

NATIONAL COMMUNITY ACTION FOUNDATION SEQUESTRATION UPDATE

BY DAVID BRADLEY

Key Terms

Sequestration

Measures meant to reduce federal spending; primarily consists of **deficit reduction sequester**, mandating automatic, across-the-board spending cuts for federally funded programs in order to meet national budget goals, and **discretionary caps**, limiting future federal spending

Budget Control Act of 2011 (BCA)

Mandated sequestration starting Jan. 2, 2013 if Congress could not reduce deficit by \$1.2T–\$1.5T over a 10-year period

American Taxpayer Relief Act (ATRA) of 2012

Mandates modified sequestration starting March 1, 2013 if Congress cannot negotiate a way to avoid it

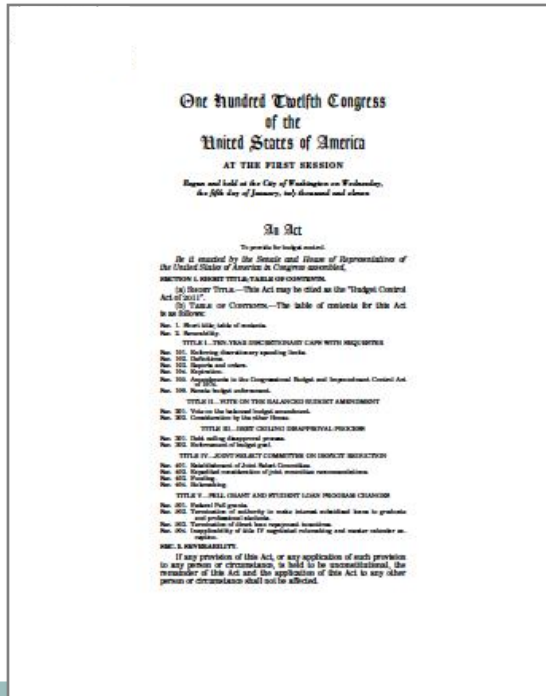
Key Dates

- FY 2013 sequestration begins on March 1
- Obama FY 2014 budget release in March
- FY 2013 CR expires on March 27
- House/Senate FY 2014 budget resolutions “due” April 15
- House bill suspends debt limit to May 19; Treasury may avoid default through July
- FY 2014 appropriations “due” October 1

MARCH 2013							© Shinzoo.com
SUN	MON	TUE	WED	THU	FRI	SAT	
					1	2	
3	4	5	6	7	8	9	
10	11	12	13	14	15	16	
17	18	19	20	21	22	23	
24	25	26	27	28	29	30	
31							

In 2011, Sequestration Mandated if No Deficit Deal Struck

Budget Control Act of 2011 (BCA)



Raised U.S. debt limit for short term to prevent default

Established 12-member Joint Select Committee (“Super Committee”) charged with reducing deficit by \$1.2T – \$1.5T over 10-year period

Mandated long-term deficit reduction through sequestration threat if Super Committee failed to reach goals

Super Committee failed to meet objectives; Congress faced sequestration threat in 2013

In 2013, Sequestration Delayed (Without Deficit Deal)

American Taxpayer Relief Act (ATRA) Pushes Sequester to March

Impact on discretionary caps: ATRA lowers cap for 2013 by \$4B and 2014 by \$8B to offset cost of delay

