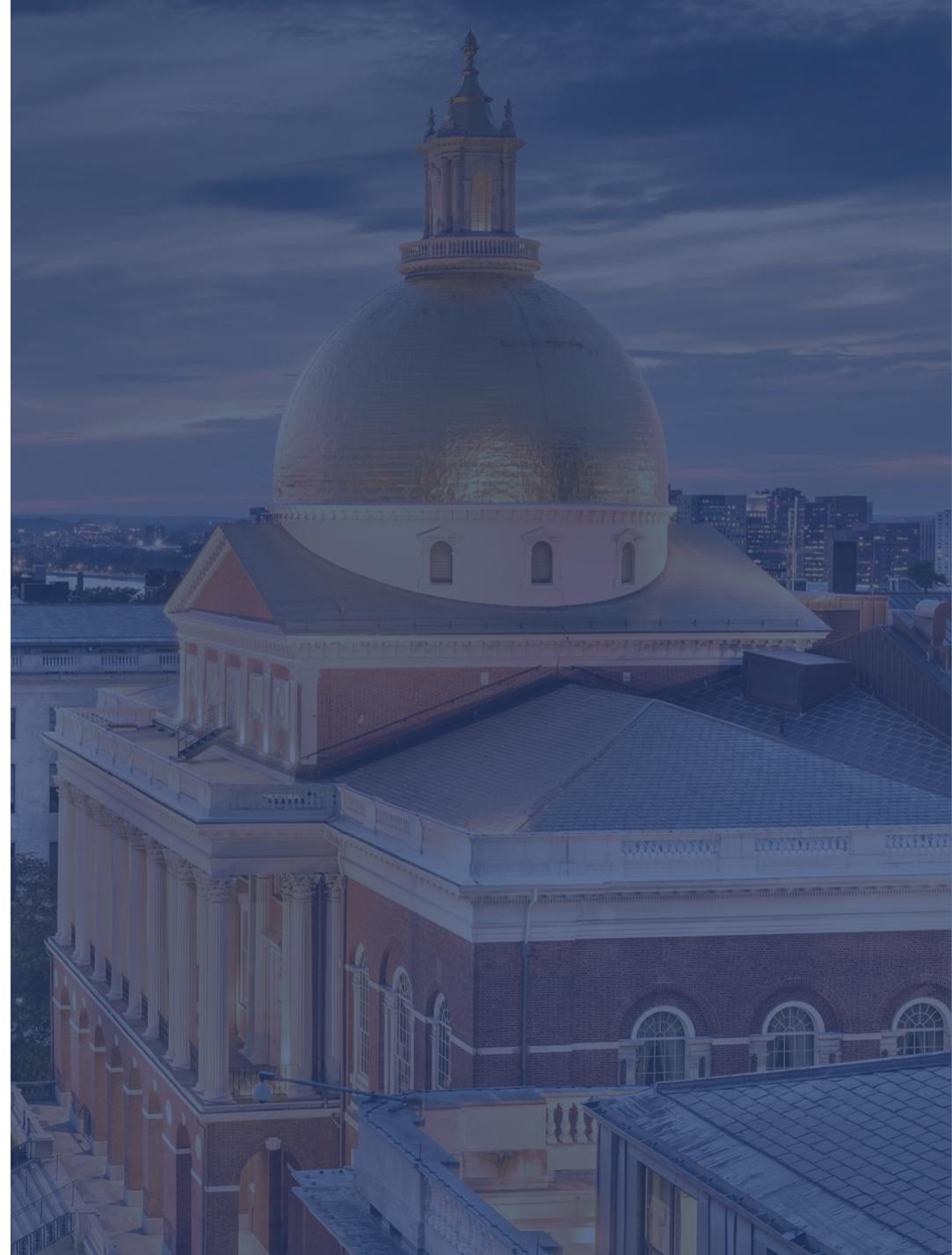




**Massachusetts
Taxpayers Foundation**

The Changing Landscape: Impacts of Federal Action on Massachusetts

Part 2 : Federal Budget Process



The Federal Budget Basics

The federal government spends more than \$6 trillion each year through its annual budget. The federal budget process shares some similarities with the state, but it also differs in many ways.

