

# Appendix 1

## THE FEDERAL BUDGET PROCESS 101

The annual federal budgeting cycle is a long, complicated process that can seem opaque to outsiders. This appendix is intended to help shed some light on that process.

### **PRESIDENT'S BUDGET FORMULATION**

The most public portion of the cycle is the Congressional process, which kicks off when the President's budget for the following fiscal year is presented in early February each year. However, the process actually begins up to a year before then – and a full 18 months before the start of the fiscal year in question – when federal agencies begin their internal budget planning. This means that, for instance, in spring 2010, agencies were already beginning to plan for the FY 2012 budget.

The agency budget process is an information-intensive mix of bottom-up formulation and top-down guidance. Individual offices or units take the lead in identifying their key priorities and goals, and produce estimates of the staff and resources necessary for achieving those goals. As a part of their process, most agencies draw to some extent on outside information provided throughout the year by advisory boards, industrial or university partners, and other constituent groups in the broader science and innovation community. Agencies may also have to respond to Congressional guidance and requests, as well as legislative changes and mandates in previous appropriations bills and reports.

Offices also receive broad guidance on policy and funding priorities from agency leadership. For instance, in late spring the National Institutes of Health (NIH) typically convenes a budget retreat for institute directors and the NIH director to discuss priorities and options for the future fiscal year. And from the Executive Office of the President, agencies and offices receive overarching guidance from the Office of Management and Budget (OMB) and the Office of Science and Technology Policy (OSTP) via memoranda, interagency circulars, and other written instructions, as well as through informal interpersonal contacts. Official OMB memoranda can include general priorities, principles, financial strategies, or directives to increase or reduce certain budgetary areas. Additionally, the joint OMB/

OSTP guidance memo – typically released in the summer – identifies key science and engineering areas for investment, such as climate change, biotechnology, or advanced manufacturing.

The agency budget process tends to be difficult and time-consuming, which can limit the amount of true strategic planning that occurs within agency offices. Agency budgeting thus tends to be incremental, focused on changes from current year-to-year appropriations under the assumption that most activities will continue to be funded, rather than focused on reexamining ongoing programs and first principles. A more outcomes-oriented approach known as “performance-based budgeting” has been championed as a means to improve scrutiny, goal-setting, and performance measurement, through mechanisms established in the Government Performance and Results Act (GPRA) of 1993 and the GPRA Modernization Act of 2010. While these pieces of legislation have established several new requirements for agency reporting, it is not yet clear how much impact they have had in fostering real change.

Eventually, agency requests are completed and submitted to OMB for review in early fall. OMB reviews the requests, decides what the Administration will and will not support, and notifies agencies of these decisions through what are called “passbacks,” usually issued around Thanksgiving. The agencies can then either accept OMB’s decisions, or appeal, which can be a difficult process. OMB and the agencies finalize their decisions by January, in time for the President’s budget submission to Congress. The Budget and Accounting Act of 1921 sets the requirements for the budget submission. Current law requires submission by the first Monday in February, though on occasion the budget can be delayed if the Administration deems it necessary. For instance, the Obama Administration delayed the FY 2012 and FY 2013 requests by one week each; the FY 2014 request, of course, was issued much later. The budget is also typically delayed during presidential transition years.

## **THE CONGRESSIONAL PROCESS**

In addition to receiving the President’s budget in early February, Congress also receives a report on the long-term fiscal and economic outlook from the Congressional Budget Office. This document identifies long-term trends in economic growth, spending, and deficits, which are of particular political interest: while most federal spending is financed via taxes –

especially income and payroll taxes – a substantial portion is financed through borrowing. The annual deficit surpassed \$1 trillion during the 2008 recession and subsequent recovery.

With these materials in hand, the Congressional budget process commences. The first item of business for Congress is passage of the annual budget resolution. The budget resolution, which is developed by the House and Senate Budget Committees, sets an overall framework for making funding decisions. It is not signed by the President, and thus is not law, but can serve to bind Congressional spending decisions that come later in the process.

The Budget Committees, working separately, establish top-line numbers for revenues, mandatory or direct spending, and discretionary spending, with input from other committees, committee chairs, and party leadership. The resolution must pass both the House and Senate floor by a simple majority, and any differences between the two versions are worked out by conference committee – a joint committee composed of members of both chambers. This work is to be completed by April 15, but the resolution is often delayed. Indeed, in many years the House and Senate cannot agree on overall figures, and fail to pass a concurrent budget resolution. When this occurs, each chamber can adopt its own framework in the form of a “deeming resolution.”

Once these targets are agreed upon, the Appropriations Committees begin their work. The Appropriations Committee in each chamber takes the overall discretionary spending figure agreed upon in the budget resolution and divides it among the Appropriations subcommittees, through what are called 302(b) allocations, after the relevant section of the Congressional Budget Act. There are 12 appropriations subcommittees, one for each spending bill, and each committee gets its own allocation. This allocation effectively caps the size of the spending bill produced by each subcommittee.

Science agencies are scattered throughout these bills, and thus must compete with non-science agencies for funding. For instance, the NIH budget is part of the Labor, Health and Human Services, and Education appropriations bill, and thus competes directly with the departments of Labor and Education for funding. The Appropriations subcommittees also tend toward incrementalism in budget decisions, similar to federal

agencies: they focus on year-to-year changes in accounts, with the President's request and prior-year appropriations setting rough guiding boundaries.

Appropriations subcommittees begin to hold hearings on the President's budget request as early as February, mere weeks after the request has been issued. In April, subcommittees – traditionally starting with the House first – begin marking up and amending their respective bills. Each of the 12 bills must be passed by its subcommittee before being considered by the full Appropriations Committee. It is during the subcommittee and committee phase that earmarks are usually attached, though Congressional leaders declared a moratorium on them beginning in FY 2011. While earmarks are in reality a very small portion of overall spending, their number grew in the decades leading up to the moratorium, and they continue to serve as a source of controversy.

Once each spending bill has passed the chamber's Appropriations Committee, it is subject to action by the full chamber. The bills can again be amended on the chamber floor, though the 302(b) spending limits mentioned above effectively remain in force; thus, most amendments looking to increase spending for a given account tend to shift spending around rather than add to the sum total. Spending bills can pass the House by a simple majority, but are subject to filibuster in the Senate. Spending bills are also subject to Presidential veto, and the Administration may signal the President's intention to veto a bill, or otherwise make known their stance on a spending bill, through policy statements. Once a spending bill has passed both chambers of Congress, a conference committee is formed to work out the differences between the two versions, and eventually the completed bill is sent to the White House for the President's signature.

The federal fiscal year ends September 30, so all 12 spending bills must be completed and signed by then. If Congress cannot finish their appropriations work on time, they have the option of passing a continuing resolution, which generally extends the rate of funding from the prior year. Such a resolution enables the government to avoid shutdown; in some years, multiple continuing resolutions are required, one after the other, until final appropriations are passed. Congress can also bundle multiple appropriations bills into an omnibus spending package of legislation. These steps have been common in recent years due to continuing conflict over spending and deficits.