Jan. 17, 2013
BCA start date for
discretionary caps

March 27, 2013
ATRA delayed start date for
discretionary caps

Jan. 2, 2013
BCA start date for deficit
reduction sequester

March 1, 2013
ATRA delayed start date for deficit
reduction sequester

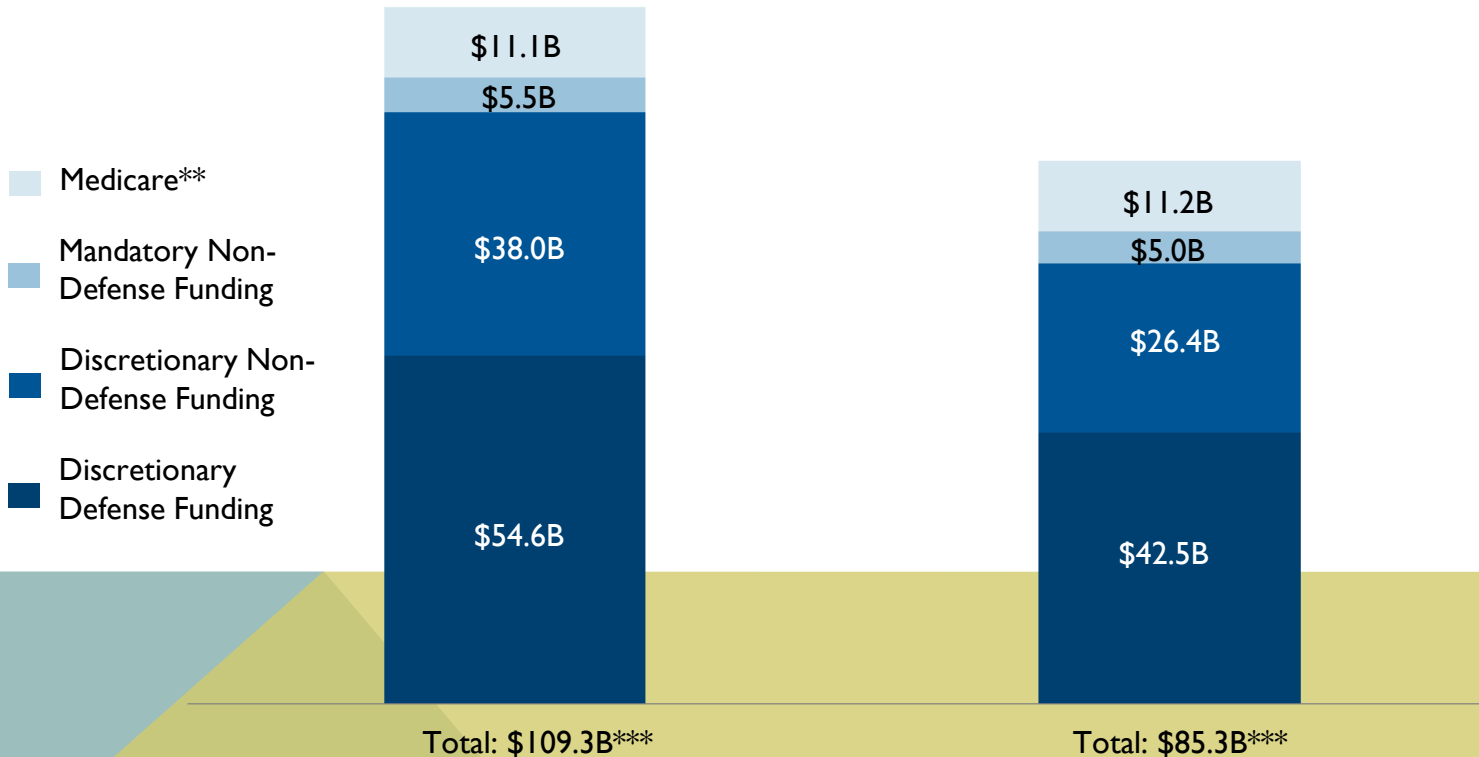
Impact on deficit reduction sequester: Two-month delay
prorates 2013 spending cuts by total of \$24B

ATRA Reduces BCA's 2013 Cuts

Comparison of 2013 Budget Cuts Under BCA and ATRA*
In Billions of Dollars

BCA Jan. 2 Sequestration

ATRA March 1 Sequestration



*Mandatory defense funding is too small to be represented on this graph: \$0.1B in both BCA's and ATRA's sequestration, a 10% cut under BCA and 7.8% cut under ATRA