This resource provides a basic outline of that process and how it might affect Massachusetts.

Important Basics:

- **Mandatory spending** does not require an annual appropriation, though program changes can be made in statute.
 - Mandatory spending (including interest) accounts for 70-75% of all federal budget spending.
- **Discretionary spending** is theoretically appropriated through 12 separate bills, organized by subject area.
 - However, continuing resolutions are often used in place of or in addition to subject specific appropriations bills
- Like in Massachusetts, the federal budget process begins with budget recommendations from the Executive branch.

A photograph of a city skyline at dusk, featuring several tall skyscrapers with illuminated windows. The sky is a pale blue, and the city lights are reflected in the water in the foreground. A semi-transparent blue rectangular box is overlaid across the middle of the image, containing the text "Federal Budget Process" in a bold, yellow, sans-serif font.

Federal Budget Process

(Theoretical) Timeline for the Federal Budget Process

Step 1: President submits budget to Congress (first Monday in February)

Step 2: The House and Senate adopt separate budget resolutions setting spending and revenue parameters for the coming year (between submission of President's budget and April 15th)

- *Budget resolutions are passed by simple majorities in both branches*

Step 3: The House and Senate agree on a joint budget resolution

- Agreeing on a joint budget resolution enables the reconciliation process, which allows for certain bills to be passed under special rules, including by a simple majority in the Senate

Step 4: House and Senate act on up to 12 separate appropriations bills organized by subcommittee (between April 15th and October 1st)

Step 5: The President signs the budget (October 1st)

Where the Actual Process Differs From Theory

- The President's budget is often not filed by the first Monday in February
- The House and Senate often do not agree on a joint budget resolution
 - Over the last 25 years, a joint resolution has been adopted less than 50% of the time
- Appropriations bills are often not finalized by the start of the new year
 - In these cases, Congress needs to pass continuing resolutions to keep government operations going
 - Continuing resolutions typically maintain program funding at current levels

Federal Fiscal Year 2024 Budget Process

President Submits Budget	March 9 th
Joint Budget Resolution	None
Appropriations Bills Signed into Law Before October 1st	None
Continuing Resolutions Necessary to Maintain Government Operations	Four
Number of Appropriations Bills Ultimately Passed	2

Joint Budget Resolutions

The goal of the joint budget resolution is to ensure that the House and Senate are using the same spending and revenue template for their budget spending plans – **somewhat similar to the consensus revenue agreement in Massachusetts.**

- A joint resolution can also fast track spending or revenue legislation with a budget impact, by allowing the bill to be passed via the “reconciliation process”

A joint budget resolution must include the following:

- Total amount of new spending (authority and outlays)
 - Spending is also divided into subcategories
- Total amount of federal revenue and amounts by which revenues will have to change based on anticipated legislation
- The projected surplus/deficit and level of public debt
- Outlays and revenues of Social Security

Joint budget resolutions must be identical and are adopted by a simple majority. As was the case this year, the original budget resolutions adopted by the House and Senate may differ, but must ultimately be reconciled into jointly agreed upon language.

Joint Budget Resolutions & Reconciliation

Joint budget resolutions can include **reconciliation directives** to one or more committee. The directives require the committee(s) to make recommendations on the law and fiscal changes necessary to meet the targets in the resolution.

- **Reconciliation directives** (or instructions) create the ground rules for what is allowed in reconciliation. These directives must include:
 - Which committees are affected and the date by which the report is due.
 - The dollar amount of the budgetary change to be made and the time period over which the impact should be measured.
- The reconciliation process, which was created in 1974, has been used for three of the most notable pieces of federal legislation in the last decade:
 - The Tax Cuts and Jobs Act (2017)
 - The American Rescue Plan (2021)
 - The Inflation Reduction Act (2022)

More on Reconciliation

Reconciliation directives instruct committees to develop/report out legislation within their purview to **meet the spending, revenue, or debt limit targets of the directive**. Directives can require increases or decreases in spending/revenue.

