NATIONAL PRIORITIES PROJECT
Bringing the Federal Budget Home

National Priorities Project's "Data for Democracy" Webinar Series

The President's FY2013 Budget Request
March 2012

Slide #1

THE PRESIDENT'S BUDGET REQUEST FOR FY 2013

In this webinar, we will discuss:

- The federal budget process – a brief overview
- The numbers in the FY2013 request – Spending and Revenues
- The impact of the budget – particularly on the states
- The stories we think this budget is telling (there are many others)

Introduction – Why YOU should care about the FY2013 Budget

Many Washington insiders expect that Congress will not pass a 2013 budget that looks anything like the President's budget proposal. In fact, many people expect that Congress will not pass a budget at all, and instead will use continuing resolutions—temporary spending bills—to fund the government through the November elections and into 2013. Why, then, does the President's Fiscal Year 2013 budget proposal matter?

First, the budget is the President's vision for the country in 2013 and beyond, reflecting input from every federal agency about which programs are important and deserve sustained or expanded funding, and which programs can be trimmed or eliminated. While largely a political document – especially in an election year and at a time of conflict over federal spending – it is an important one, because it lays out the President's priorities in detail.

Specifically, the FY2013 budget request:

- Is a blueprint for how the spending cuts required by the Budget Control Act should be distributed among different kinds of federal programs.
- Offers a plan for what should be done about the Bush tax cuts.
- Serves as a benchmark against which all subsequent FY2013 spending legislation will be measured.

Slides #2 and #3

THE BUDGET PROCESS

Step 1: The President Submits Budget Proposal
The President and Cabinet decide policy priorities. Based on these priorities, the Office of Management and Budget (OMB), which is part of the Executive Branch, gives guidelines to federal agencies instructing them how to prepare their strategic plans and budgets. Agencies then submit budget requests to the OMB for assessment. The White House uses OMB's assessment to build the budget. The result is the budget request that comes out in February.

Step 2: Congress Passes a Budget Resolution
After the President submits his budget, the House and Senate spend early spring preparing budget resolutions for mid-April. A budget resolution is a framework for making budget decisions regarding spending and taxes. Budget resolutions set spending limits. They do not decide programs.

Step 3: Congressional Subcommittees 'Markup' Appropriation Bills
The Appropriation Committee appoints subcommittees to review budget requests submitted by each federal agency. Strict reviews and follow-ups with the agencies are conducted by subcommittees. Each subcommittee then writes a first draft of the appropriations bill, also called the "Chair's Mark."

Step 4: The House & Senate Vote on Appropriation Bills and Reconcile Differences
The House and Senate both enact their own versions of each appropriations bill. The two versions of the appropriation bills (House and Senate) are reconciled by a conference committee. A conference report is then established for each bill after a vote by the House and Senate.

Step 5: The President Signs Appropriations Bills
Once the bills pass Congress, the President signs each bill in order for the budget to be enacted. The objective is to complete the entire process by October 1st, the first day of the fiscal year.

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WHAT DOES THIS REALLY MEAN?

EXAMPLE – Health & Human Services

The Administration has requested almost $922 billion for HHS for Fiscal Year 2013. (Budgetarily HHS is the largest federal agency there is – it includes Social Security & Medicare.)

- The House and Senate review the budget request as part of their Budget Resolution. They can accept it, or adjust it either upwards or downwards.

- The Budget Resolution sets overall spending levels in each area of federal government such as Agriculture, Defense, Education and Transportation.

- It does NOT specify how these funds should actually be spent.

- This decision is left to the Appropriators.
  - The House and Senate each have 12 appropriations subcommittees (shown).
  - The subcommittees use the overall spending figures allocated by the Budget Resolution for agencies under their jurisdiction.
  - The subcommittees then determine how much funding specific programs should receive.

- Funding for HHS falls under the Labor, Health & Human Services and Education Subcommittee.
  - Subcommittee members determine how much each HHS program will receive.
  - See the slide for examples from the FY2013 request.
  - NPP offers state-level data on these and many other federal programs.

- Subcommittee recommendations are reviewed by the full Appropriations committee.
  - The full committee usually adopts the vast majority, if not all, of subcommittee's recommendations.

- The spending request then moves to full House and Senate for approval.

