



Opportunity Youth United

QUICK GUIDE TO UNDERSTANDING
THE

FEDERAL BUDGET

WHAT IS THE FEDERAL BUDGET?

- The annual federal budget determines how much money the national government spends each year on our schools, college scholarships, Head Start programs, libraries, job training, public and subsidized housing, food stamps, national service, national parks, Peace Corps, health care, national defense, roads, environmental protection, and many other important public services.
- Decisions made every year by elected Senators and Representatives about how much to spend on what activities profoundly affect all of our communities.
- Many people work hard to influence the elected officials about exactly what goes into this budget. You can be part of this process!!



HOW IS THE FEDERAL BUDGET FUNDED?

- The money that the Federal Government uses comes mostly from taxes and is called REVENUES.
- Most revenues (90%) come from three main sources: (1) individual income taxes, (2) corporate income taxes and (3) payroll taxes, including Social Security taxes, Medicare taxes, unemployment insurance taxes and Federal employee retirement payments.
- Other funding sources include "excise taxes" on various products, including alcohol, tobacco, transportation fuels, and telephone services.
- A smaller share comes from estate and gift taxes, customs duties and miscellaneous revenues, for example, Federal Reserve earnings, fines, penalties, and forfeitures.
- The federal government is also allowed to borrow money if its expenses are more than its revenues.



HOW IS MONEY SPENT FROM THE FEDERAL BUDGET?

- The government has two types of spending: discretionary and entitlement (or mandatory).
- **Discretionary** (or annually appropriated) spending accounts for approximately one-third of all federal spending and includes money for both defense and for a large range of public services like education, child care, job training, housing, community development of all types, and many others.
- **Entitlement, or mandatory,** spending is not subject to the annual appropriations process. This spending cannot be changed without a major change in the laws outside of the annual budget process. It varies depending on the number of people eligible for and enrolled in the programs. Mandatory spending programs include Social Security, Medicare, food stamps, military retirement benefits, veterans' disability benefits, unemployment insurance and others.



HOW EXACTLY ARE OUR TAX DOLLARS USED?

In 2015, the federal budget was \$3.7 trillion. The three largest areas of spending each account for about one-fifth of the federal budget:



Social Security: This provides Social Security retirement benefits to retired workers (and their eligible dependents), survivors' benefits to millions of surviving children and spouses of deceased workers, and disability benefits to disabled workers and their eligible dependents.



Medicare, Medicaid, Children's Health Insurance Program (CHIP) & Marketplace Subsidies: The biggest expenditure in this area is Medicare, which covers more than 55 million Americans over age 65. In a typical month, Medicaid and CHIP provide health care or long-term care to about 72 million low-income children, parents, elderly people, and people with disabilities. (Both Medicaid and CHIP require matching payments from the states.)



Defense and security: The bulk of the spending in this category reflects the underlying costs of the Department of Defense including all military spending and other security-related activities. In 2015, this made up about 16 percent of the federal budget.



The remaining two-fifths: About 10 percent of the federal budget in 2015 provided "safety net" supports to low-income families and individuals, including the Earned Income Tax Credit and the Child Tax Credit that lifted millions of Americans out of poverty. The rest of the budget is spent on interest on the national debt (6%) and other public services including education spending (3%)

OVERVIEW OF THE BUDGET APPROVAL PROCESS

The President's Budget

The law specifies that by the first Monday in February, the President submit to Congress his proposed federal budget for the next fiscal year, which begins October 1. **Note: the law does not require an outgoing President to transmit a budget, and it is impractical for an incoming President to complete a budget within a few days of taking office**

Action in Congress

Congress first passes a "budget resolution"—a framework within which the Members will make their decisions about spending and taxes. It includes targets for total spending, total revenues, and the surplus or deficit (shortfall) as well as targets for the two types of spending: discretionary and mandatory.

Appropriation Process

Once Congress has passed the budget resolution, 13 separate Committees in both the House and the Senate must then enact 13 separate appropriations bills to set specific funding levels for all the functions of the federal government.

The House Committee on Appropriations and the Senate Appropriations Committee examine the president's budget in detail and divide their budgets among their committees and subcommittees. These committees must work within the budget resolution that Congress passed. As the committees finishes their work, they "report out" their spending bills.

The House and Senate then come together for conferences and hearings to resolve differences between the two bills, with September 30th as the deadline for final action. The final conference report is voted on by both chambers before it is sent to the President for his approval.

If Congress hasn't agreed on a final budget by this deadline, members of Congress must pass a continuing resolution (CR) in order to keep the federal government operating while they work to complete the appropriations process.

BUDGET CALENDAR AT A GLANCE

Early fall:

Federal Agencies (Departments) send their initial budget requests to the Office of Management and Budget (OMB)

November:

OMB reviews, modifies, and sends back to agencies

December:

Agencies make final appeals to OMB

January:

OMB resolves appeals and assembles the final budget request for the President to submit to Congress

February to March:

The President submits budget request to Congress

Administration and agency officials testify in support of the budget request

Appropriations subcommittees hold hearings with agency heads and outside public witnesses

May:

House and Senate adopt budget resolutions prepared by Budget Committees

Appropriations Committees in the House and Senate make all locations

June:

House Appropriations Subcommittees prepare appropriations bills

Senate Appropriations Subcommittees revise the House-passed bills

July-August:

House passes spending bills; Senate passes revised bills

September:

House-Senate conference committees resolve differences and agree on final versions of spending bills

President signs or vetoes final bills.

October 1:

Beginning of fiscal year.