- While committees are responsible for meeting the targets in the directive, they can do so through any matter in their jurisdiction.
 - Spending reduction targets are treated as the minimum and can be exceeded.
 - If committees have both a spending & revenue directive, they can substitute one for the other, up to 20% of each directive.
- If committees are directed to meet revenue targets, they can recommend legislation to the **Senate Finance Committee** or the **House Committee on Ways and Means**.
- There is no procedural mechanism to force a committee to meet a reconciliation directive. However, if a committee fails to act, language that falls within the directive can be added to a broader reconciliation bill on the floor.

If more than one committee has reconciliation instructions, those recommendations must go through the Budget Committees before action on the floor. The Budget Committees must move the omnibus legislation forward without “significant revision”.

- It is at this point when the Senate Budget Committee ensures compliance with the **Byrd Rule** – which prohibits extraneous matters from being considered.

How to Read a Budget Resolution

The joint budget resolution for FFY 2026 provides an opportunity to see how a budget resolution is structured:

Title I

- Proposed levels of revenue over the next 10 years (FFY 2025 to 2034)
 - These figures are adjusted, by a tax cut assumption, based on Congressional Budget Office (CBO) estimates
- Baseline levels of budget authority and budget outlay over the next 10 years (FFY 2025 to 2034)
 - A standalone section of Title I provides these same baseline amounts for 22 budget categories

Title II

- Provides reconciliation targets for House and Senate committees
- Establishes statutory debt limit targets for the House and Senate in their budget development

Title III

- Allows the House and Senate budget committees to adjust committee spending recommendations to meet overall spending, tax and deficit reduction targets.

Title IV

- Establishes several additional rules for the budget process – including provision for House action Budget Committee actions in the event that total cuts proposed either exceed or fall short of the \$2 trillion target

Title V

- Provides a number of policy statements relating to economic growth, spending reduction, and deregulation

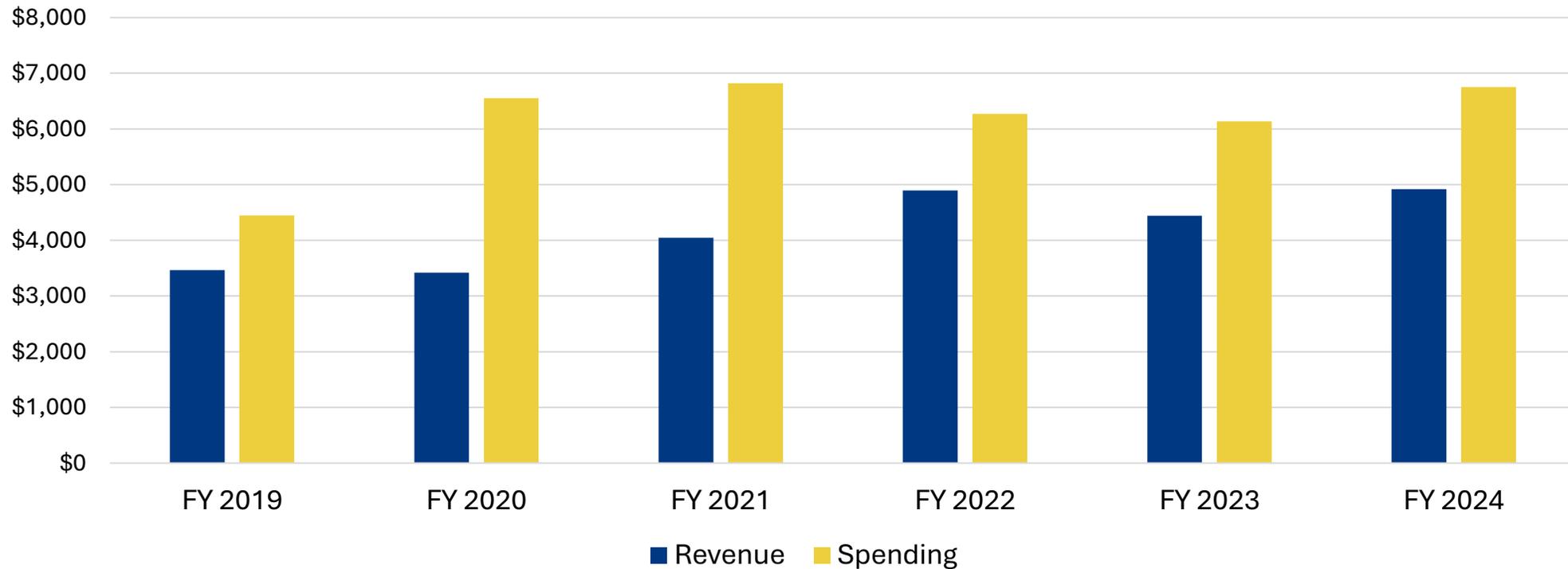
A photograph of a city skyline at dusk or dawn. The sky is a pale blue with soft clouds. Several tall skyscrapers are visible, their windows glowing with warm yellow and orange light. The buildings are reflected in the water in the foreground. A dark blue semi-transparent banner is overlaid across the middle of the image, containing the title text in yellow.