- Once approved by Congress, the spending bill goes back to the President to be signed into law (or he can veto it, and the whole process may begin again…).

Sources: Office of Management and Budget, "Analytical Perspectives," Budget of the United States Government, Fiscal Year 2013, Tables 18–17, 18–19 and 18–23.

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HIGHLIGHTS OF THE FY2013 BUDGET REQUEST

For analysis of the President's FY2013 budget request, see NPP's "President Obama's Fiscal Year 2013 Budget" website at: http://nationalpriorities.org/en/analysis/2012/presidents-budget-fy2013/

For more information on the effects of the Bush-era tax cuts for wealthy taxpayers, see NPP's "Cost of Tax Cuts for the Wealthiest Americans Since 2001" website at: http://costoftaxcuts.com/

For more information on military spending, see "Talking About Military Spending and the Pentagon Budget – Fiscal Year 2013 (And Beyond)" by National Priorities Project and the Project on Defense Alternatives at: http://nationalpriorities.org/en/publications/2012/talking-about-military-spending-and-the-pentagon-budget/

See also NPP's "Analysis of Fiscal Year 2013 Pentagon Spending Request" at: http://costofwar.com/publications/2012/analysis-fiscal-year-2013-pentagon-spending-request/

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FY2013 MANDATORY & DISCRETIONARY SPENDING AND DEBT INTEREST

The federal budget is divided primarily into two major spending categories: *mandatory* and *discretionary*. A third, much smaller category is *interest on the national debt.*

Mandatory spending is money that is spent in compliance with existing laws that govern specific programs or functions such as Medicare, Medicaid, the Supplemental Nutrition Assistance Program (formerly Food Stamps), Social Security and other retirement funds. Mandatory spending accounts for roughly two-thirds of total federal spending.

Changes in mandatory spending programs are infrequent and often very dramatic. An example of a change in mandatory spending regulations is the healthcare reform recently approved by Congress.

Like its name implies, discretionary spending is the portion of the budget that the President requests and Congress appropriates every year at their discretion. It represents roughly one-third of the total annual federal budget (and about half of where our federal income tax dollars go). The discretionary part of the budget houses money for international affairs, the military, and many education and environmentally-focused programs.

Some important things to note about the complete federal budget:

- The ratio of each “slice” of the total federal pie has changed little in recent years, although mandatory spending has grown slightly.
- This situation will probably change over the next few years.
- Mandatory spending will grow faster, because:
    - A continued weak economy with high unemployment will maintain the high demand for “safety net” services.
    - We will see the beginning of the retirement of “baby boomers.”
- Discretionary spending will “shrink” due to impact of the Budget Control Act.
- Interest payments will go up.
    - The debt is growing and interest rates will likely increase from current historically low levels.

Slide #7

PRESIDENT’S PROPOSED FY2013 MANDATORY SPENDING

As we mentioned earlier, mandatory spending is federal money that is spent based on existing laws that govern particular programs, such as entitlement programs like Social Security or food stamps. It accounts for two-thirds of all federal spending. The Administration is proposing $2.27 trillion in Mandatory spending for FY2013. Mandatory spending is not part of the annual appropriations process.

Chart #7 looks at just that two-thirds of the federal budget made up by mandatory spending.

Slide #8

PRESIDENT'S PROPOSED FY2013 DISCRETIONARY SPENDING

As we mentioned in an earlier slide, discretionary spending is determined on an annual basis. It accounts for one-third of all federal spending. The Administration is requesting $1.15 trillion in discretionary spending for FY2013. As it has in recent years, the military accounts for more than half of total discretionary spending. It also accounts for roughly 18 percent of the total federal budget.

Chart #8 looks at just that one-third of the federal budget made up by discretionary spending.

Slide #9

PROJECTED FY2013 REVENUE SOURCES

- The two main sources of federal revenue (accounting for over 80 percent of the total in FY2013) are:
    - Individual income taxes – the taxes you pay to the federal government based on your income
    - Payroll taxes – individuals also contribute directly to the federal government through these programs.
        - These payroll deductions (for example FICA on your pay stub) are dedicated to fund a specific function. They do NOT contribute to general revenue. FICA goes to the Social Security trust fund and Medicare. Employee contributions to Social Security and Medicare are matched by their employers.
        - Between individual income taxes and employee contributions through payroll taxes, individuals are the source of roughly two-thirds of all federal revenues.

