Federal Budget Sequestration 101

Perspectives through the County Lens

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What is Sequestration?

Sequestration: Process of applying automatic, across-the-board spending reductions evenly divided between **security** (defense) and **non-security**(mandatory/entitlement funds + annual discretionary funds) functions

Because the Super Committee failed to reach an agreement, sequestration is now scheduled to occur beginning on January 2, 2013

- ☑ Sequestration was first enacted in 1985 as part of the balanced budget and emergency deficit control act (commonly known as the Gramm-Rudman-Hollings Act)
- ☑ Serves as the model for the process to be used during implementation of the Federal Budget Control Act of 2011

What is Sequestration?

"However, the report leaves no question that sequestration would be deeply destructive to national security, domestic investments, and core government functions."

- OMB Report Pursuant to the Sequestration Transparency Act of 2012 (P. L. 112–155),
President's Office of Management and Budget, September 14, 2012

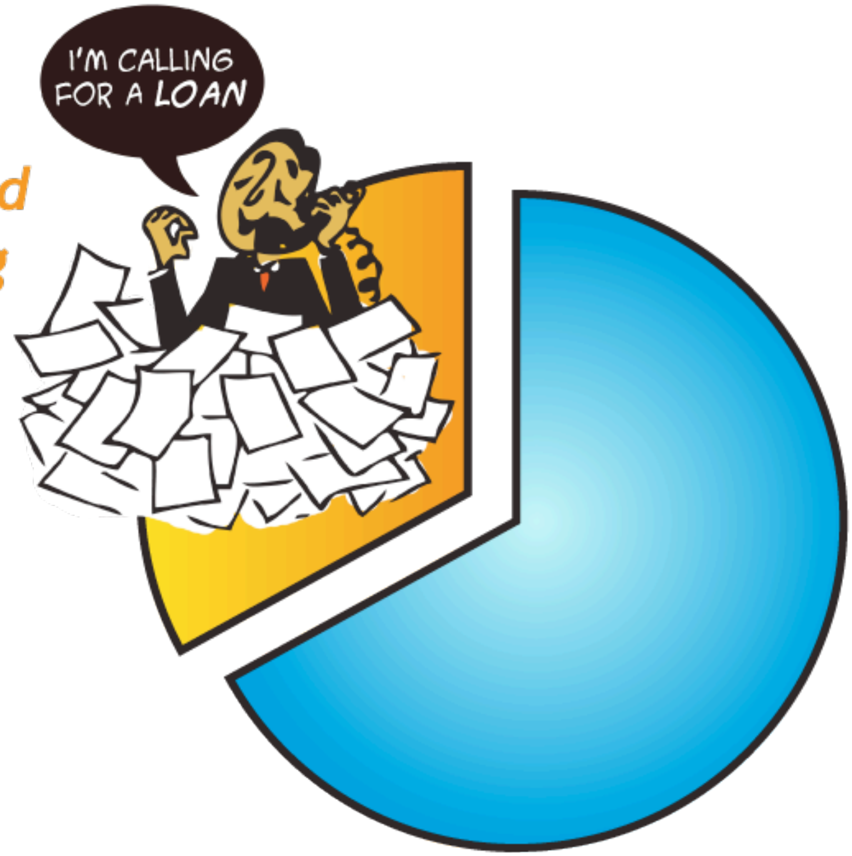
Context for Federal Debt and Deficit

Discussion and Actions

Federal Budget Picture

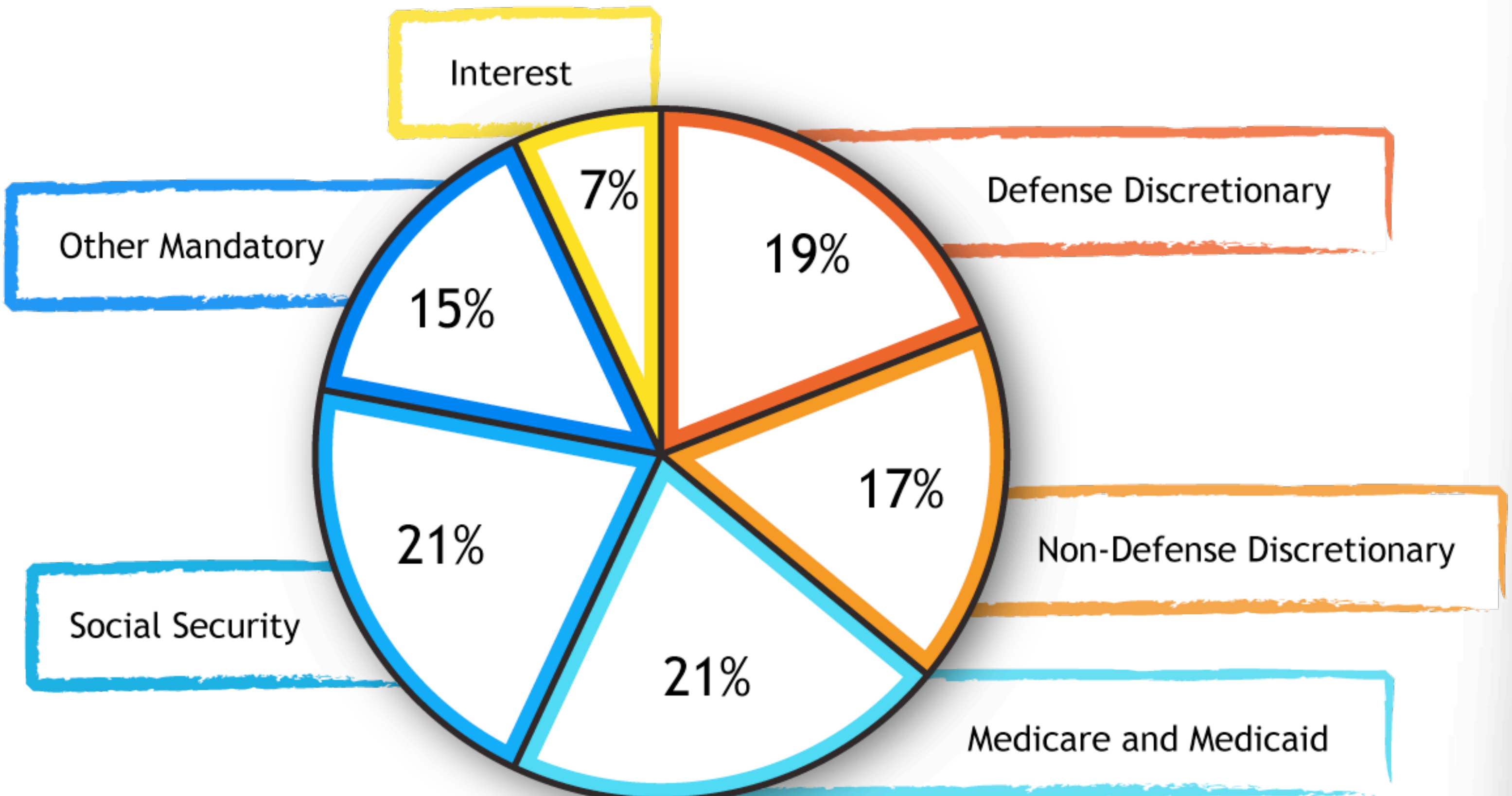
Fiscal Year 2012 Outlays:
$3.63 Trillion

