

# Federal Budget Sequestration 101

*Perspectives through the County Lens*



NACo News  
You Can Use

# 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*

# 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

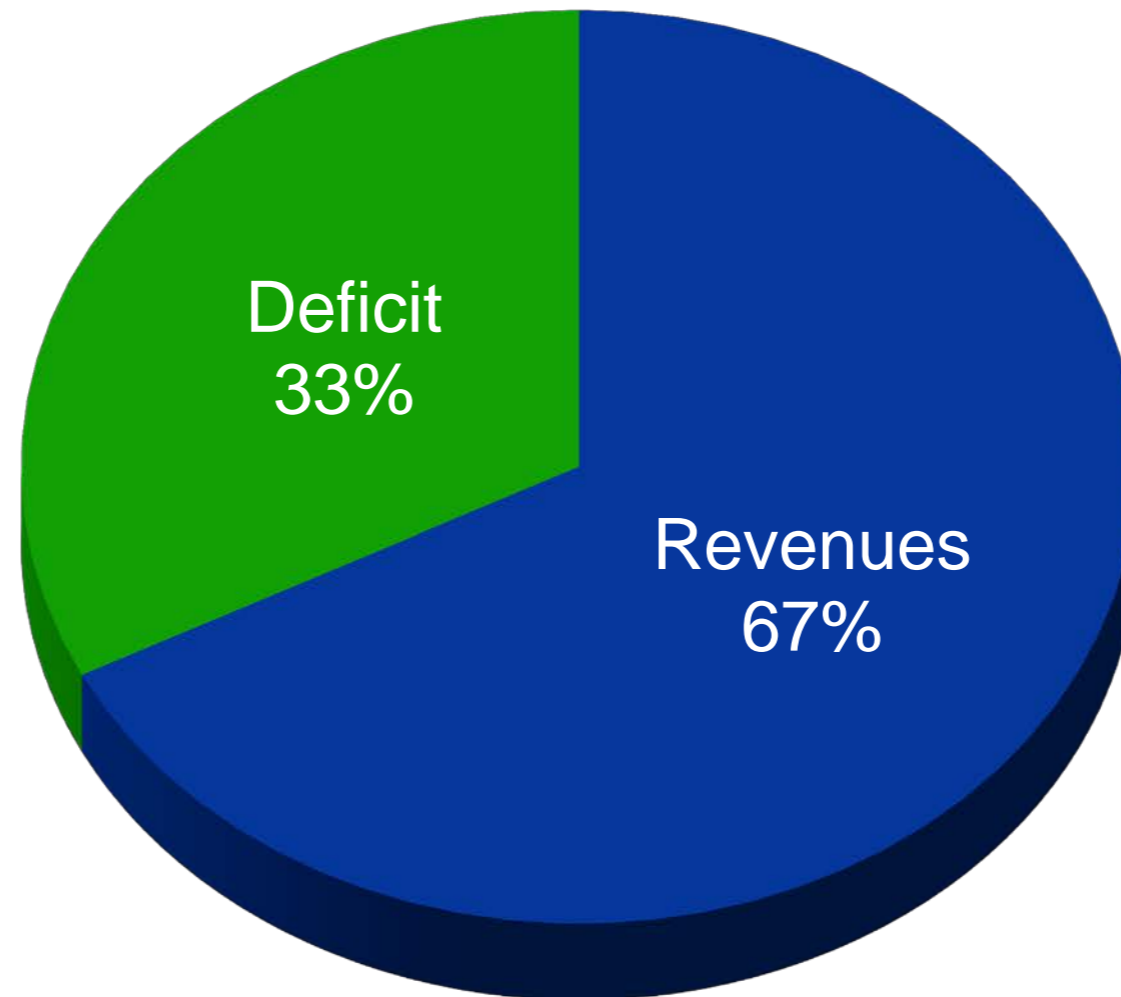
# Context for Federal Debt and Deficit

## Discussion and Actions

# Federal Budget Picture

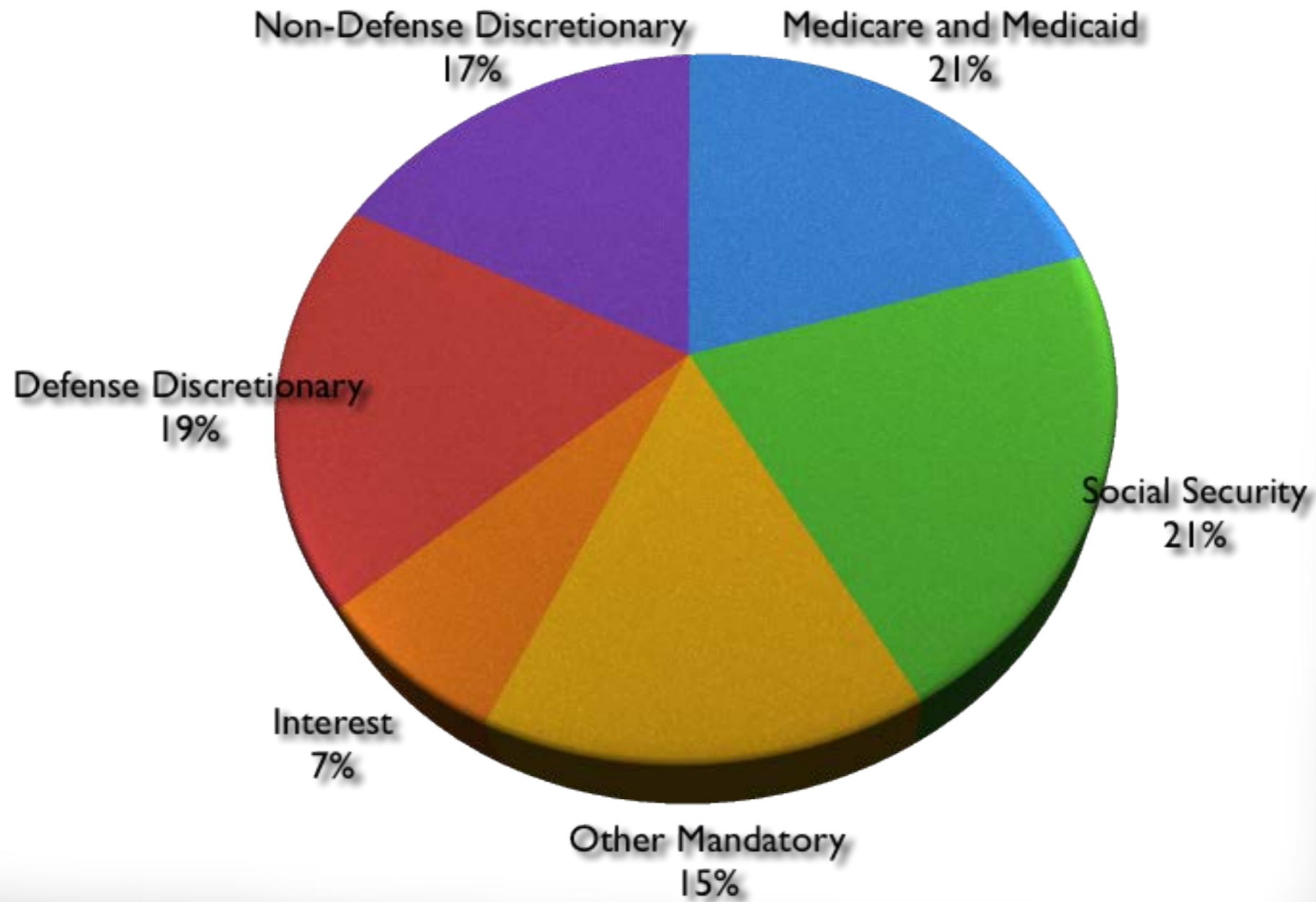
Fiscal Year 2012 Outlays:  
\$3.63 Trillion

