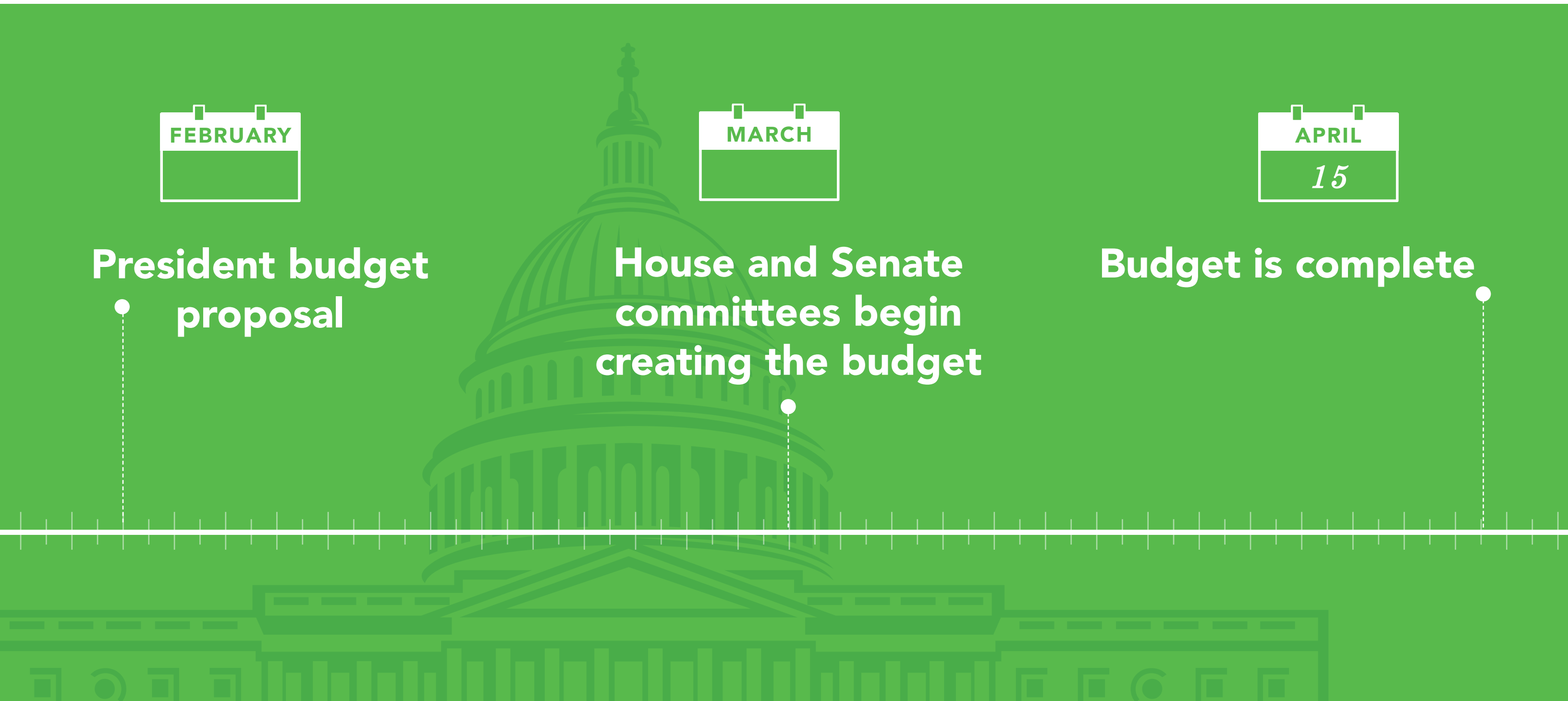
In March, the House and Senate Budget Committees traditionally begin independently working to create a budget.

The House Budget Committee drafts a budget resolution, passes it out of committee, and it ideally receives a vote on the House floor. Meanwhile, the same is happening in the Senate. Once both resolutions pass, a conference committee, comprised of members of the House and Senate, works out any differences in the resolutions. The House and Senate then vote again to pass the negotiated budget resolution, setting the "spending cap" or "topline federal spending level" for the upcoming fiscal year.