Nearly One-Third of Our Spending is Borrowed



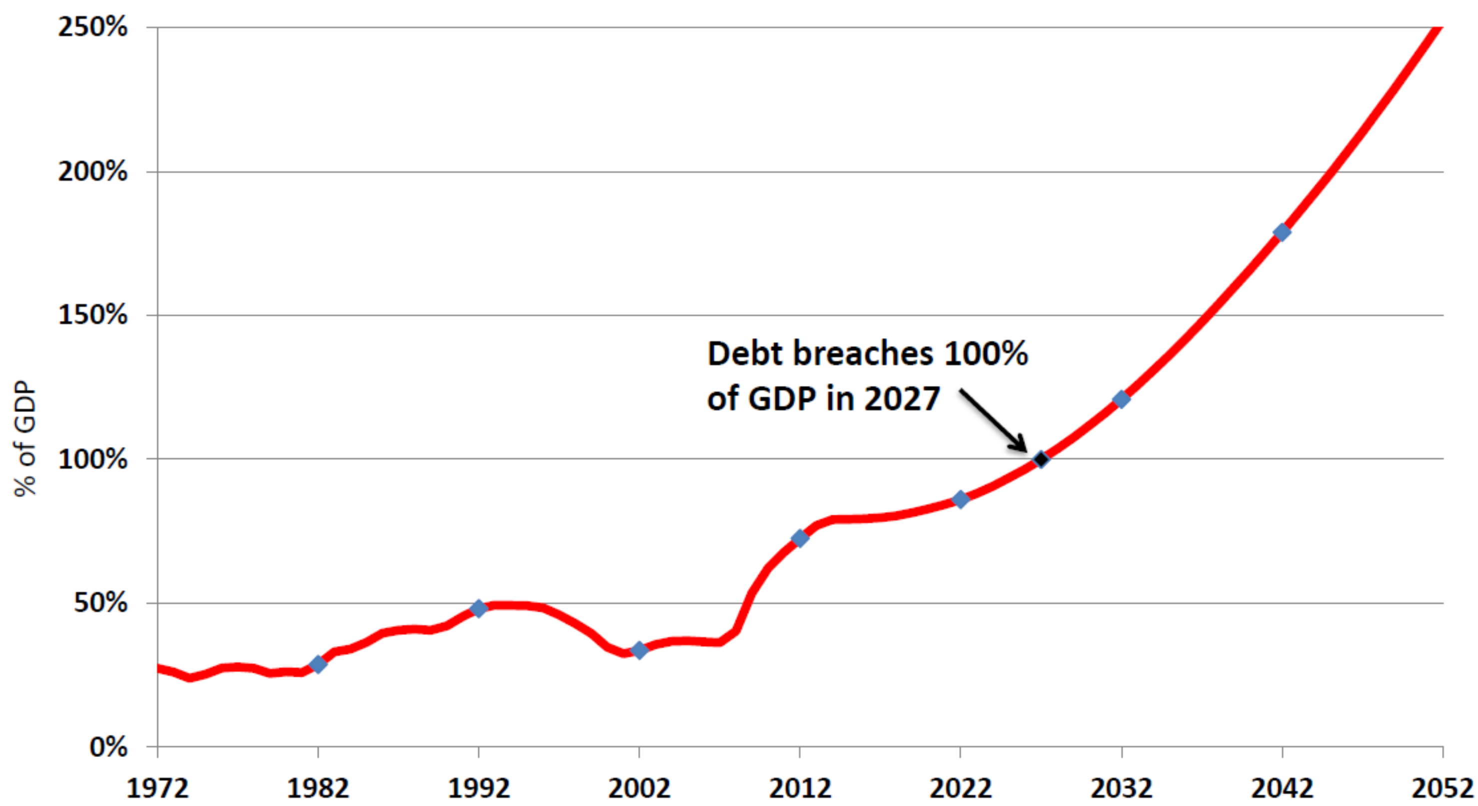
Source: Congressional Budget Office (January 2012)