*Nearly  
One-Third  
of Our  
Spending is  
Borrowed*



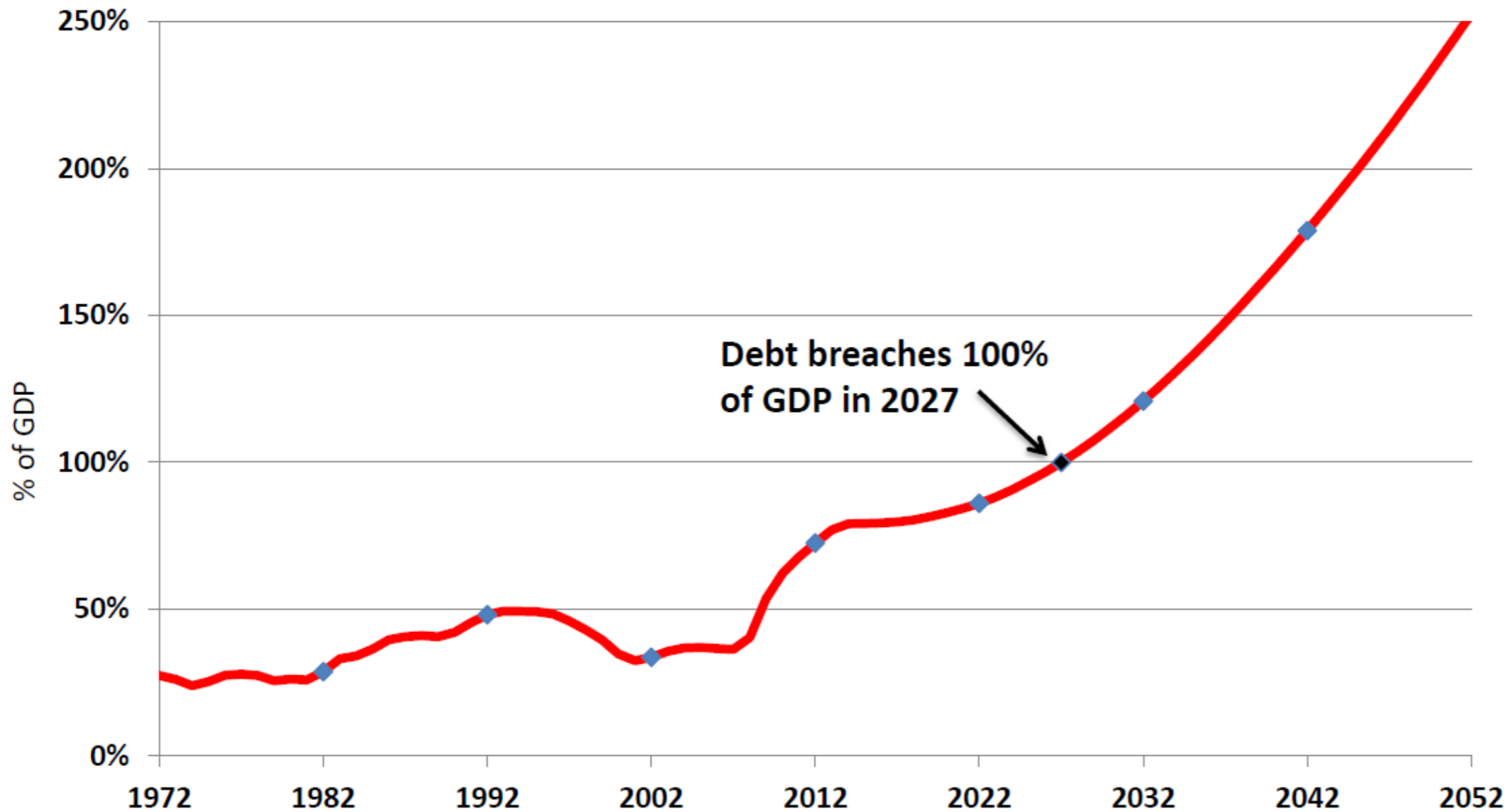
Source: Congressional Budget Office (January 2012)