Federal Budget Spending & Revenue

The Federal Budget – FFY 2019 to FFY 2024

Federal spending in FFY 2024 was \$6.8 trillion, with revenues just under \$5 trillion. Since FFY 2019, federal spending has increased by 51.8 percent, while revenues have increased by 42 percent.

Federal Revenue & Spending, FFY 2019 to FFY 2024



The Federal Budget – Mandatory v. Discretionary Spending

Federal spending is divided between **mandatory** and **discretionary**.

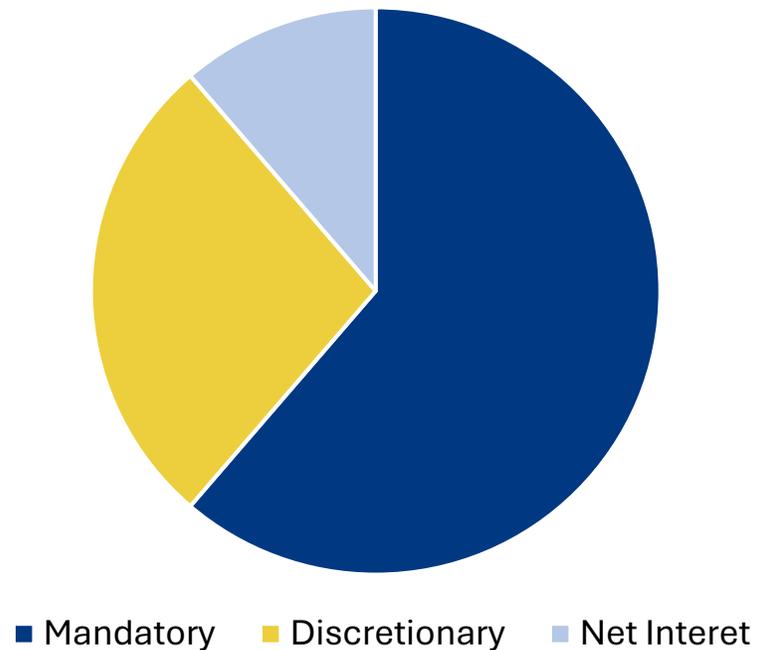
- **Mandatory** refers to spending requirements determined by statute and not subject to annual appropriations. Examples include:
 - Social Security
 - Medicare
 - Medicaid
 - Earned Income Tax Credit
 - Supplemental Nutrition Assistance Program (SNAP)*
- **Discretionary** refers to spending authorized each year in annual spending bills. Examples include:
 - Defense spending
 - Block grant funding
 - International aid

