Funding the federal government is a two-part process that occurs annually. First, a federal budget resolution is passed, and then funds are appropriated among federal agencies and programs.

Both the Administration and Congress participate in the process of developing a federal budget resolution that establishes the overall framework and maximum dollar amount for government spending in a fiscal year (FY). The appropriations process is also handled entirely by Congress and establishes the amount of funding for individual activities of the federal government. Although the budget resolution should be completed, and funds appropriated during the prior FY, in recent years Congress has not completed the appropriations processes in advance of the start of the FY due to disagreements between the House and Senate over top line budget amounts.

**TYPES OF FEDERAL SPENDING AND REVENUE**

There are three categories of spending for which the budget and appropriations process establishes limits and defines uses: discretionary spending, mandatory spending, and tax revenue.

**Discretionary Spending**

As the name suggests, government expenditures in the discretionary portion of the budget are subject to annual evaluation by the president and Congress. Although the discretionary portion of the budget represents less than half of total annual expenditures, it is the area of spending that the president and Congress focus on most. Each year, the Administration and Congress re-evaluate the need to allocate funds for federal departments, programs, and activities. Discretionary spending amounts vary annually, depending upon the Administration and congressional policy priorities.

**Mandatory Spending**

Mandatory spending is almost entirely made up of spending on entitlements, such as Social Security and Medicaid. Expenditures for entitlements are based on a formula applied to the number of households eligible for a benefit. The amount of funding in a given year is determined by that formula. Typically, the Administration and Congress do not focus much on this spending in the budget and appropriations processes. However, Congress can use the budget resolution to direct authorizing committees to participate in a budget cutting processes called budget reconciliation, whereby authorizing committees are required to suggest savings from mandatory programs.

**Tax Revenue**

Taxes provide revenue to the government to fund spending priorities. Tax policy includes not just revenues, but also expenditures in the form of deductions, credits, and other tax breaks. These expenditures reduce the total tax amount that could potentially be collected to provide revenue for the federal government. Each year, the Administration and Congress decide what tax revenues to collect and what tax expenditures to make by forgoing revenue collection in pursuit of certain policy priorities.

**BUDGET PROCESS**

The federal FY runs from October 1 through September 30. Planning for the upcoming FY begins as early as a year-and-a-half before the beginning of the FY.

**President’s Budget Request**

The budget process officially commences on the first Monday of February, when the president is required by law to provide a budget request to Congress for all Administration activities in the coming FY.
The president’s budget request to Congress includes funding requests for discretionary programs, mandatory programs, and taxes. The majority of housing programs are funded through the discretionary portion of the budget. The president’s funding request for discretionary programs varies from year to year to reflect the Administration’s evolving policy priorities.

**Congressional Budget Resolution**

Once the president submits a budget to Congress, the House and Senate Committees on the Budget prepare a budget resolution. The budget resolution sets the overall framework for spending for a one-year fiscal term. The resolution includes a top-line spending figure for discretionary activities. The House and Senate Committees on Appropriations use this figure as the maximum amount of funding that can be appropriated in the next FY. This new discretionary cap either increases or decreases the overall amount of funding that the Committees on Appropriations have available to allocate to HUD and the United States Department of Agriculture’s (USDA) affordable housing activities. Even though the budget resolution establishes the overall spending level for the FY, it does not go into detail as to how this funding will be allocated. The details are the job of the Committees on Appropriations, which begin their work after Congress agrees to a budget resolution.

To craft the budget resolution, the House and Senate Committees on Appropriations divide the top-line figure for discretionary spending among their 12 respective appropriations subcommittees. The two appropriations subcommittees that provide the majority of funding for affordable housing and community development programs are the Transportation, Housing, and Urban Development (THUD) Subcommittee and the Agriculture, Rural Development, Food, and Drug Administration Subcommittee in each chamber of Congress.

Each subcommittee must divide the amount of funding allocated by the Committee on Appropriations between the various priorities funded in its bill. Each subcommittee must also determine the priority programs within each of their bills and provide sufficient funding for those priorities. In order to determine its priorities, the THUD subcommittees hold hearings, during which HUD or USDA officials testify regarding specific programs and initiatives included in the president’s request. Witnesses in these hearings provide a far greater level of detail on programmatic activity than witnesses testifying at budget committee hearings, which focus on overall proposed spending rather than particular activities.

If Congress does not pass its appropriations bills by the October 1 start of the FY, it must provide funding for the period after the FY ends and before an appropriations bill is passed. This funding is provided by a continuing resolution (CR). A CR continues funding for programs funded in the prior FY, usually at the funding level from the year prior, although exceptions or “anomalies” may sometimes be included for certain programs. If Congress does not pass a CR and appropriations bills have not been enacted, the government shuts down, as it did for 17 days in October 2013.

**THE APPROPRIATIONS PROCESS**

Unlike the budget process, which is initiated by the Administration, the appropriations process rests entirely in the hands of Congress. After Congress passes a budget resolution, the House and Senate Committees on Appropriations divide the top-line figure for discretionary spending among their 12 respective appropriations subcommittees. The two appropriations subcommittees that provide the majority of funding for affordable housing and community development programs are the Transportation, Housing, and Urban Development (THUD) Subcommittee and the Agriculture, Rural Development, Food, and Drug Administration Subcommittee in each chamber of Congress.

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After appropriations hearings are completed, the subcommittees craft their bills. The subcommittees then hold a markup of their draft bills and report out the bill they pass to their respective appropriations committees. The appropriations committees hold a markup of each bill and report out on those bills to Congress. The House and Senate must then negotiate final THUD and Agriculture bills. Once these bills are passed by Congress, they are signed into law by the president.

FORECAST FOR 2022

For the past decade, Congress was limited by low spending caps that were put in place under the “Budget Control Act of 2011” (BCA). These low spending caps made it difficult for Congress to fund domestic programs, including affordable housing and community development, at the necessary levels.

FY 2022 was the first year in a decade where Congress was not limited by BCA budget caps. This provided an opportunity for advocates and congressional champions to secure robust resources for housing investments.

President Joe Biden signed into law a FY 2022 spending bill on March 11, 2022, with increased funding for affordable housing and community development programs. After nearly five months of negotiations, House and Senate leaders released the final bill text on March 9 for an FY 2022 spending bill that would provide roughly $1.5 trillion in federal spending for the new fiscal year. The spending bill provides HUD programs with $53.7 billion, a $4 billion increase over FY 2021-enacted levels.

WHAT TO SAY TO LEGISLATORS

Advocates should weigh in with the Administration and Congress on the importance of strong funding for affordable housing.

- Advocates should urge their Members of Congress to provide robust funding for HUD and USDA affordable housing programs. If Members of Congress do not hear from advocates, they will not know how important these programs are in their districts and states.

FOR MORE INFORMATION