# FY2012 Federal Budget Snapshot



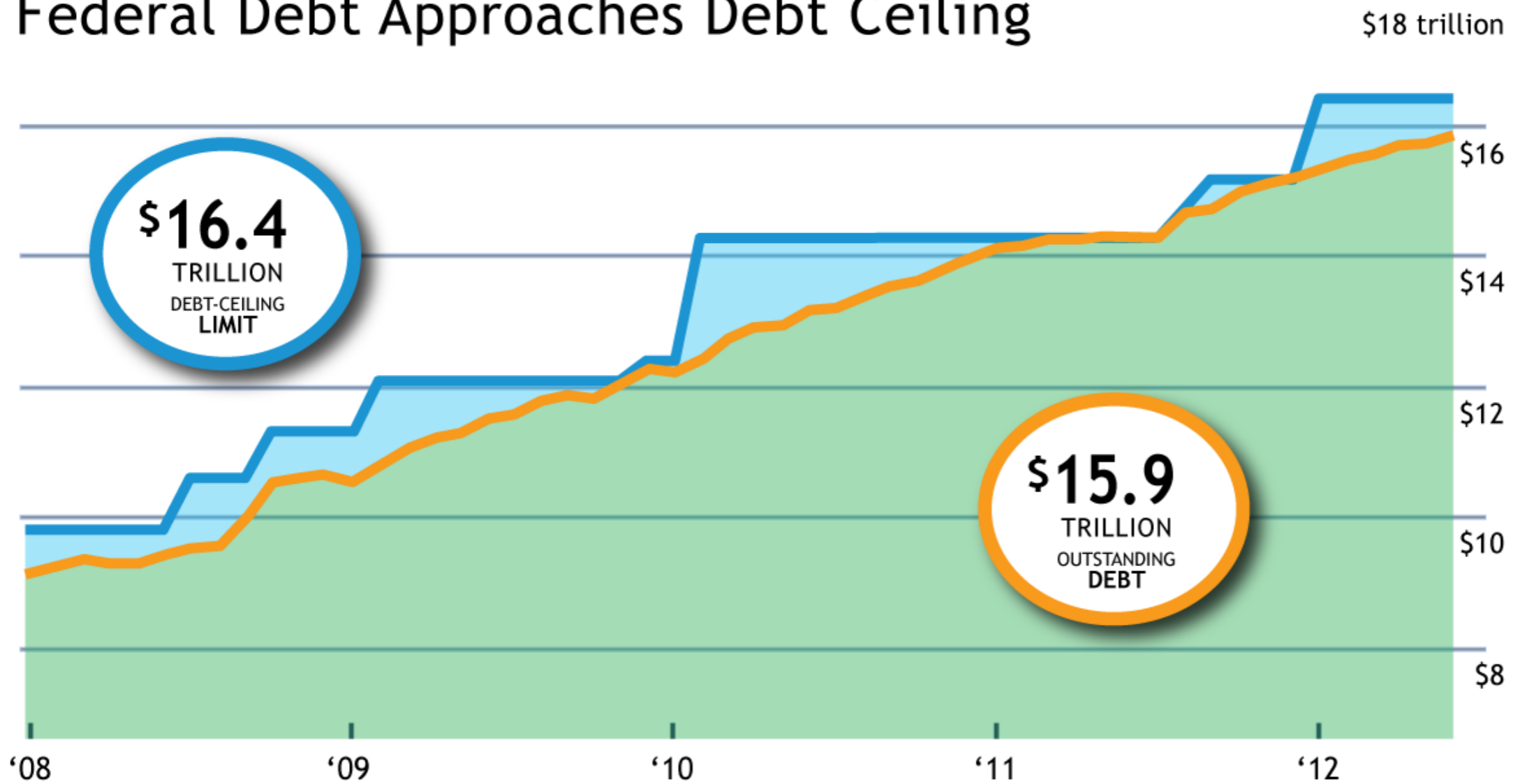
# Federal Budget Picture

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



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

# Federal Debt Approaches Debt Ceiling



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



# 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>

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**OMB Report Pursuant to the  
Sequestration Transparency Act of 2012  
(P. L. 112-155)**