As this is only a resolution to instruct Congress, and not a law, it does not go to the President for signature.

Ideally, this whole process plays out before April 15, but that target is frequently missed. In some years a negotiated budget resolution comes after April 15. In some years, a negotiated budget resolution never happens. And in some especially dysfunctional years, the House or Senate may never even attempt to pass a budget resolution to begin with.

Even when this process breaks down, Congress is still able to pass appropriation bills to fund the government. At best, a budget resolution functions like a "guideline" or "suggestion" to other committees in Congress. The House and Senate Appropriations Committees wield the real power to determine how discretionary spending is spent.



The Role of the Appropriation Committees

The Senate and House Appropriations Committees are two of the most powerful committees in Congress. If Congress is the purse, they are the purse strings.

In years when Congress passes a budget resolution, that budget resolution will instruct the Appropriations Committees to spend a set amount on all discretionary spending—it's a topline budget number. The Appropriations Committees then choose how to divide that money up among the various government departments, agencies and programs. When there is no budget resolution, senior members of the Appropriations Committees typically work with members of House and Senate leadership to set a topline spending number and the downstream caps for different parts of the government.

And of course, since one is a Senate Committee and the other a House Committee, they work independently, with any differences getting worked out at a later date.

To organize the appropriations process into a manageable task that mirrors the other chamber, the House and Senate have both agreed to organize their Appropriations Committees into 12 subcommittees. Each subcommittee is allotted a portion of the budget by the full Appropriations Committee, with all subcommittee spending adding up to equal the topline budget number.

THE 12 APPROPRIATIONS SUBCOMMITTEES

1. **Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies**
2. **Subcommittee on Commerce, Justice, Science, and Related Agencies**
3. **Subcommittee on Defense**
4. **Subcommittee on Energy and Water Development, and Related Agencies**
5. **Subcommittee on Financial Services and General Government**
6. **Subcommittee on Interior, Environment, and Related Agencies**
7. **Subcommittee on Homeland Security**
8. **Subcommittee on Labor, Health and Human Services, Education, and Related Agencies**
9. **Subcommittee on Legislative Branch**
10. **Subcommittee on Military Construction, Veterans Affairs, and Related Agencies**
11. **Subcommittee on State, Foreign Operations, and Related Programs**
12. **Subcommittee on Transportation and Housing and Urban Development, and Related Agencies**

This process may seem complicated, but when operating correctly, it is rather similar to how many Americans budget each month. A family will first determine a total budget they can spend. Then they divide that topline number into subcategories for easier management, each with their own smaller budget (Housing, Car Payment and Repairs, Food, Clothing, etc).

What Are the 12 Appropriation Bills?

The House and Senate Appropriations Committees each have 12 subcommittees, and they in turn each draft a separate appropriation bill to fund all the departments, agencies, and programs they are given jurisdiction over. This technically means there can be 24 bills at one point in the process (12 in the House and 12 in the Senate), however, these 24 bills are commonly thought of as just 12 bills, with the House and Senate each having their own version. This is because Congress' goal is to reach agreement on just 12 bills to send to the President for signature.

For instance, the House and Senate Subcommittees on Defense will each draft a bill determining funding levels for the Navy, Army, and Air Force, and their various programs: F-35, Carriers, Security Forces, Training, etc. Differences between the House and Senate versions can be worked out in a conference committee, or the Senate could simply decide to pass the House version without changes (or vice-versa).

Given the amount of money being spent, and all the agencies and programs being funded, the 12 appropriation bills are not short bills or quick reads. To understand all that is in them requires time, and that is why the appropriation process is not meant to be rushed.

By dividing discretionary spending into 12 bills, the appropriations process is also not meant to result in a single "all or nothing" bill. Members of Congress can agree on Defense spending levels while disagreeing about Homeland Security funding because they are in two different bills.

Once the House and Senate agree on and pass one of the 12 appropriations bills, it will go to the President for signature. Once signed, it will fund that portion of the government for the next fiscal year.

If the appropriations process is correctly followed, all 12 bills are passed and signed into law before October 1, which is the start of the next fiscal year. However, this rarely happens.