*SNAP is funded through the appropriations process

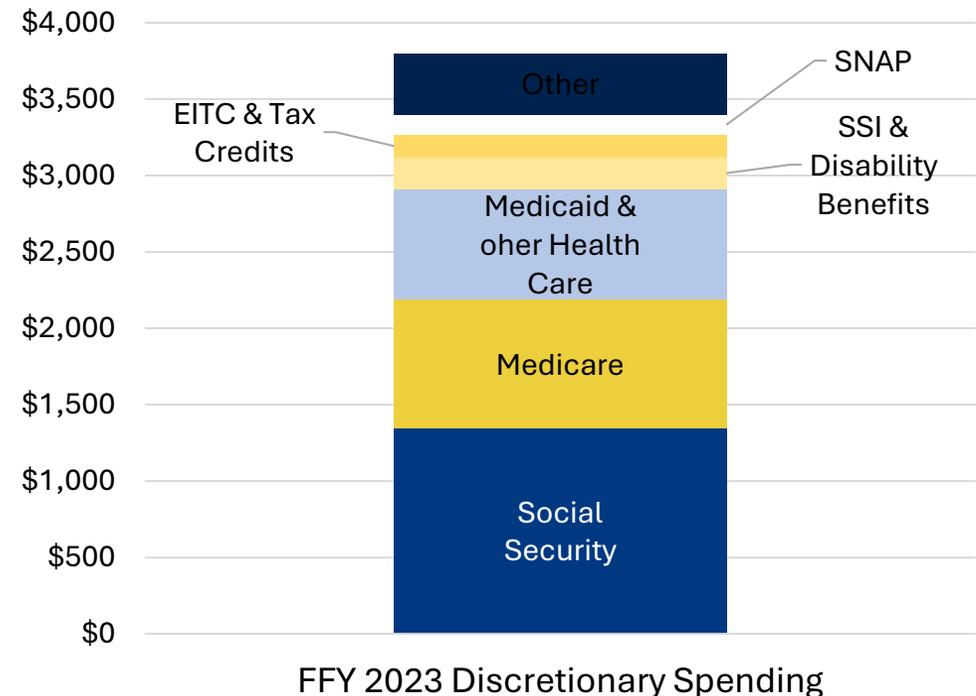
The Federal Budget – Mandatory v. Discretionary Spending in FFY 2023

In FFY 2023, total federal outlays totaled \$6.1 trillion, of which more than 70 percent was non-discretionary (mandatory and interest). Social Security, Medicare and Medicaid comprised more than 70 percent of mandatory spending.