FY2012 Federal Budget Snapshot



Federal Budget Picture

Absent reforms, U.S. debt is set to skyrocket in the coming decades



Sources: Congressional Budget Office (January 2012) and Bipartisan Policy Center

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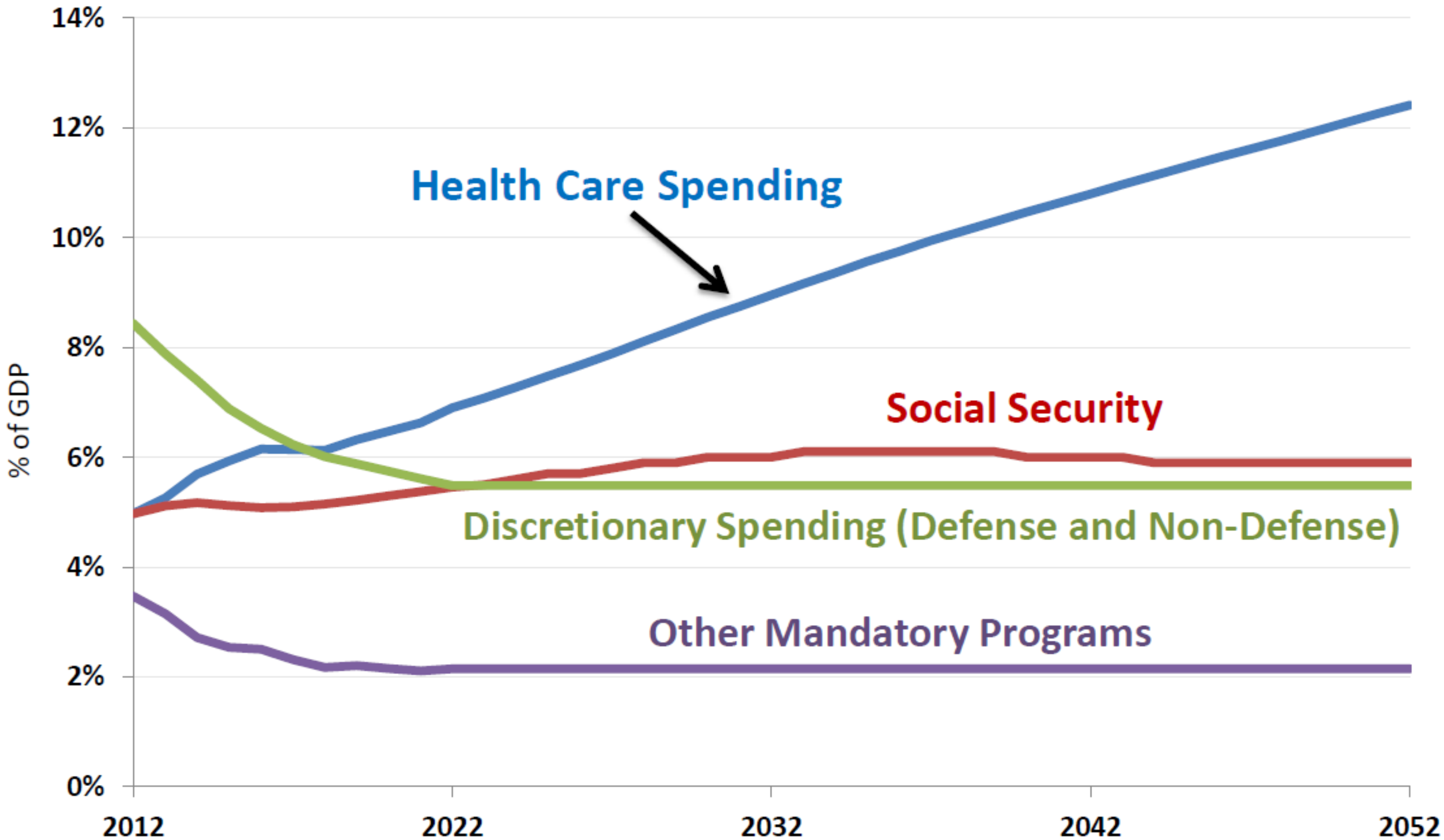
HEALTH CARE COSTS ARE THE PRIMARY DRIVER OF THE DEBT



Sources: Congressional Budget Office's Alternative Fiscal Scenario (January 2012), additionally assuming that troops overseas decline to 45,000 by 2015; Bipartisan Policy Center extrapolations