Path Through the Legislative Process

HOUSE

BUDGET RESOLUTION

Budget Committee

Rules Committee

House Floor

House & Senate Conference Committee

Back to House Floor

APPROPRIATIONS BILLS

Appropriations Committee

Appropriations Subcommittee

Back to Appropriations Committee

Rules Committee

House Floor

House & Senate Conference Committee

Back to House and Senate Floors

White House

SENATE

BUDGET RESOLUTION

Budget Committee Markup

Majority Leader Files Cloture

Debate begins on the legislation on the Senate Floor

Senate votes on cloture to end debate
60 vote requirement

Senate votes to pass legislation
50 vote threshold

House & Senate Conference Committee

Back to Senate Floor

APPROPRIATIONS BILLS

Appropriations Subcommittee markup

Full Appropriations Committee markup

Majority Leader Files Cloture

Debate begins on the legislation on the

Senate Floor

Senate votes on cloture to end debate
60 vote requirement

Senate votes to pass legislation
50 vote threshold

House & Senate Conference Committee

Back to Senate Floor

NOTE

Legislation is often brought to the Senate floor through "unanimous consent agreements" that limit the time for debate and expedite the process of reaching a vote. According to the Congressional Research Service:

The Senate routinely uses unanimous consent agreements to supersede, modify, or waive its rules. These agreements simply involve no Senator objecting to the request. Using this practice, the Senate may choose to call up legislation for consideration or set specialized terms and conditions for floor debate and amending.

When the Process Breaks – Continuing Resolutions and Omnibuses

If you have been paying attention to Congress for the past decade, then you know just how often the appropriations process breaks down. Almost every year the House and Senate fail to vote on all 12 separate appropriation bills before government funding expires on September 30.

When the process breaks down, it creates immense political pressure, it forces negotiations, and it's when everyone applies as much leverage as they have to try and get the deal they want.

To prevent a shutdown on October 1, Congress will often resort to passing a bill called a **"continuing resolution"** or "CR" which will continue funding levels at last year's spending levels until a set future date. Sometimes a continuing resolution will be for three days, sometimes a week, sometimes months, and sometimes (but infrequently) for the entirety of the next fiscal year. This continuing resolution must be signed by the President to become law.

A CR is often a bad sign of things to come. It's a tacit acknowledgment by congressional leaders that a new deal cannot be reached, and so they will continue the status quo while they negotiate—but sadly, it's usually just a few leaders in the House, Senate, and Presidency that are doing the negotiating. Negotiations typically happen behind closed doors, where the American people and most of their elected representatives are denied the opportunity to weigh in.

These backroom negotiations almost always result in **"omnibus"** bills that combine all 12 appropriations bills into a single behemoth bill that now contains over $1.7 trillion in discretionary spending. This "all or nothing" deal is the exact opposite result of what the appropriations process is supposed to produce and denies individual members of Congress from having input on specific funding proposals in each of the 12 appropriations bills.

Even worse, a CR is often used to temporarily extend funding until right before Thanksgiving or Christmas. This is a dirty tactic by Senate and House leadership that is meant to jam members at the last minute. The American people will be focused on family and naturally paying less attention to the Washington news cycle. With a last minute vote, Members of Congress, their staff, and the American people will frequently receive less than 48 hours to read thousands of pages of text that spends over a trillion dollars. The threat of "shutting down the government" (what occurs during a lapse in appropriations) over a holiday is an extra stick brandished by Congress' big spenders to pressure their colleagues into voting for these monstrous bills.

A broken appropriations process (continuing resolutions and omnibuses) is the complete antithesis of a transparent and accountable government.

TERMS TO KNOW

Continuing Resolution (CR): When Congress continues government funding at levels set by the previous appropriation bill for a specific duration (whether that duration be days, weeks, or months).

Omnibus: A bill that contains all 12 appropriations bills combined together. "Omni" is latin for "all" and so omnibus literally translates to mean "contains all or many items."

Minibus: A bill containing several, but not all, of the 12 appropriation bills combined together. It's a nod to the word "omnibus" while also acknowledging that it lacks some of the appropriation bills.