FFY 2023 Spending



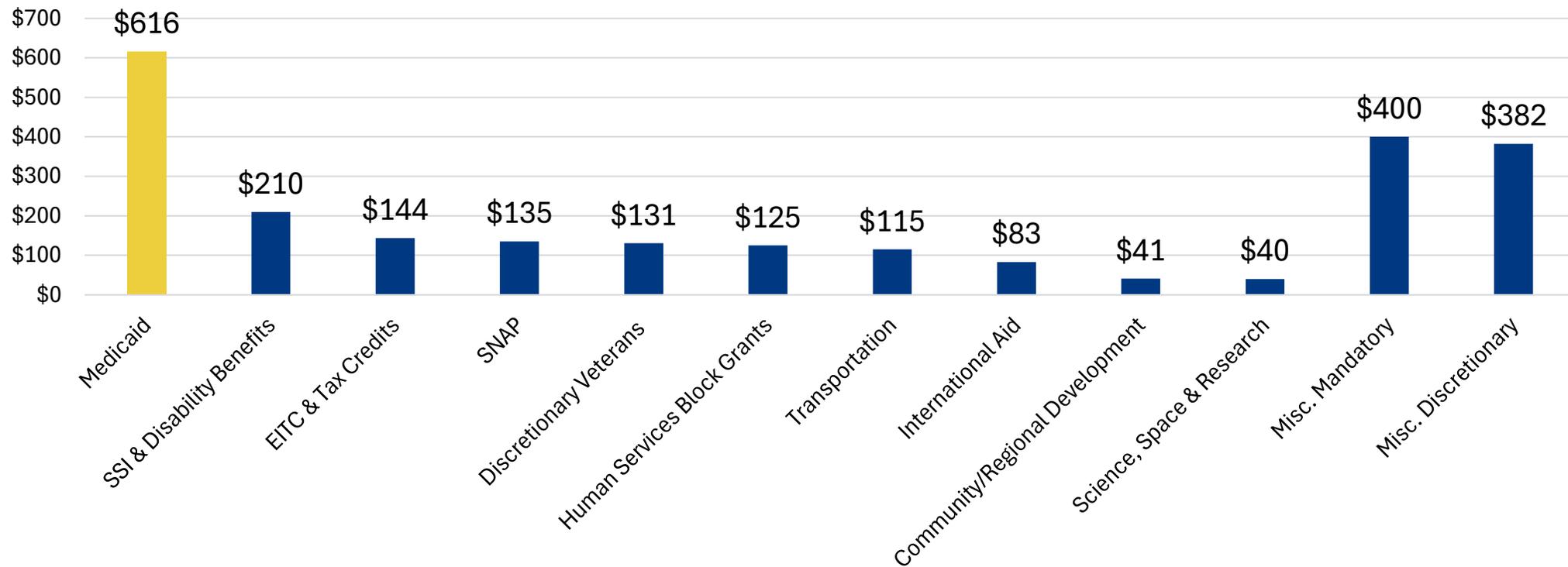
FFY 2023 Mandatory Spending



Taking Things Off the Table

In FFY 2026 discussions, Congress has indicated an unwillingness to cut Social Security, Medicare, defense and Homeland Security. Taking these areas of spending off the table makes Medicaid a major target for spending reductions.

FFY 2023 Spending Compared



A photograph of a city skyline at dusk, featuring several tall skyscrapers with illuminated windows. The sky is a pale blue, and the city lights are reflected in the water in the foreground. A semi-transparent blue rectangular box is overlaid on the lower half of the image, containing the text 'FFY 2026 Budget Resolutions' in a bold, yellow, sans-serif font.

FFY 2026 Budget Resolutions

FFY 2026 Budget Resolution Process

The **House and Senate took two very different approaches to budget reconciliation** in their respective budget resolutions, with the House specifying significant cuts, while the Senate was light on cuts and provided for additional tax cuts over and above the extension of the 2017 Tax Cuts and Jobs Act (TCJA).

The final resolution – which was a Senate amendment to the House language – essentially **allows the two bodies to take drastically different approaches to cuts and spending while still keeping the reconciliation process operative.**

- The Senate and House numbers are based on two different CBO revenue baselines
 - In the House the baseline is “current law”, which assumes the expiration of the TCJA at the end of 2025
 - In the Senate the baseline is “current policy” which assumes tax policies in place right now continue into the future

Essentially, the House could go heavy on cuts, without the Senate needing to reach the same targets. **Compromise bills will then, theoretically, be generated from the varied House and Senate approaches and the filibuster and 60-vote Senate threshold will be avoided.**

The House Budget Resolution – Spending Targets

The House budget resolution **proposes reducing baseline spending by \$2 trillion over a ten-year time frame.**

The Resolution sets reconciliation targets for ten committees that would generate \$1.2 trillion in net savings if all targets were met exactly:

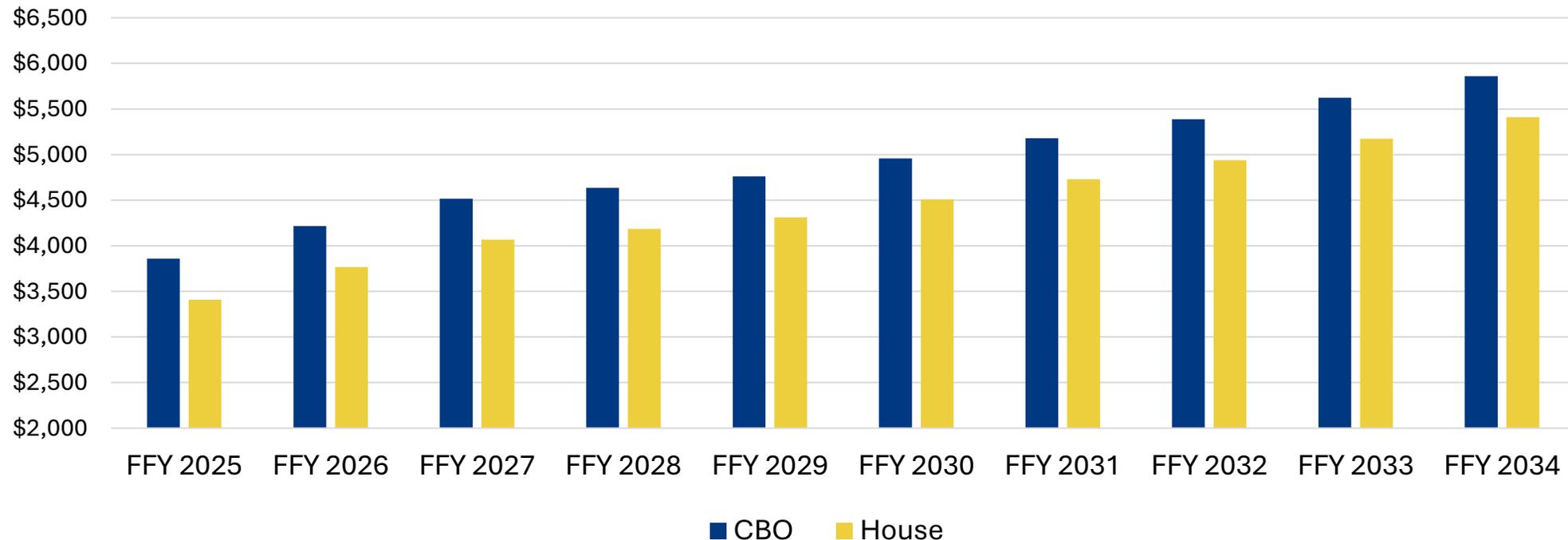
Committee	Reduction Target	Committee	Increase Target
Agriculture	-\$230	Armed Services	\$100
Education & Workforce	-\$330	Homeland Security	\$90
Energy & Commerce	-\$880	Judiciary	\$110
Financial Services	-\$1	<i>Increase Target</i>	\$300
Natural Resources	-\$1		
Oversight & Government Reform	-\$50		
Transportation	-\$10		
<i>Reduction Target</i>	-\$1,502		

Additional savings could be generated by committees exceeding their cut targets. If not, the Committee on the Budget is empowered to reduce other spending by an amount sufficient to meet the \$2 trillion target.

The House Budget Resolution – Revenue Assumptions

The House budget resolution proposes ten-year revenue estimates that assume \$450 billion in annual revenue reductions due to TCJA extension, resulting in a \$4.5 trillion fiscal impact over the next decade. **The Budget Resolution revenue figures are based on the CBO current law baseline.**

Federal Revenues, FFY 2025 - FY 2034



The Senate Budget Resolution Amendment – Spending Targets

The Senate Budget Resolution Amendment requires effectively no cuts through the Senate reconciliation process, though it also reflects the House’s significant cut targets for many of their committees.

Committee	House Instruction	Senate Instruction
Agriculture	-\$230	-\$1
Education & Workforce	-\$330	-\$1
Energy & Commerce	-\$880	-\$1
Financial Services	-\$1	\$0
Natural Resources	-\$1	-\$1
Oversight & Government Reform	-\$50	\$0
Transportation	-\$10	\$20
Armed Services	\$100	\$150
Homeland Security	\$90	\$175
Judiciary	\$110	\$175
Specified Reductions	-\$1,502	-\$4
Specified Increases	\$300	\$520
Net	-\$1,202	\$516

The Senate amendment does allow the Senate Committee on Budget to agree to compromise budget and tax bills that, in total, reduce the deficit by \$2 trillion or more over 10 years.