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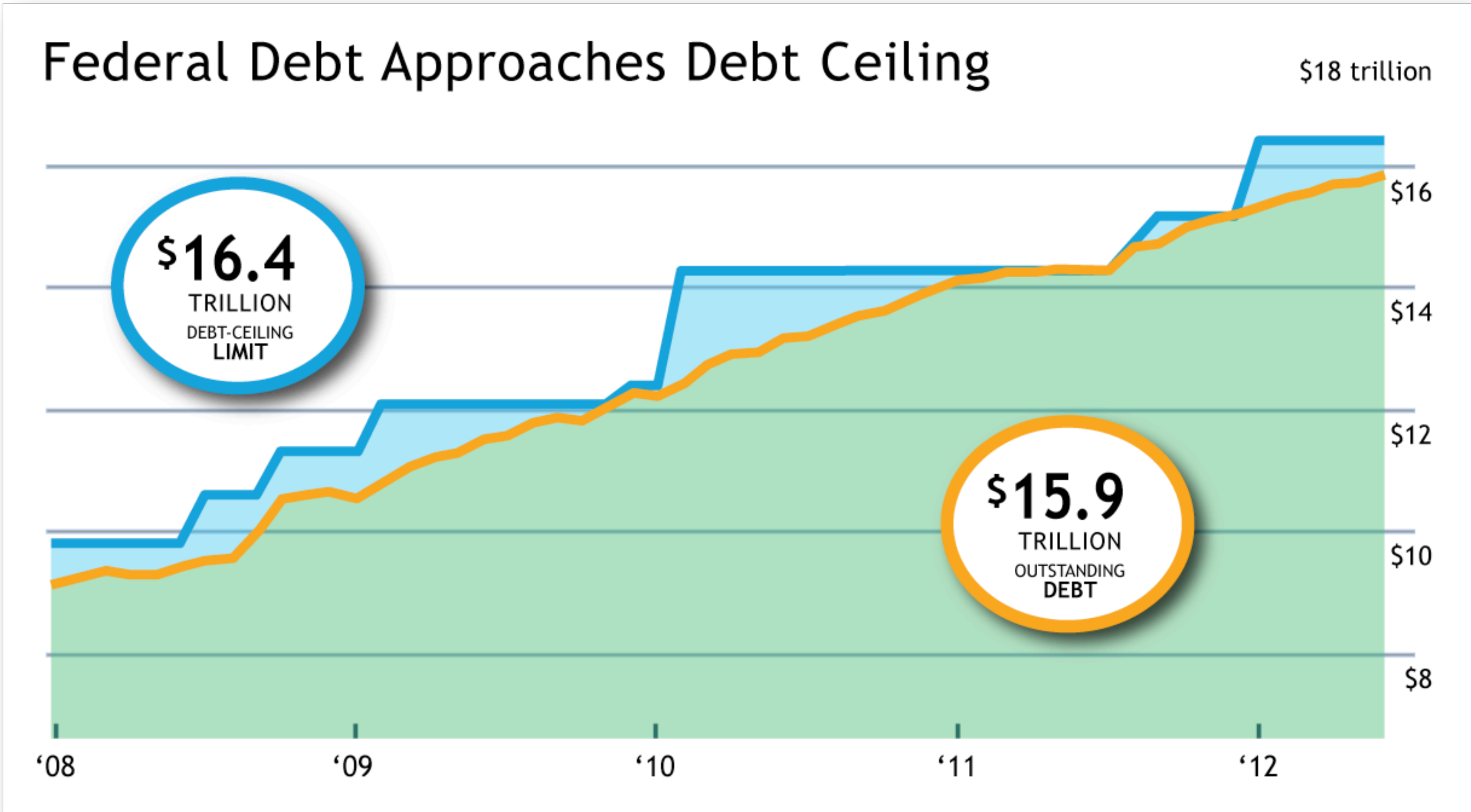

Source: U.S. Treasury – as of August 15, 2012

How Did We Get Here?

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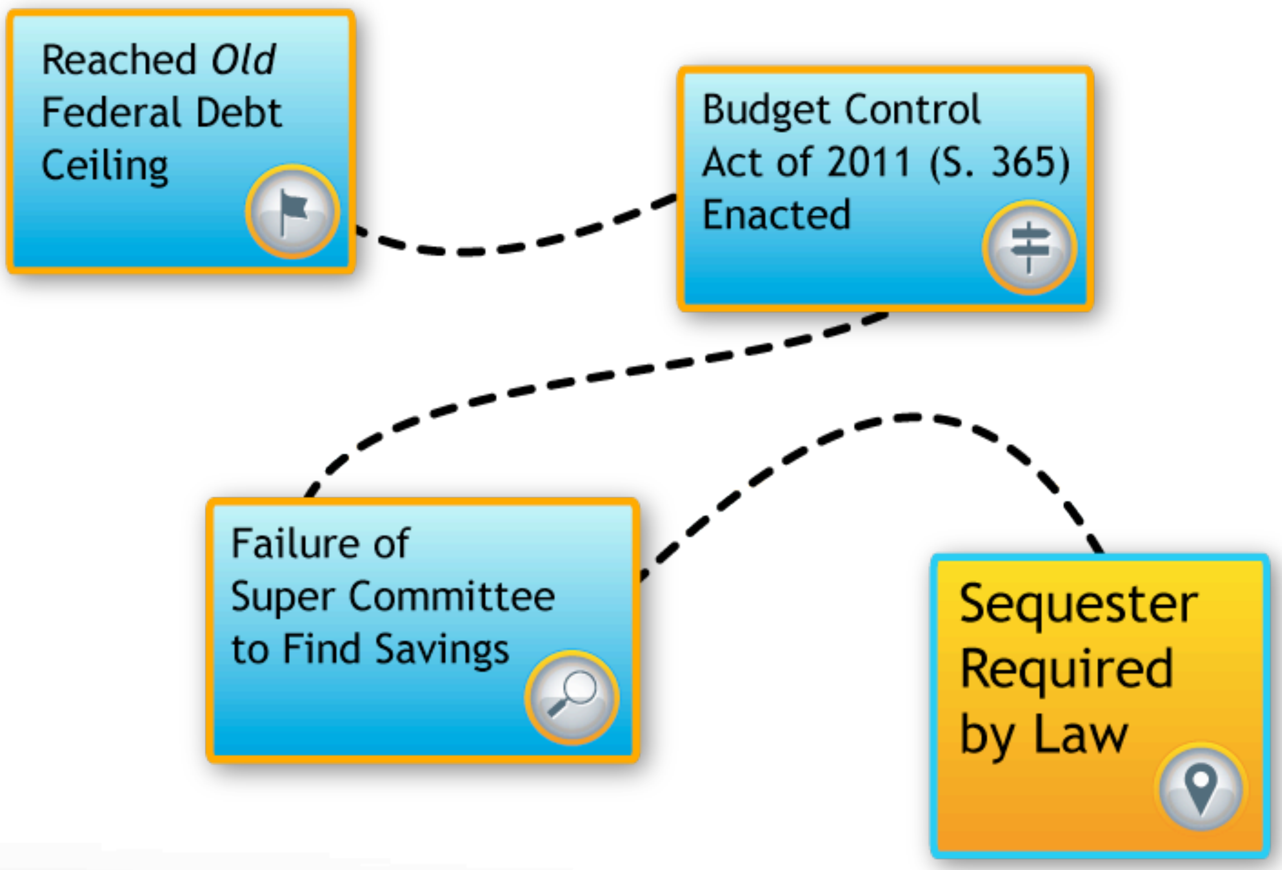
How Did We Get Here?



How Did We Get Here?