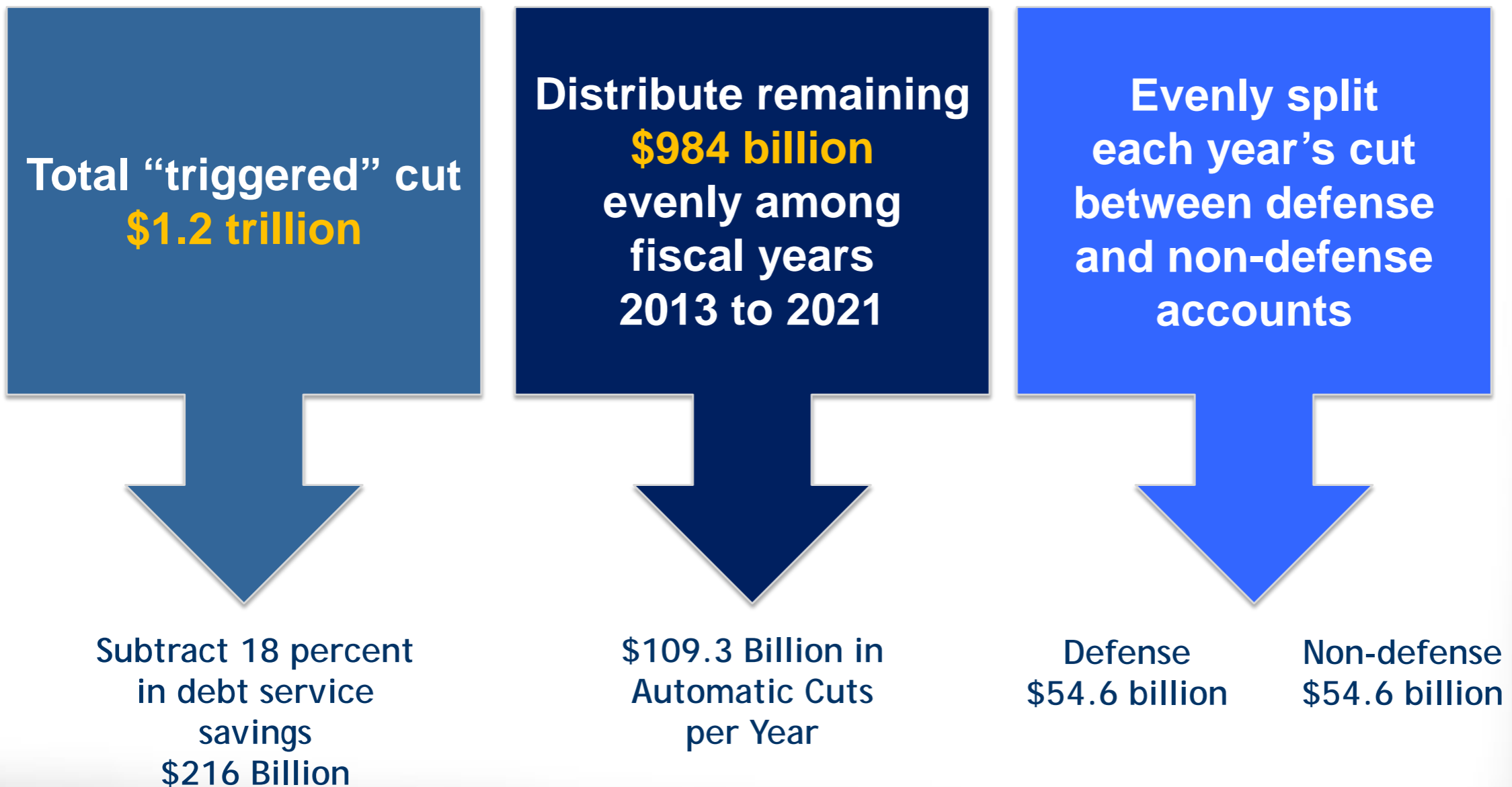
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# Basics of the Federal Budget Sequestration Process and Impact

# Understanding the Breakdown of Funding Levels Under Sequestration



# 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](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 2<sup>nd</sup> quarter of the fiscal year (Jan. 2, 2013)
    - ✓ **Middle of Budgeted Year**
  - ✓ 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 cut by \$8M)
- 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*

For a complete list of exempt programs, download the OMB Report  
[http://www.whitehouse.gov/sites/default/files/omb/assets/legislative\\_reports/stareport.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/stareport.pdf)