Cromnibus: A conjunction of "CR" with "omnibus." It is typically used to refer to a bill that extends funding for some parts of the government with a continuing resolution, while fully funding other parts of the government with their full appropriation bills. Note that the use of "omnibus" here is a bit of a misnomer, as not all 12 of the appropriation bills would be part of a "cromnibus"—otherwise there would be no need for a CR.

A cromnibus is usually representative of the fact that Congress has agreed on spending levels for some parts, but not all, of the government for the complete fiscal year. The parts of government not being fully-funded, will get temporary funding with a CR, while members of Congress continue to negotiate a second deal.

Budget Reconciliation

The Congressional Budget Act of 1974 not only created the House and Senate Budget Committees, but also created a process to pass budget bills through the Senate with 51 votes (avoiding the filibuster's 60-vote threshold).

This process is called Budget **Reconciliation**, and Congress uses it to pass one bill a year that relates to spending, revenue, and the debt limit—or up to three bills a year if each bill deals with each of these issues separately. A reconciliation bill is not subject to the Senate's filibuster, and therefore, it does not require 60 votes to end debate and move onto a vote of final passage (which only requires a simple-majority).

The budget reconciliation process is therefore frequently used to make changes to spending and tax policy that can make it through the Senate with just 51 votes in support. A reconciliation bill must also be passed in the House with a simple-majority before going to the President's desk.

Congress can only use the reconciliation process to make changes to **outlays** (spending) and revenues (taxes). Budget reconciliation must comply with the Senate's "Byrd Rule" which sets the rules for how reconciliation can be used and what is "extraneous." The Senate parliamentarian advises on whether a bill's provision violates the Byrd rule. If an objection is raised that a provision violates the Byrd Rule, the presiding officer issues a ruling, customarily on the advice of the parliamentarian. However, the Senate can override the ruling with 60 votes.

Some examples of bills passed using the reconciliation process are the Tax Cuts and Jobs Act of 2017, American Rescue Plan of 2021, and the Inflation Reduction Act of 2022.

TERMS TO KNOW

Reconciliation: A process created by Congress in 1974 whereby a spending, debt, and revenue bill can be passed by the Senate with just 51 votes (avoiding the 60 votes needed to end a filibuster). A reconciliation bill must also be passed in the House by a simple-majority before going to the President's desk.

Outlays: Actual payments that Treasury makes based on how much agencies have actually spent from what they have been given the authority to spend.

Quick Tangent – So What's an Authorization Bill?

An **authorization bill** is NOT an appropriations bill, but it's understandable how one could confuse the two. Authorization bills establish, continue, or modify federal agencies and programs, and often include AUTHORIZED funding levels—but they don't actually provide the money. Only appropriation bills hand over the money to departments and agencies. All of Congress' committees outside of the House and Senate Appropriations Committees deal with authorizing legislation only—in order to spend money in their legislation, they need explicit approval of the Appropriators.

Here's an easy way to think of it: An authorization bill is Congress's action to grant a department or agency authority, to direct how they conduct their work, or to tell them how much money they can spend and what they can spend it on. But until Congress passes an appropriations bill to actually fund the department, there is no money for them to spend.

At times, Congress may authorize money to be spent for a program, but then never appropriate the money so it can be spent. In fact, this is more common than you might initially think—when Congress does this for the entire government, we just call it a "government shutdown." Departments are authorized, but they lack appropriated funds. Congress can also appropriate funds above authorized levels and for programs whose authorization has expired or was never authorized in the first place, once again showing why the House and Senate Appropriations Committees are some of the most powerful in Congress.

Lastly, here are a few noteworthy examples of authorization bills that are often reported on (but there are many many more):

- The National Defense Authorization Act (NDAA)
- The Farm Bill
- The Violence Against Women Act (VAWA)
- The Foreign Intelligence Surveillance Act (FISA)
- The Federal Aviation Administration (FAA) Reauthorization Act

TERMS TO KNOW

Authorization Bill: A bill to authorize powers and duties to a government agency or program. An authorization bill gives an agency like NASA or the FAA the legal power to operate and exist. Importantly, authorization bills do not fund the agency or program—an appropriation bill is required for funding. While authorization bills may grant power for multiple years, agencies and programs will periodically require reauthorization.