Budget Control Act of 2011 (S. 365)

- Set stage for $2.4 Trillion increase in Federal debt ceiling *BUT* with offsetting reductions in two phases

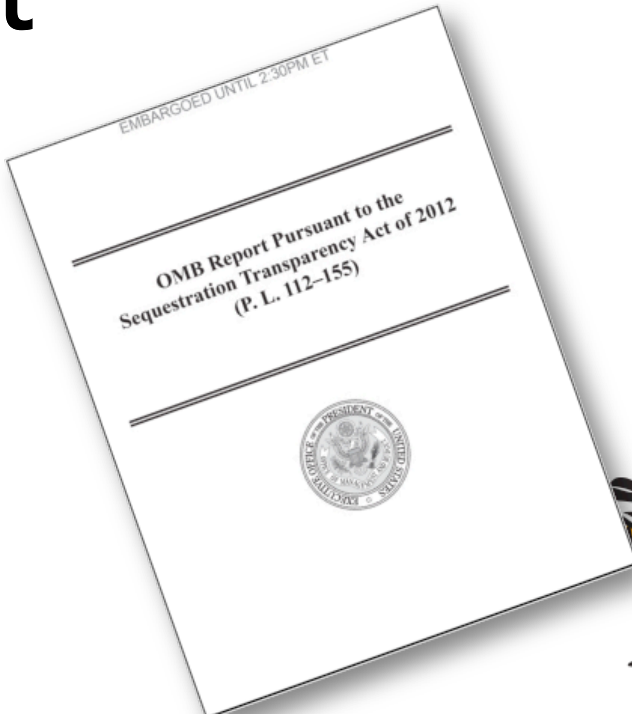
  ✓ $900 Billion in savings over next 10 years, including new spending caps for 12 annual appropriations bills

  ✓ Joint Select Committee on Deficit Reduction ("Super Committee") set up to identify at least $1.5 Trillion in extra savings over 10 years

  - ➢ HOWEVER, if committee fails, automatic trigger of across-the-board cuts in both defense and non-defense accounts each year over the next nine years (thru FY2021)

http://democrats.budget.house.gov/sites/democrats.budget.house.gov/files/08.03.11%20Budget%20Control%20Act%20summary.pdf

Basics of the Federal Budget Sequestration Process and Impact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OMB Report Pursuant to the Sequestration Transparency Act of 2012 (P. L. 112–155)

Understanding the Breakdown of Funding Levels Under Sequestration

Total "triggered" cut
$1.2 trillion

Subtract 18 percent
in debt service savings
$216 Billion

Distribute remaining
$984 billion
evenly among fiscal
years 2013 to 2021

$109.3 Billion in
Automatic Cuts per Year

Evenly split each
year's cut between
defense and
non-defense
accounts

Defense
$54.6 billion

Non-defense
$54.6 billion

Translating FY2013 Sequestration Cuts

- 9.4 percent to non-exempt defense discretionary spending
- 8.2 percent to non-exempt domestic discretionary spending
- 2.0 percent to Medicare, 7.6 percent to non-exempt nondefense mandatory programs, and 10.0 percent to non-exempt defense mandatory programs

Source: http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/sequestration/sequestration_update_august2012.pdf

Understanding Sequestration

- **What is unique about FY2013**
  - ✓ Cuts occur at start of 2nd quarter of the fiscal year (Jan. 2, 2013)
  - ✓ Discretionary cuts occur no matter what Congress appropriates
  - ✓ Sequester cuts happen at “program-project activity” (PPA) level

- **Across-the-board cuts difficult for many PPAs:**
  - ✓ Accounts that are nearly all personnel costs, like those for Border Patrol Agents
  - ✓ Large procurement of construction projects

What is Exempt from Sequestration?

Here is a snapshot of 149 exempt programs:

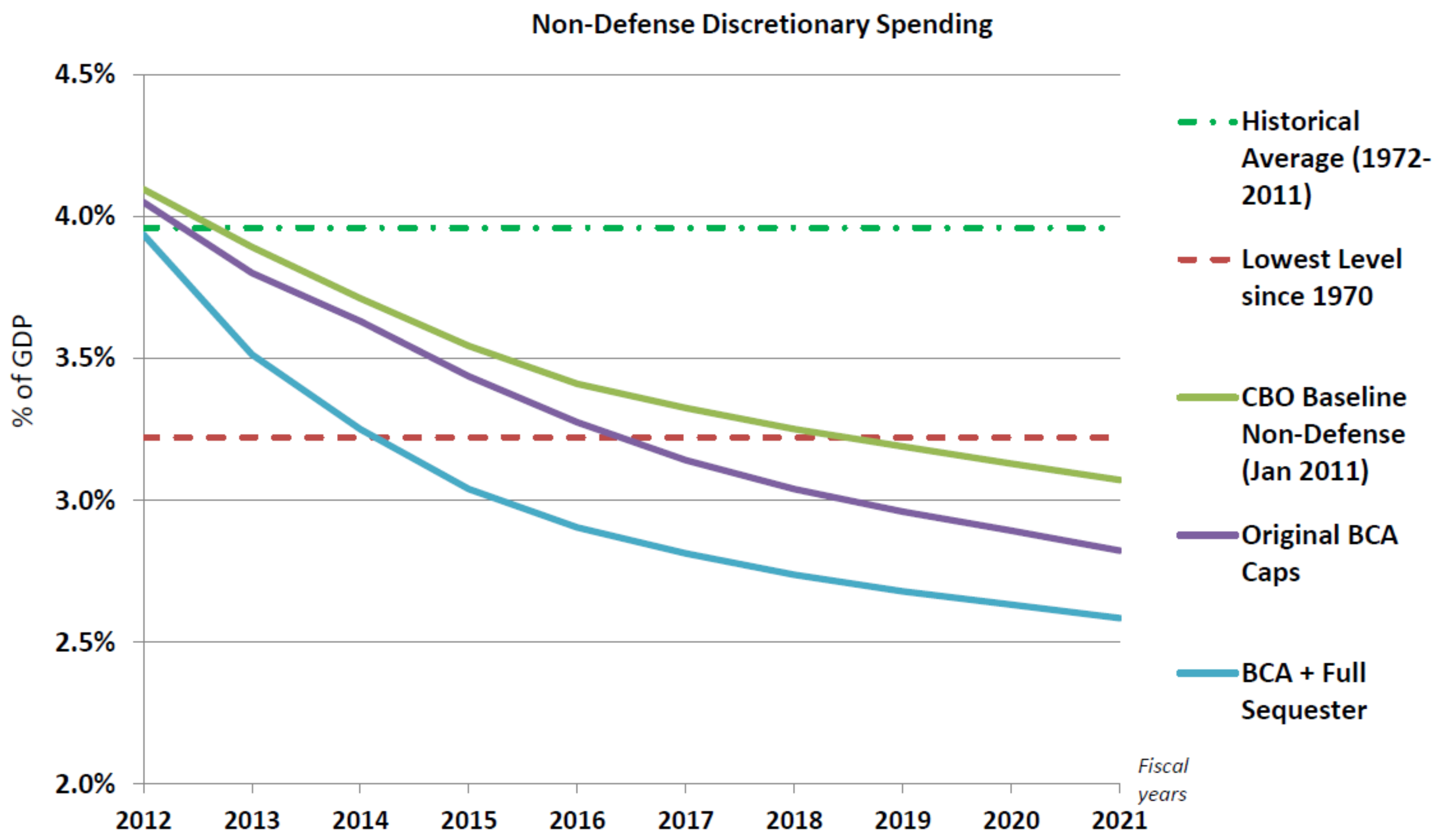
- Medicaid
- Social Security
- Medicare Part D – Low-income Subsidies
- Medicare Payments to States for Qualified Individual Premiums
- Food Stamps (SNAP)*
- Children's Health Insurance Funds
- Transit Formula Grants
- Grants in Aid to Airports
- Childcare Entitlement
- Veteran's Affairs Programs
- Commodity Loans and Conservation Reserve Program
- Crop Insurance
- Military Personnel Funding
- Pell grants
- *Salary and benefits for Members of Congress and the President*

** SNAP receives $8 million annual cut*

For a complete list of exempt programs, download the OMB Report

www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/stareport.pdf

DOMESTIC DISCRETIONARY SPENDING WOULD BE CUT TO THE BONE



Source: Congressional Budget Office

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FY2013 Projected Cuts:

8.2% Domestic Discretionary Reduction = $38 Billion Total

Examples of FY2013 Cuts by Program

- HUD Community Development Block Grant (CDBG) = $242 Million
- HUD HOME Investment Program = $81 Million
- HUD Section 8 Housing = $1.5 Billion
- HUD Homeless Assistance = $156 Million
- U.S. Economic Development Administration (EDA) = $34 Million
- USDA Rural Development = $203 Million
- EPA State and Local Grants = $293 Million
- EPA Hazardous Substance / Superfund = $119 Million
- DOE Energy Efficiency & Renewable Energy = $54 Million
- FEMA State & Local Disaster Preparedness & Recovery Programs = $183 Million
- FEMA Disaster Relief = $580 Million

FY2013 Projected Cuts:

8.2% Domestic Discretionary Reduction = $38 Billion Total

Examples of FY2013 Cuts by Program

- DOJ State Criminal Alien Assistance Program (SCAAP) = $17 Million
- DOT Essential Air Service* = $12 Million *(Discretionary funds only)*
- Education Dept's Elementary & Secondary Education = $1.3 Billion
- FTA Transit Capital Grants = $163 Million
- HHS Substance Abuse & Mental Health = $275 Million
- HHS Child Care Discretionary = $187 Million
- HHS Older American / Aging Services = $121 Million
- DOJ State & Local Law Enforcement = $92 Million
- DOJ Juvenile Justice = $21 Million
- DOL WIA Title I Formula Grants to States = $262 Million

FY2013 Projected Cuts:
Mandatory/Direct Allocation = $5 Billion Total

Programs Cut by 7.6%

- Payment-in-Lieu-of-Taxes (PILT) = $30 Million
- HHS Social Service Block Grant (SSBG) = $136 Million
- DOT Essential Air Services* = $4 Million *(Mandatory funds only)*
- HHS Prevention & Public Health Fund = $76 Million
- NTIA State & Local Implementation Program = $5 Million

Programs Cut Less Than 7.6%

- FHWA Federal-Aid Highways = $56 Million
- HHS TANF = $2 Million
- SNAP = $8 Million
- Child Nutrition = $4 Million

FY2013 Projected Cuts: Medicare - Total $11 billion (2.0%)

- Limited to 2% cut from provider payments under parts A & B
- Medicare Advantage (Part C)
- Drug Plan Contracts (Part D)

What Will Happen in 2014 through 2021?