# FY2013 Projected Cuts:

8.2% Domestic Discretionary Reduction = \$38 Billion Total

## Examples of FY2013 Cuts by Program

- HUD Community Development Block Grant (CDBG) = \$279 Million (AZ: \$4M)
- HUD HOME Investment Program = \$81 Million (AZ: \$1M)
- HUD Section 8 Housing = \$1.5 Billion (AZ: \$13M)
- HUD Homeless Assistance = \$156 Million (AZ: \$3M)
- U.S. Economic Development Administration (EDA) = \$34 Million (AZ: \$1M)
- USDA Rural Development = \$203 Million (AZ: \$33M)
- EPA State and Local Grants = \$293 Million
- EPA Hazardous Substance / Superfund = \$119 Million
- DOE Energy Efficiency & Renewable Energy = \$54 Million (AZ: ?)
- FEMA State & Local Disaster Preparedness & Recovery = \$183 Million (AZ: \$4M)
- FEMA Disaster Relief = \$580 Million (AZ: ?)

All Numbers in **RED** are CSA  
estimated Impacts to the State



# 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 (AZ: \$1M)
- DOT Essential Air Service = \$12 Million *(Discretionary funds only)* (AZ: \$1M)
- Dept. of Ed. Elementary & Secondary Education = \$1.3 Billion (AZ: ?)
- FTA Transit Capital Grants = \$156 Million (AZ: \$1M)
- HHS Substance Abuse & Mental Health = \$275 Million (AZ: 2M)
- HHS Child Care Discretionary = \$187 Million (AZ: <\$1M)
- HHS Older American / Aging Services = \$121 Million (AZ: ?)
- DOJ State & Local Law Enforcement = \$92 Million (AZ: \$2M)
- DOJ Juvenile Justice = \$21 Million (AZ: <\$1M)
- DOL WIA Title I Formula Grants to States = \$262 Million (\$11M)

All Numbers in RED are CSA  
estimated Impacts to the State

# FY2013 Projected Cuts:

Mandatory/Direct Allocation = \$5 Billion Total

## Programs Cut by 7.6%

- Payment-in-Lieu-of-Taxes (PILT) = \$30 Million (AZ:\$3M)
- HHS Social Service Block Grant (SSBG) = \$136 Million (AZ: \$3M)
- DOT Essential Air Services = \$4 Million (*Mandatory funds only*) (AZ: <\$1M)
- HHS Prevention & Public Health Fund = \$76 Million (AZ: \$1M)
- NTIA State & Local Implementation Program = \$5 Million (AZ: <\$1M)

## Programs Cut Less Than 7.6%

- FHWA Federal-Aid Highways = \$56 Million (AZ: \$1M)
- HHS TANF = \$2 Million (AZ: ?)
- SNAP = \$8 Million (AZ: <\$1M)
- Child Nutrition = \$4 Million (AZ: ?)

All Numbers in **RED** are CSA  
estimated Impacts to the State

# 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)

**NOTE:**

- All Arizona estimated impacts *(in RED)* are calculated by matching amounts listed in the OSPB “Statement of Federal Funds” published by the Governor’s Office to the OMB “Sequestration Report” Published by the Office of the President.
- All numbers are based on FY2012 funding levels, actual cuts and appropriations will vary
- Only estimates for programs that could be closely matched with the OMB report are listed

# Elections and Fiscal Cliff Scenarios



# 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.

# Key Factors to Avoid Sequester?

- **Lame Duck Session:** Congress returned 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

# Can Sequestration be Avoided?

- **YES! However...**
  - ✓ Congress must pass legislation and President Obama would need to sign before January 2, 2013
    - ✓ **Avoiding the automatic sequester does not mean avoiding cuts!**
  - ✓ 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

# Current Status

- **Many Unknowns**

- ✓ It has become clear in that last couple of weeks that the main negotiations will revolve around tax policy
- ✓ Speaker Boehner has made it clear that Republicans are open to revenue increases through tax reform, but will NOT support any rate increases
- ✓ President Obama has stated he will not extend any tax cuts for the "top 2%"
- ✓ No other points of contention i.e. potential cuts or entitlement reform have been disclosed



## 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	????
<b>Total</b>	<b>\$525 Billion Minimum</b>

# 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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