Shell Games – What is a Rescission?

Congress can "clawback" and revoke the spending authority of funds that have not been spent by an agency. This is called a **rescission**. While not inherently bad (and theoretically a part of a responsible budgeting process), rescissions frequently are used as part of a budgetary shell game, where Congress claims it has "saved" money that was not actually spent in a previous year in order to justify additional spending. The rescission (saved money) is used as a one-time "offset" for new spending, which is likely to continue for many years to come.

It's worth noting that occasionally you may read a news article about the President's use of rescissions. The President can propose rescissions under the Congressional Budget and Impoundment Control Act of 1974, which must be approved by Congress.

To reiterate, using recissions to clawback unspent money from previous years is a good thing. However, Congress' tactical use of recessions is often part of a larger strategy to increase spending and "hide the ball" on the true cost of the appropriation bill.

The Budget Shell Game

YEAR 1

- Congress spends (appropriates) $1.5 Trillion in discretionary spending.

YEAR 2

- Negotiations on spending begin at the $1.5 Trillion baseline.
- Congress wants to increase spending while pretending they are decreasing spending.
- Here's how Congress uses rescissions to "hide the ball":
  - Step 1: Congress identifies $200 billion in unspent dollars from previous years
  - Step 2: Congress writes a new appropriations bill for $1.6 Trillion
  - Step 3: Congress combines the $1.6 Trillion in spending and the $200 billion in recessions into one bill
  - Step 4: Congress tells the American people that their new spending bill for Year 2 only costs $1.4 Trillion and they cut $100 billion in spending from Year 1
- **The problem is the new government funding level is actually $1.6 Trillion, and the size of the federal government is NOT being reduced.**

YEAR 3

- Congress begins new negotiations on spending, starting with a $1.6 Trillion baseline.

TERMS TO KNOW

Rescission: When Congress cancels budget authority that was previously provided to a government agency. This cancels an agency's ability to spend this money if it has not been already spent.

Putting this Knowledge to Work

Now that you understand how the budget and appropriation process is supposed to work—and how Congress deviates from it almost every year—you can more readily understand the pressure points that congressional leaders feel each year.

For instance, in the runup to the October 1 deadline, there is immense pressure to "reach a deal" in order to avoid a government shutdown. Whoever holds the most leverage usually gets the better end of that deal. When a deal can't be reached, both sides feel immense pressure to pass a short-term CR to fund the government while negotiations continue.

But even a CR will be subject to negotiations. Will it be for two weeks or two months? Will it extend through an election? Will it extend until the start of a new Congress in January? What other bills are being negotiated at the same time? Will dragging out a spending fight help or hurt the prospects for those other bills?

These are all leverage points, and both sides will seek to negotiate for the timeline they believe is most advantageous to themselves.

A deal is always reached. **Always.** It may take a temporary government shutdown to bring about that deal, but in the end, a deal gets brokered. It is important to remember that spending bills are viewed by both sides as some of the only "must pass" bills each year. So many other bills die after passing just one chamber of Congress, but every year, a spending deal of some kind gets reached.

So if you are a member of Congress with a policy or funding goal, you will be trying as hard as possible to put it in a "must-pass" spending bill. The same goes for every lobbyist in Washington.

It is also important to note that the power of the purse gives Congress tremendous power. Appropriations bills can include language that restricts how the administration can use the money it is provided. The possibilities for what Congress can block are limitless. For example, Congress could include language in the Financial Services and General Government Appropriations bill that says "No funds shall be used to implement or enforce the Securities and Exchange Commission's Climate Disclosure Rule," which would block the rule from having an impact. Congress can include as many of these provisions blocking administrative action that it disapproves of as it wants to, and can also use funding to compel the administration to take action that it does not want to.

The grassroots must also then use spending bills to push a conservative agenda—both in terms of spending levels and policy. As they are some of the only major bills passed each year, they are one of the most important fights for the conservative grassroots to be engaged on. Spending bills are key opportunities to block bad policies and insert good ones.

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