In billions of dollars

	2014	2015	2016	2017	2018	2019	2020	2021
Defense caps before reduction	556	566	577	590	603	616	630	644
Required reduction, dollars	54.7	54.7	54.7	54.7	54.7	54.7	54.7	54.7
Required reduction, percent	9.8%	9.7%	9.5%	9.3%	9.1%	8.9%	8.7%	8.5%
Resulting level of caps	501	511	522	535	548	561	575	589
NDD caps before reduction	510	520	530	541	553	566	578	590
Required reduction, dollars	38	37	37	36	35	34	33	32
Required reduction, percent	7.5%	7.2%	6.9%	6.7%	6.4%	6.1%	5.7%	5.4%
Resulting level of caps	472	483	493	505	518	532	545	558
2% Medicare sequestration, dollars	11.4	12.2	12.9	13.4	14.2	15.4	16.5	17.8
Non-exempt mandatory cuts other than Medicare, dollars	5.2	5.2	5.2	5.1	5.1	5.0	5.4	4.8
Non-exempt mandatory cuts other than Medicare, percent	7.5%	7.2%	6.9%	6.7%	6.4%	6.1%	5.7%	5.4%

Source: Center for Budget Policy and Priorities

Program Savings in Bowles-Simpson, Adjusted for Savings in Discretionary Programs That Policymakers Have Already Achieved or Locked In

Dollars in billions; Bowles-Simpson extended to cover 2013-2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	10-yr total
Total program reductions (Table 1)	118	168	203	237	270	305	341	376	408	441	2,866
Less: program cuts already achieved	83	106	120	135	148	158	167	175	183	189	1,465
Equals: remaining program cuts	34	62	83	102	122	146	174	201	225	252	1,401
Total discretionary reductions (Table 1)	88	122	148	174	197	221	244	267	291	316	2,068
Less: program cuts already achieved	83	106	120	135	148	158	167	175	183	189	1,465
Equals: remaining discretionary cuts	4	16	29	39	49	62	77	92	108	127	603

Source: Center for Budget Policy and Priorities

FY2014 and Beyond to FY2021

- **Defense Eligible Accounts**
  - ✓ Unlike 2013, no automatic, across-the-board cuts to all affected Defense programs, ***BUT*** Appropriations Committees will decide specific line item budget levels to stay within the newly reduced Defense spending caps

FY2014 and Beyond to FY2021

- **Non-Defense Accounts**
  - ✓ Medicare will assume a larger share of cuts even though program cuts remain at 2% of the program
    - ➢ In real dollars, cut jumps from $11.4 Billion in 2014 to $17.8 Billion by 2021, or 21% of Non-Defense cut to 33% by 2021
  - ✓ Unlike 2013, no automatic, across-the-board spending reductions to all eligible accounts. HOWEVER, …
  - ✓ Since Appropriations Committee will have discretion to reach new spending targets, programs such as Pell grants, Veteran's medical, community and migrant health centers, and Indian health will have NO special protections from FY2014-2021

Elections and Fiscal Cliff Scenarios

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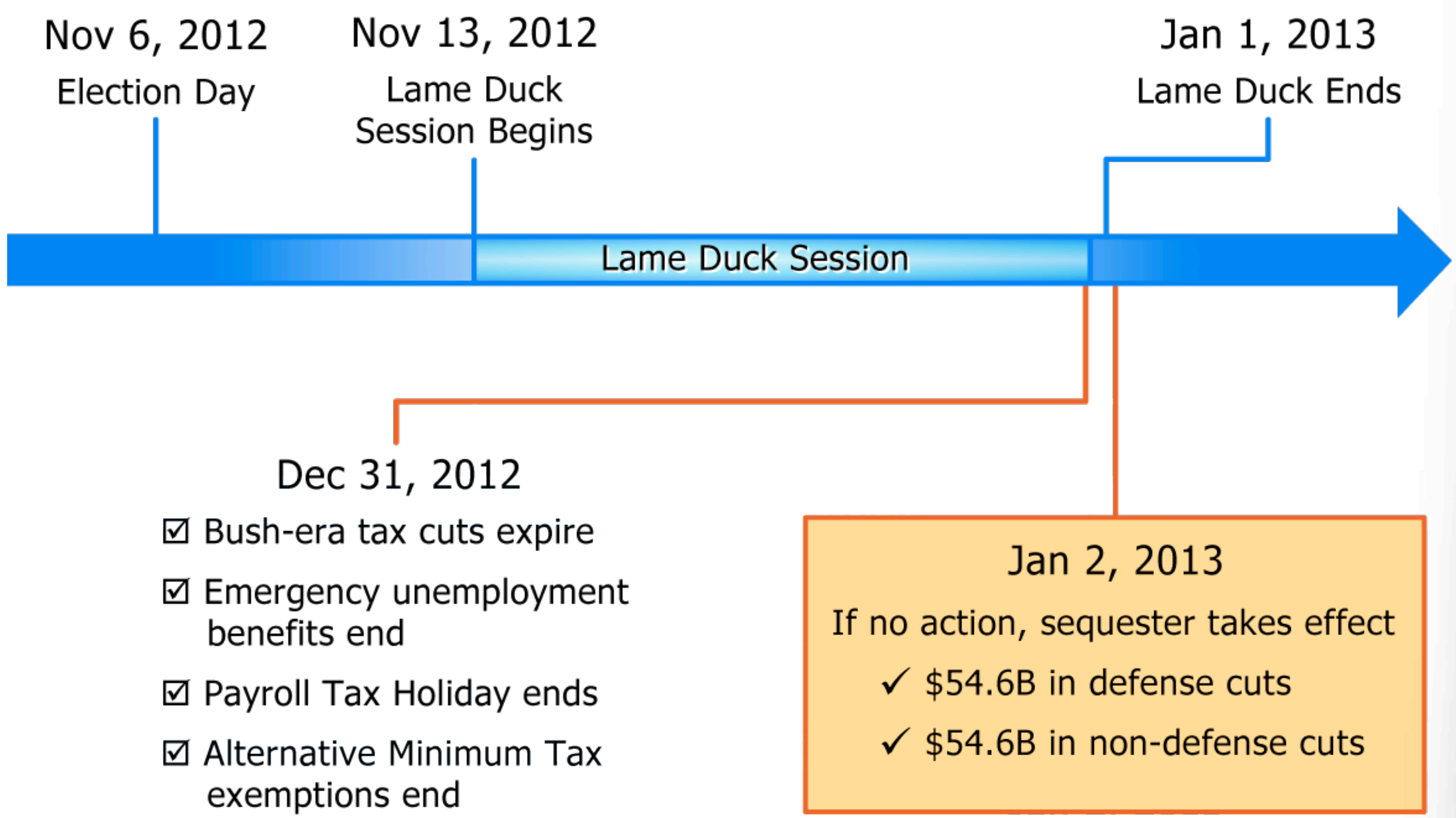
Lame Duck Makes Sequestration Negotiations More Tense