    - The third largest income source is corporate income taxes
        - In 2013 it is estimated that for every one cent corporations pay in taxes, individuals will pay almost ***six cents.***

For more information about how your tax dollars are spent, see NPP's "Tax Day" materials.

Slide #10

THE IMPACT: WHERE FEDERAL FUNDS LAND IN OUR COMMUNITIES

These are some examples of federal programs that have a direct impact on our communities.

Slide #11

THE IMPACT: THE WINNERS AND LOSERS

The federal budget is a complicated story. As you can see from this list, there are winners and losers in the proposed FY2013 budget. Some popular programs like the Community Development Block Grant (CDBG) program and the Low Income Energy Assistance Program (LIHEAP) are cut. Meanwhile, the Administration is proposing significant funding increases for a variety of transportation programs in an effort to rebuild our nation's crumbling infrastructure, create new jobs and stimulate the economy.

The relationship between federal, state and local governments and the individual taxpayer is a significant one. Through our taxes and other payments we make, we fund the overwhelming majority of all federal spending (more on that later). It is important for us to understand that there is a flow-through from the federal government to the states and back down to the individual.

The federal government contributes to state and local governments through numerous grant and loan programs. Washington also provides funding directly to individuals through all sorts of assistance programs like unemployment compensation, student loans, and Social Security and Medicare.

NPP can provide annual state-level data showing the relationship between the amount of taxes paid by each state and the total amount of federal dollars that flow back in to that state. See the NPP database.

Slide #12

THE BUDGET CONTROL ACT OF 2011

The Budget Control Act of 2011 (BCA) was enacted in August 2011 as the result of an agreement between the Obama Administration and Congress that would reduce the federal deficit by $2.4 trillion over ten years. The BCA calls for an initial savings of $917 billion between Fiscal Years 2012 and 2021, generated by caps placed on discretionary spending. The savings would be divided evenly in fiscal years 2012 and 2013 between "security" and "non-security" spending. For the purposes of the BCA “security” spending includes various parts of the budget that are not in the “defense” budget category – such as the Departments of Veterans Affairs and Homeland Security – while excluding some spending that is within the defense category, such as cleanup of the Department of Energy’s nuclear weapons-related sites.

The BCA also created a 12-member "Super Committee" made up of six House members and six Senators, evenly divided between Democrats and Republicans. The committee was charged with coming up with a plan that would further reduce the deficit by at least $1.5 trillion over ten years to reach the $2.4 trillion goal. The BCA also established an automatic process for reducing spending – known as sequestration – by as much as $1.2 trillion if the recommendations made by the committee failed to achieve such savings, or if Congress failed to enact legislation that achieved such savings.

The Committee was not able to reach an agreement on a deficit reduction plan prior to the November 2011 deadline set by the BCA, nor did Congress on its own act to pass legislation which would have met the $1.2 trillion target. As a result, the automatic cuts triggered by sequestration are scheduled to go into effect on January 1, 2013. For the purposes of sequestration the cuts would be split evenly between “defense” and “non-defense” discretionary programs, not between “security” and “non-security” as defined under the initial BCA cuts. [More on this later.]

Slide #13

THE BUDGET'S STORY #1

Deficits Drive Decisions…

Concerns about the federal deficit are a central component of the FY2013 budget request. A look at the chart “Deficits and Surpluses” shows why deficits have taken on such a central role in recent debates about the budget.

As the chart shows, annual deficits are nothing new. Since 1940 the federal budget has experienced periods of both deficits and surpluses, with deficits becoming the norm in the 1970s and continuing uninterrupted except for a brief period during the Clinton Administration. The main exceptions to this are during World War II, when borrowing to fund the war lead to several years of significant deficits, and the current economic crisis which has resulted in higher demand for government assistance programs – including bailouts of the auto and financial industries – at a time of greatly reduced revenues. This has driven deficits in recent years to historically unprecedented levels.

A February poll by “The Hill” of likely voters found that the top priority for 45 percent of respondents was "job creation." In close second, with 40 percent, was "cutting spending." Support for cutting government spending is certainly the result of growing concerns about the federal deficit.