The Senate Budget Resolution Amendment – Revenue Assumptions

The Senate Budget Resolution Amendment differs from the original House budget resolution in two key ways:

- It **uses a “current policy” baseline for tax revenues** – meaning that it assumes that current tax policy provisions (notably the TCJA) extend into the future and so maintaining those policies would not reduce revenues from baseline, thereby allowing those cuts to be made permanent without offsetting revenues or savings
- It **allows for \$1.5 trillion in additional tax reductions**, compared to the current policy baseline, over ten years (\$520B per year v. current law baseline). This allows for additional tax cuts compared to the original House resolution

	FFY 2025	FFY 2026	FFY 2027	FFY 2028	FFY 2029	FFY 2030	FFY 2031	FFY 2032	FFY 2033	FFY 2034
CBO Baseline	\$3,859	\$4,217	\$4,516	\$4,637	\$4,760	\$4,959	\$5,180	\$5,389	\$5,623	\$5,860
House	\$3,409	\$3,767	\$4,066	\$4,187	\$4,310	\$4,509	\$4,730	\$4,939	\$5,173	\$5,410
Senate	\$3,700	\$3,850	\$3,935	\$4,064	\$4,187	\$4,389	\$4,600	\$4,801	\$5,021	\$5,243
House v. CBO	-\$450	-\$450	-\$450	-\$450	-\$450	-\$450	-\$450	-\$450	-\$450	-\$450
Sen v. CBO	-\$159	-\$367	-\$581	-\$573	-\$573	-\$570	-\$580	-\$588	-\$602	-\$617
Total House v. CBO	-\$4,500									
Total Senate v. CBO	-\$5,209									

Overview of Final Budget Resolution

The Senate Amendment to the FFY 2026 budget resolution provides greater flexibility on spending cuts, is more expansive on the approach to tax cuts, and includes an increased debt limit. It is the Senate amended budget resolution that will guide the process going forward.

	Original House	Final Version
Budget Baseline	Current Law	Current Policy
Allowed Value of Tax Cuts	\$4.5 trillion	\$5.2 trillion
Permanent Tax Cuts Without Offsets	No	Yes
Maximum Debt Limit	\$4 trillion	\$5 trillion
Required Spending Cuts	\$2 trillion	\$4 billion Senate/\$2 trillion House

FFY 2026 Budget Process – What's Next

The House and Senate have now agreed to identical budget resolutions, thereby allowing committees to get to work on **committee specific appropriations and tax bills**.

Next steps:

- President Trump is still slated to file an FFY 2026 budget proposal
- Bills subject to reconciliation instructions are referred to the Senate and House Budget Committees by May 9th*
- The Senate and House Budget Committees will package together/adjust reconciliation bills to fit within overall Resolution instructions
- House will act on reconciliation bill/bills
- Senate will act on reconciliation bill/bills
- Differences will be resolved via amendment (or potentially Conference Committee)
- Theoretically, reconciliation legislation must be approved by June 15th*

*These timelines can be adjusted and so actual action may occur after the asterisked dates



House Markup Schedule

House Committees are **slated to begin markups of appropriations related to their reconciliation instructions at the end of April**. During this process Committee members consider amendments to recommend for adoption when the bill is considered by the larger House.

Committee	House Instruction	Reported Markup Date
Agriculture	-\$230	Week of May 5th
Education & Workforce	-\$330	Week of April 28th
Energy & Commerce	-\$880	May 7th
Financial Services	-\$1	April 30th
Natural Resources	-\$1	May 6th
Oversight & Government Reform	-\$50	
Transportation	-\$10	April 29th
Armed Services	\$100	April 29th
Homeland Security	\$90	April 29th
Judiciary	\$110	April 30th