Concurrent Fiscal Pressures Cause Legislative Bottleneck



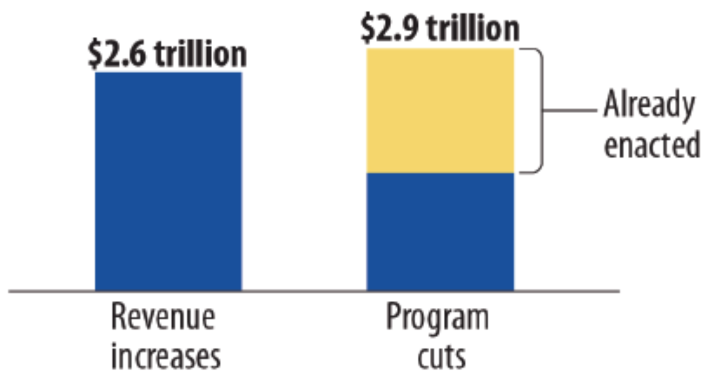
Source: National Journal, *July 2, 2012, Field Guide to the Lame Duck, Nancy Cook.*

Potential Grand Bargain with Simpson-Bowles as Baseline

Stabilizing vs. Reducing the Debt Ratio

Bowles-Simpson Recommended Nearly Equal Amounts of Program Cuts and Revenue Increases Over 2013-2022

Half of the Program Cuts in the Original Plan Have Been Achieved



Note: Calculations exclude debt service and Social Security solvency proposals.

Source: CBPP calculations, based on Moment of Truth Project and Congressional Budget Office estimates.

Summary of Original Bowles-Simpson Plan

	Total plan	Not yet enacted
Ten-year cumulative totals in trillions of dollars		
Revenue increases	$2.6	$2.6
Program cuts	$2.9	$1.4
Interest savings	$0.8	$0.6
TOTAL deficit reduction	$6.3	$4.6
Ratio, program cuts to revenue increases		
Not counting interest	1.1 to 1.0	0.5 to 1.0
Counting interest	1.4 to 1.0	0.8 to 1.0

Note: Covers 2013 through 2022; excludes Social Security solvency proposals; measured relative to current policy; may not add due to rounding.

"70% of Simpson-Bowles cuts in discretionary spending have already been enacted into law!"

Key Factors to Avoid Sequester?

- **Lame Duck Session:** Congress returns November 13 for organizational efforts, but will adjourn for Thanksgiving week and return first week of December for possible Lame Duck session
- **Market Reactions:** In post-election environment, Wall Street expects Congress and the White House to address fiscal cliff issues, including tax extensions and potential tax and entitlement reforms, delay of sequestration, and raising of federal debt ceiling
- **Election Outcomes:** Will we have a change in the White House, and one or both chambers of Congress? Who will be the key players in the budget deliberations? How will the 2014 Senate campaigns for Senate Minority Leader Mitch McConnell (R-KY) and Senate Finance Committee Chairman Max Baucus (D-MT) come into play?

Can Sequestration be Avoided?

- **YES! However…**
  - ✓ Congress must pass legislation and President Obama would need to sign before January 2, 2013
  - ✓ Congress could pass legislation to postpone cuts—and buy time for a grand bargain on the federal debt and deficit
  - ✓ Moody's Investors Services warned it would lower the U.S. credit rating if negotiations do not produce a plan to stabilize and reduce the national debt. So, there is still real pressure to address our nation's long-term debt

Lame Duck Congress???

✪ Sort out results of 2012 presidential and congressional elections!

- **FY2013 CR until March 27, 2013;** ***HOWEVER*****,** House and Senate Appropriations staff are conducting negotiations on FY2013 Omnibus spending bill right now!
- To Sequestrator or Not to Sequestrator?
- Bush Tax Cut Expiration and Other Tax Issues, plus AMT Patch
- Raise Federal Debt Ceiling
- Medicare “Doc” Fix to avoid 30% in physician payments
- Defense authorization act
- Farm Bill rewrite
- Superstorm Sandy supplemental spending bill

Beyond Sequestration, What Else is on the Table for Fiscal Cliff Discussions?

	Cost
Bush Tax Cuts + AMT	$235 Billion
Extension of Payroll Tax Cut	$90 Billion
Unemployment Insurance	$25 Billion
Tax Extenders and Business Depreciation	$80 Billion
The Sequester	$60 Billion
Affordable Care Act Taxes	$25 Billion
Medicare "Doc" Fix	$10 Billion
Federal Debt Ceiling	????
Total	$525 Billion Minimum

How Can You Get Engaged?

NACo Position

NACo is advocating for a ***balanced approach*** to deficit reduction negotiations. Our general principles include:

- It is nearly impossible to address the federal debt and deficit crisis by severely cutting domestic, non-military discretionary programs
- Federal assistance to state and local governments will help mitigate further layoffs; A new round of cuts will most likely result from sequester
- Federal investments and matching funds in state and local infrastructure projects helps produce private sector jobs and improve our competitiveness
- Deficit reduction should ***NOT*** be accomplished by shifting costs to counties, imposing unfunded mandates, or pre-empting county programs and taxing authority
- Special care should be taken to ensure that reforms to Medicaid, in particular, are not simply a shift of health care costs to counties

Call to Action

Write

Call

Social Media

Communicate with your Congressional delegation the following message:

"As a fellow elected official responsible for our citizens' well-being, I urge you to work in a bipartisan fashion to seek a balanced compromise on reductions and revenue raising in order to defuse the budget crisis this nation faces. Use a balanced fiscal approach in seeking solutions."

Contact Us!

For questions or more information, feel free to contact us below

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