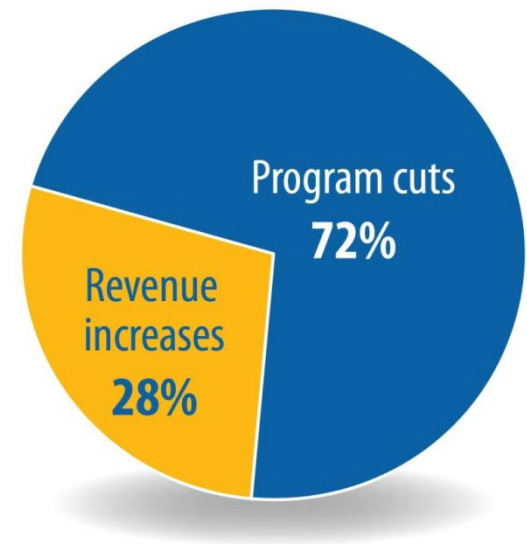
**Cuts to Medicare are not to benefits; Medicare percentage remains the same because Medicare cuts are capped

***Breakdown of cuts does not add to totals due to rounding and omission of mandatory defense funding

Still Needed to Stabilize Debt in Next Decade:
\$1.4 trillion
(\$1.2 trillion savings + \$0.2 trillion interest)



72% of Recent Policy Savings to Reduce Deficits Have Come From Program Cuts



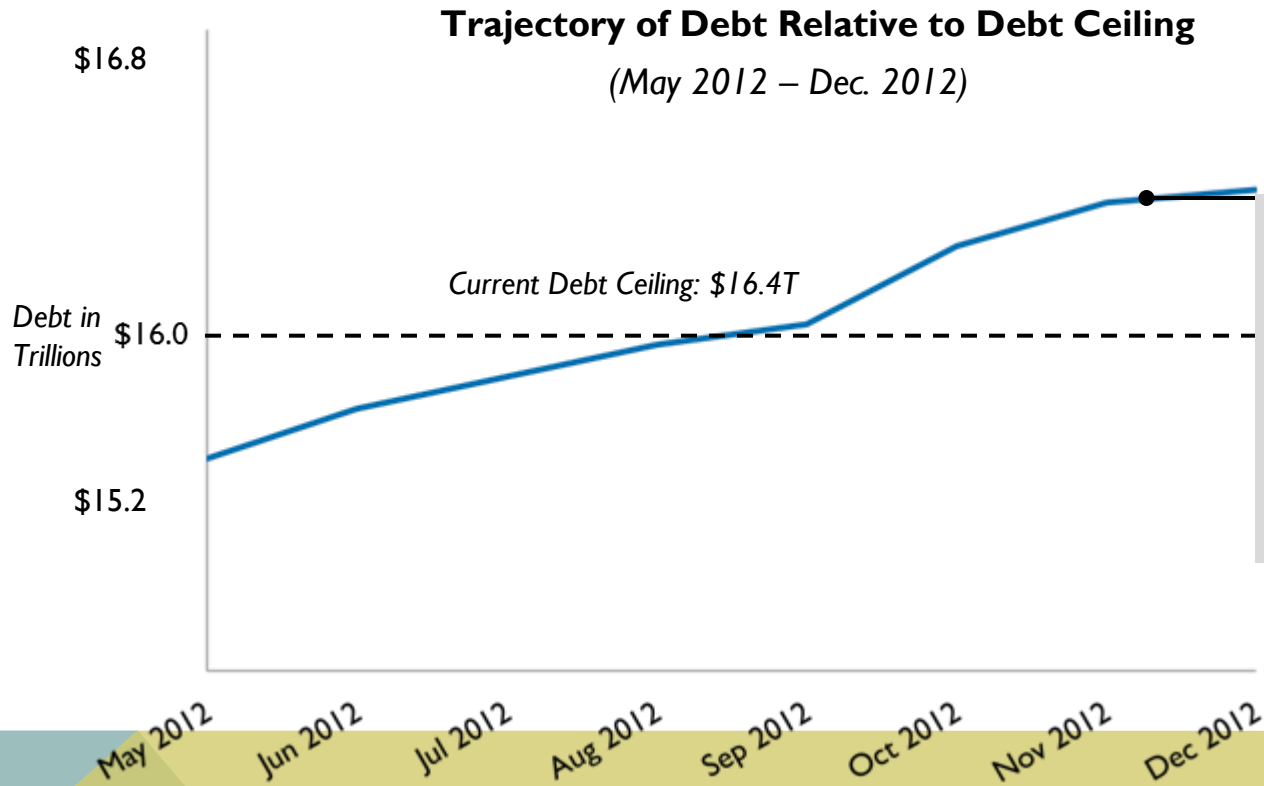
Note: Recent policy savings come from cuts in 2011 funding, Budget Control Act of August 2011, and American Taxpayer Relief Act of January 2013. Estimates are for 2013-2022.