See “The Hill Poll: Voters list job creation measures as top budget priority,” February 13, 2011.

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THE BUDGET'S STORY #1 (cont’d)

…While Revenues Drive Deficits

Yet as the chart “Revenues, Outlays, Deficits & Surpluses” shows, the story is a complicated one. If one looks at federal spending over time (“outlays”), you see it generally tracking upwards, whether or not there is an annual deficit OR surplus. This indicates that deficits are driven more by the level of revenues – money coming in – than spending. This relationship is easy to see when you look at the last years of the Clinton Administration (around FY2000), where revenues were at historic highs and generated annual surpluses, even as federal spending continued to grow. Conversely, lower revenues due to high unemployment during the current economic downturn have been a major contributor to recent deficits.

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THE BUDGET'S STORY #2

The New Discretionary Paradigm

As we discussed earlier on Slide #12 "The Budget Control Act of 2011" the BCA has had a significant impact on decisions made by the administration in preparing the FY2013 request. Yet the administration has included some interesting (and complicated) provisions in its proposal that would alter the impact of the BCA. In order to explain exactly what's going on, some background will be helpful.

In the past the discretionary budget has often been divided into two large funding pots – "non-defense" and "defense," where "defense" includes the Pentagon's annual budget, war costs, and the nuclear weapons-related work of the Department of Energy. "Non-defense" has referred to everything else within the discretionary budget, including education, transportation, housing, and also veterans' affairs and international assistance.

In recent years a new breakdown of the discretionary pie has emerged – "non-security" and "security," where "security" is a broader category that includes not only "defense" but also such things as homeland security, veterans and international assistance, which have traditionally been part of "non-defense."

In both cases, the two definitions are often separated by a "firewall" – a legal barrier that keeps money from flowing from one area of the federal budget into another. When a firewall is created to separate pots of money, it generally allows for the redistribution of funds on either side of the barrier, but does not permit a transfer of funds from one side to the other.

Under the BCA, the failure of the Super Committee and Congress to enact $1.2 trillion in deficit reduction automatically triggers sequestration. Under Title III of the BCA, the cuts required under sequestration are divided evenly between "defense" and "non-defense" discretionary spending. The FY2013 budget request, however, changes this requirement.

Instead, for Fiscal Year 2013, the administration proposes reverting to the original "security" and "non-security" BCA categories. Total discretionary spending is cut by the same amount, but as a result, while "security" spending goes down in FY2013 – and the defense budget along with it (more on that later) – funding for the Pentagon is $5 billion higher than it would normally be if the "defense" and "non-defense" funding categories called for under sequestration were actually used since the new category results in a larger pot of money.

As if that weren't confusing enough, the FY2013 proposal also calls for the elimination of the budget "firewall" between security and non-security spending starting in FY2014. This is important because it will put security and non-security funding in direct competition with each other as total discretionary spending continues to decline. Supporters of domestic assistance funding view this with concern, fearing that their favorite programs will be cut more deeply than the military. Meanwhile, Pentagon supporters see this as an opportunity to avoid deeper military spending cuts than those already proposed.

Who is right? It's impossible to predict exactly what will happen based on the numbers currently available, but what we do see in the FY2013 budget request is that while the proposed Pentagon spending cuts are $5 billion less than originally projected, the proposed cuts to non-security programs are $5 billion higher than originally expected under the BCA.

Either way, under sequestration the short-term results will be a greater impact on domestic programs, since the pot now defined as "non-security" is smaller, but subject to the same percentage cut as the now larger "security" pot.

For additional information, see the analysis "President's Budget Would Eliminate Separate Funding Caps for Defense and Nondefense Discretionary Programs; Likely Result Would Be More Funding for Defense, Less for Domestic Programs" by the Center on Budget and Policy Priorities (CBPP).

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THE BUDGET'S STORY #3

No Accounting For Sequestration

The failure of Congress to enact legislation which would reduce the deficit by $1.2 trillion means that the automatic spending cuts required under sequestration will take effect on January 1, 2013 – three months into FY2013, which will begin on October 1, 2012. Yet the budget makes no provision for these cuts.

