Budget Reconciliation 101

What is Budget Reconciliation?

Each year, Congress is tasked with passing a Budget Resolution.[1] In order to take effect, it must pass both the House and Senate. A Budget Resolution is essentially a roadmap for the fiscal decisions that Congress makes for the year. The Resolution sets targets for revenue and spending for the year, and also covers additional years, usually for a total of 10 years. As a concurrent resolution, it is not sent to the President nor does it get enacted into law. Sometimes, Congress can begin a special expedited procedure called "reconciliation" through a Budget Resolution.[2] Budget reconciliation is an optional budget process used to pass major pieces of legislation that affect the budget, bypassing Senate procedures such as the filibuster. A reconciliation bill can be passed on the Senate floor by a simple majority.

When is Budget Reconciliation Used?[3]

Reconciliation can only be employed to change spending, revenue, or the debt limit. Congress has agreed to take up a budget reconciliation bill this year, and the informal deadline to enact it is March 14 because that's when the existing expansions in unemployment insurance are scheduled to expire. There is also an opportunity for a second reconciliation bill this year as part of the fiscal year 2022 budget.

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[1] https://www.pgpf.org/budget-basics/understanding-complex-budget-terms-and-processes-and-why-they-matter/what-is-a-congressional-budget-resolution
[2] https://www.pgpf.org/budget-basics/understanding-complex-budget-terms-and-processes-and-why-they-matter/what-is-budget-reconciliation
[3] https://fas.org/sgp/crs/misc/R44058.pdf

How Does Budget Reconciliation Operate?

In order to initiate reconciliation, the Budget Resolution passed by the House and Senate must include reconciliation directives. These directives call for specified committees to change existing law and give a dollar target to each of those committees. The directive does not specify which *programs* are to be changed, but the policy changes are widely understood. The instructed committees in both the House and Senate comply by proposing substantive changes to programs in their jurisdiction.[4] The net budgetary effect of the committee process must be in line with the dollar targets. The instructed committees in both the House and Senate must then send their proposed revenue and spending recommendation back to the budget committee for packaging into an omnibus reconciliation bill.

The budget committee is not empowered to make substantive recommendations; this is the case even if the separate committees have not met the targets specified in the original reconciliation directive. The omnibus budget reconciliation measure is considered in the House and Senate via an expedited process. If the House and Senate versions of the omnibus have any differences, they must be negotiated, usually in a House-Senate conference committee. The two versions must eventually be identical. All that is needed for Senate passage is a simple majority; the Senate cannot filibuster a reconciliation bill.

The Byrd Rule[5]

The Byrd rule, named for Senator Robert Byrd (D-WV), is a Senate rule that ensures the reconciliation process is not used for legislation that is extraneous to the budget. Provisions are considered extraneous if they do not directly cost or save money, if they cause a committee to breach its target, or if they cost money outside of the 10-year reconciliation window and are not fully paid for by provisions that save money. The Byrd rule applies to provisions in the bill and to amendments that Senators may offer to the bill. The Byrd rule can be waived, but it would require a 3/5 vote of the Senate. The rule allows for Senators to prohibit extraneous matters in two different ways: 1) offering

[4] https://budget.house.gov/publications/fact-sheet/budget-reconciliation-basics
[5] https://fas.org/sgp/crs/misc/RL30862.pdf

an amendment to strike the extraneous provision; or 2) allowing senators to raise a point of order to strike the extraneous matter. If the Chair sustains a point of order that a provision of the bill is extraneous, that provision is automatically stricken from the bill; consideration of the bill continues without that provision. Unlike most Senate rules, the Byrd Rule also applies to conference agreements, not just initial Senate consideration.

Statutory PAYGO[6]

Bills that affect mandatory spending or revenues are subject to a "statutory PAYGO" ("pay as you go") requirement. It dictates that any new legislation that adds to deficits, either through a spending increase or revenue decrease, must be fully offset within that bill or by other bills that reduce deficits. The goal is to ensure that the effect of new legislation is deficit-neutral. The Office of Management and Budget (OMB) records the costs of new legislation on PAYGO scorecards. These scorecards record the cost as a five- or 10-year average. If the net cost of all PAYGO legislation (averaged over the five- or 10-year period) is more than zero, it triggers a *sequestration order* that takes effect after the end of the session of Congress. A sequestration order requires mandatory across-the-board cuts in non-exempt programs to offset the increased costs. Social Security, federal retirement programs, veterans programs, Medicaid, SNAP, child nutrition, and a few more crucial programs are exempt from sequestration cuts.

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[6] https://www.pgpf.org/budget-basics/understanding-complex-budget-terms-and-processes-and-why-they-matter/what-is-paygo