Source: Center on Budget and Policy Priorities based on Congressional Budget Office and Joint Committee on Taxation data.

Center on Budget and Policy Priorities | cbpp.org

Another Debt-Ceiling Crisis Looms

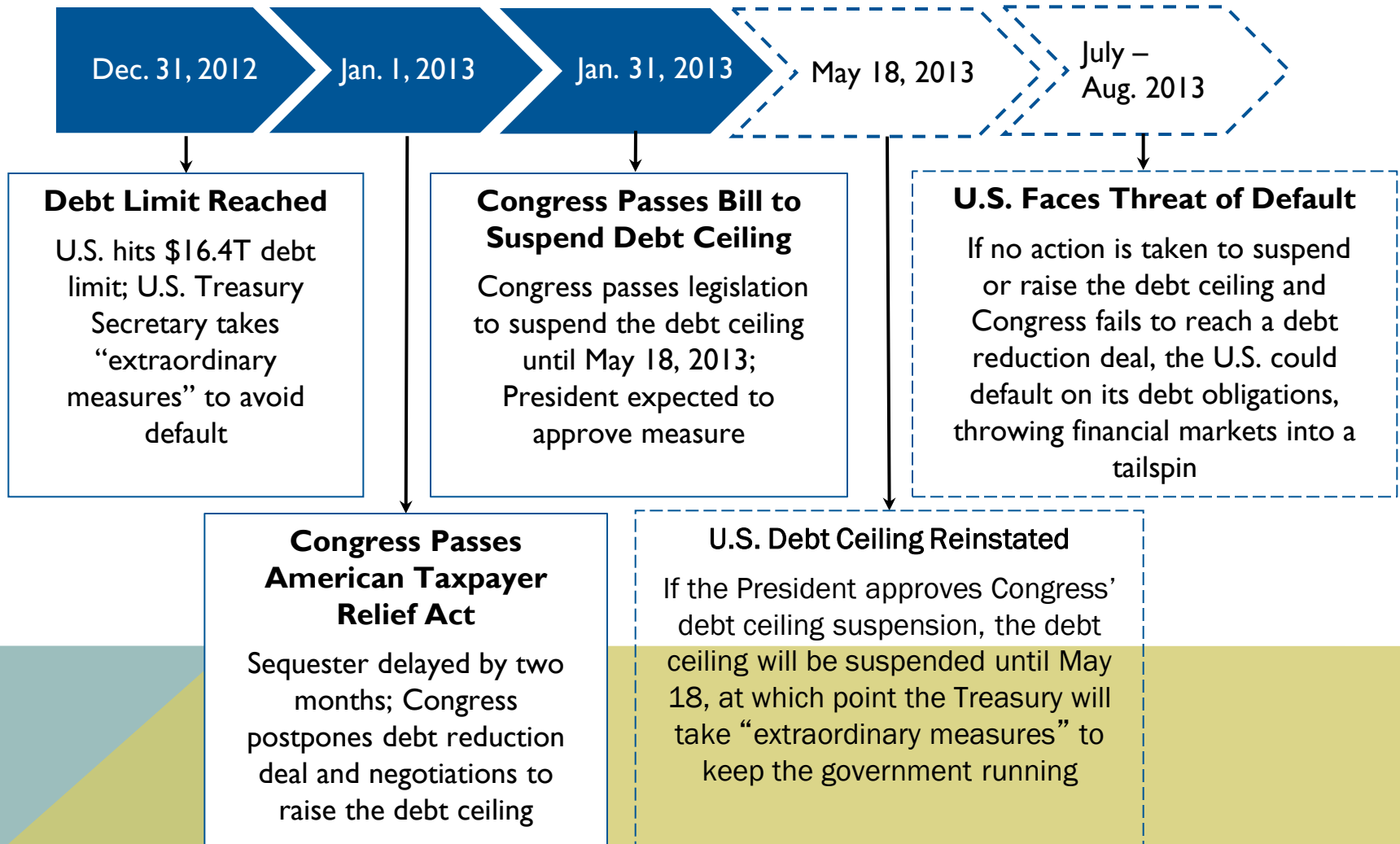
Current Debt Ceiling Reached in December