Some details about sequestration:

- It is cuts only, and only from discretionary spending. The Super Committee or Congress, in developing a deficit reduction package, could also have opted to look at mandatory spending (including Social Security and Medicare) or increasing revenues by raising taxes or closing loopholes in the tax code.
- Total discretionary spending in the FY2013 request is $1.15 trillion.

- Sequestration would cut discretionary spending by roughly $110 billion each year.
- These cuts will be in addition to any funding reductions already called for in previous years or as part of the FY2013 request.
- Sequestration can still be avoided. If Congress enacts legislation that would reduce the deficit by $1.2 trillion, than sequestration would not go into effect. Congress could also repeal or delay sequestration by passing new legislation.

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THE BUDGET'S STORY #4

Defense Spending is Going Down…Sort of

The Pentagon is projecting spending cuts of $256 billion over five years, and $487 billion over nine years.

At $525 billion, the amount requested for the Pentagon's annual "base" budget (not including war costs and funding for the Department of Energy's nuclear weapons-related activities) is 2.6 percent below current levels, adjusted for inflation.

The $88.5 billion requested for the wars in Iraq and Afghanistan is significantly lower than the current FY2012 level ($115 billion for the Defense Department only), due to the end of U.S. combat operations in Iraq and the winding down of the troop "surge" in Afghanistan.

BUT…

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THE BUDGET'S STORY #4 (cont'd)

Military and Non-Military Discretionary Spending

Military spending is higher than any time since World War II.

The Pentagon's base budget has gone up 42 percent (adjusted for inflation) over the last decade. The military is therefore better positioned to absorb any reductions in spending.

Non-military spending is artificially high in FY2009-10 due to the temporary impact of the American Recovery and Reinvestment Act of 2009 (the stimulus package).

We separate "international affairs" funding (the green line) so that "non-military" reflects only domestic discretionary spending.

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THE BUDGET'S STORY #4 (cont'd)

Comparing DoD Funding Projections

The top line in the chart "Comparing DoD Funding Projections" is what the Pentagon's FY2012 budget request assumed annual funding would be in the future. The lower line is the Pentagon's funding projections in the FY2013 request. When the Pentagon calculates its savings estimates ($256 billion over five years, etc.) it does so by comparing what it assumed it would spend last year to it's revised FY2013 projections.

Meanwhile, while the lower line shows a $15 billion one-year funding decline from FY2012 levels, the Pentagon's base budget actually increases, albeit very modestly, in the future, adjusted for inflation.

It is only by comparing this year's request to last year's projections that you can show the Pentagon being "cut."

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HOW NPP CAN HELP YOU TO BECOME MORE ENGAGED IN THE BUDGET PROCESS

For 27 years, National Priorities Project (NPP) has made complex federal budget information transparent and accessible so people can prioritize and influence how their tax dollars are spent.

Some of our most popular tools include:

1. **The Federal Priorities Database:** This NPP Database breaks down federal expenditures on education, energy, health, housing, hunger, labor, and poverty to the state level. It is also home to social indicators which are linked to each specific category.

2. **The President’s Budget:** This publication offers a look at federal budgets spanning multiple years. People are encouraged to reconcile the spending priorities in the budget with the President's message to the public.

3. **“A People’s Guide to the Federal Budget:”** NPP’s new book “A People’s Guide” is a comprehensive and accessible resource on all things related to the federal budget process, what’s in it, and how decisions about your tax dollars are made.

4. **Federal Budget 101 Website:** NPP”s website has a wealth of resources related to the federal budget, including numerous charts with data on federal spending.

5. **Trade-offs:** This tool allows users to compare different spending options in ways that are easy to understand.

6. **Tax Day Report:** How are your tax dollars spent? NPP shows you at the national level, and allows you to personalize your federal tax payments in a number of interesting and informative ways.

7. **Webinars:** In addition to this webinar, NPP offers several others, including “Federal Budget 101,” an introduction to the budget process. We are also always on the lookout for new and timely webinars. We encourage your suggestions.

8. **NPP’s Blog “Budget Matters:”** NPP staffers blog regularly on issues related to the federal budget and the budget process.

9. **NPP on Facebook and Twitter:** Friend us on Facebook and Twitter for updates on the federal budget and NPP products.