The Federal Budget and Appropriations Process

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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 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 before the new FY begins on October 1, Congress has not completed the appropriations processes in advance of the start of the FY since 1997 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 each year is determined by that formula. Typically, the Administration and Congress do not focus much on this spending in the budget and appropriations processes.

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 18 months 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; however, failure to meet this requirement carries no repercussions, and the president's budget request is typically released later in February or March.

The president's budget request to Congress includes funding requests for discretionary programs, mandatory programs, and taxes. Most 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. While an important tool to signal the Administration's priorities and desires, the president's budget request does not actually provide any funding – only Congress may appropriate federal money.

CONGRESSIONAL BUDGET RESOLUTION

Once the president submits a budget to Congress, the House and Senate Budget Committees prepare a budget resolution. The budget resolution sets the overall framework for spending for a one-year fiscal term and includes a top-line spending figure for discretionary activities. The House and Senate Appropriations Committees 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 appropriators have available to allocate to federal programs, including HUD and the US Department of Agriculture (USDA)'s affordable housing activities. Even though the budget resolution establishes the overall spending level for the FY, it does not detail how funding will be allocated. The details are the responsibility of the House and Senate Appropriations Committees, which begin their work after Congress agrees to a budget resolution.

To craft the budget resolution, the House and Senate Budget Committees first hold hearings to hear testimony from Administration officials on the White House's budget request. The Budget Committees each craft their own budget resolutions and then attempt to agree on a final budget resolution. Since this is a resolution and not a bill, it does not have to be signed into law by the president.

Once Congress passes a budget resolution, the appropriations work begins. If Congress does not pass a budget resolution by the statutory deadline of April 15, the Appropriations Committees are free to begin their work without one.

If Congress does not pass its appropriations bills by the start of the new FY on October 1, it must pass a continuing resolution (CR) to provide continued funding for the period after the FY ends and before appropriations bills are passed. A CR extends the previous year's appropriated level of funding for a designated period, with exceptions or "anomalies" sometimes included for certain programs in need increased funding to maintain services in the interim. If Congress does not pass a CR and appropriations bills have not been enacted, the government shuts down. The last government shutdown occurred in December 2018 and lasted for a record-breaking 34 days.

BUDGET RECONCILIATION

The "Congressional Budget and Impoundment Control Act of 1974" established "budget reconciliation," an optional, special procedure that expedites Congress's consideration of legislation impacting federal spending or revenue. To start the process of budget reconciliation, the House and Senate must adopt a budget resolution; without a resolution, Congress cannot trigger the reconciliation process.

The reconciliation process is designed to allow for (relatively) quick consideration of bills, including by limiting debate on the bill to 20 hours, and forgoing the filibuster rule that establishes a 60-vote threshold for legislation to pass the Senate. Under reconciliation, a bill only needs a simple majority (51 out of 100 votes) to pass the Senate. While budget reconciliation was originally intended decrease the federal deficit by forcing committees to identify areas where spending could be cut or taxes could be raised, the procedure has also been used to enact policies that increase the federal deficit through federal spending and tax cuts. Most recently, budget reconciliation has been used to pass the "Tax Cuts and Jobs Act of 2017," the "American Rescue Plan Act of 2021," and the "Inflation Reduction Act of 2022."

Budget reconciliation is a powerful tool, but there are also limits to the kind of policies that can be enacted through reconciliation. Under the "Byrd Rule," named after late Senator Robert Byrd (D-WV), permissible policies are limited to those impacting federal spending or revenues – any "extraneous" provisions or amendments are not allowed to be included in a reconciliation bill, unless more than 60 senators vote to waive the rule. For example, a provision that attempts to amend the "Fair Housing Act of 1968" would not be permissible under the Byrd Rule.

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 Appropriations Committees divide the top-line figure for discretionary spending – known as a "302(a)" allocation – among their 12 respective appropriations subcommittees. These subcommittee allocations are known as "302(b)" levels.

The two appropriations subcommittees in both the House and Seante that provide most 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, which funds rural affordable housing programs.

Each subcommittee must divide their "302(b)" allocations between the various programs funded in their bill. Each subcommittee must also determine the priority programs within each of their bills and provide sufficient funding for those priorities. To determine their priorities, the subcommittees hold hearings, during which Administration officials testify on specific programs and initiatives included in the president's budget 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 specific activities.

After appropriations hearings are completed, the subcommittees craft their bills. The subcommittees then hold a review of their draft bills, known as a "markup," and pass the updated drafts to the broader appropriations committee. Appropriators hold a markup of each bill and report out on those bills to Congress. The House and Senate must then negotiate and pass final spending bills that reflect an agreement between the two chambers. Once these bills are passed by Congress, they are signed into law by the president.

Forecast for 2025

While Congress was charged with passing a new FY25 spending bill by October 1, 2024, the FY25 process has been significantly delayed. As of this article's writing, both the House and Senate have released their draft FY25 proposals for HUD funding, but Congress has yet to pass any of the 12 final appropriations bills needed to fund the federal government.

Appropriators are writing FY25 spending bills according to the spending caps imposed by the "Fiscal Responsibility Act" (FRA), a bill signed into law in June 2023 that allowed Congress to raise the federal debt ceiling until 2025, in exchange for capping federal spending programs at FY23 levels in FY24 and allowing an only 1% increase in spending in FY25. The draft FY25 spending proposals from the House and Senate are billions of dollars apart, with the House proposal cutting HUD funding by 3% from the previous fiscal year, and the Senate bill providing an over 10% increase to HUD funding.

Importantly, analysis from the Center on Budget and Policy Priorities (CBPP) suggests that neither proposal would adequately cover the full cost of renewing all existing vouchers issued through HUD's Housing Choice Voucher (HCV) program. The Senate proposal is as estimated $800 million short for full voucher renewals, while the House proposal would result in an estimated 240,400 voucher lost upon turnover.

It is critical that housing advocates urge Congress to provide funding to renew all HCV contracts, and the highest level of funding possible for affordable housing, homelessness, and community development programs in the coming year. Congress must provide substantial investments in HUD and USDA's vital affordable housing and homelessness programs to ensure no one loses their current assistance and to expand the availability of safe, affordable, accessible housing for people with the lowest incomes.

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, homelessness, and community development programs. If members of Congress do not hear from advocates, they will not know how important these programs are in their districts and states.
- Advocates should let their members of Congress know that the low spending caps required by law resulted in the loss of affordable housing opportunities in their states and districts. Budget caps should not be continued into future years, and robust funding is needed to address the severe shortage of housing for people with the lowest incomes.

For More Information

NLIHC, 202-662-1530, https://nlihc.org/federal-budget-and-spending.

NLIHC's Toolkit, "Opposing Cuts to Federal Investments in Affordable Housing": https://tinyurl.com/5n6v7zeh.