The U.S. hit the debt ceiling of \$16.4T on December 31, 2012, but on January 31 Congress passed legislation to suspend the debt ceiling until May 18, 2013. The President is expected to approve the measure.

Source: U.S. Treasury Department; "Why the Vote to Suspend the Debt Ceiling Didn't End the Threat to the U.S. Economy," Nancy Cook, National Journal, Jan. 24, 2013; "Senate Dems Pass Bill to Suspend Debt Limit While House Republicans Push for Budget Plan," Bill House, National Journal, Jan. 31, 2013.

Debt Limit Crisis Could Lead to Default



Parties Remain Far Apart

House GOP Leadership

- All further deficit reduction must be achieved through program cuts
- The FY 2013 sequestration should not be cancelled unless those cuts are replaced by other program cuts
 - But may push to shift cuts away from defense to nondefense, e.g., removing “firewall” between caps
- Committed to writing an FY 2014 budget resolution that balances the budget by 2023 (Which would entail deep program cuts).



Parties Remain Far Apart

Patty Murray, Chair Senate Budget Committee

– January 24 memo to Senate colleagues highlights deficit reduction already achieved and imbalance between spending cuts and revenues

- Calls for replacing sequestration with balanced deficit reduction that includes 50% revenues

- *“While sequestration would be painful, it would be worse to replace these cuts in a way that hurts the middle class and most vulnerable families even more and doesn’t call on the wealthy to pay their fair share.”*

– Committed to producing a budget resolution



What's Next?

- Sequestration likely to go into effect March 1
- Both House and Senate likely to start work on budget resolutions (probably released in March)
 - First step in making decisions on FY 2014
 - But also become “next offers” on broader deficit reduction over next 10 years
- We don't know...
 - When a discussion about the 2013 sequestration and CR expiration will take place, or what outcome will be
 - If/when a discussion about replacing the *entire* sequestration (through 2021) will take place
 - If/when another round of negotiations on broader deficit reduction will take place
 - When overall funding targets for FY 2014 will be settled



Outlook for FY 2013 Funding

- Default is CR with sequestration
- Some other possibilities:
 - Good: replace sequestration with balanced package of entitlement savings and revenues
 - Bad: replace sequestration with cuts in entitlement safety net programs
 - Bad: replace sequestration with alternative discretionary cuts; huge risk of *deeper* cuts Community Action programs if Congress eliminates “firewall” between defense to non-defense programs
- Timing of decisions is uncertain



Outlook for FY 2014 Funding

- Default is further sequestration cuts in FY 2014 (discretionary cuts not across-the-board, and with separate caps for defense and non-defense)
- House and Senate appropriations committees may work on bills in accord with what are likely to be very different budget targets set by resolutions
- Revisit at end of year if there is no spring/summer deal on broader deficit reduction that settles FY 2014 discretionary funding targets



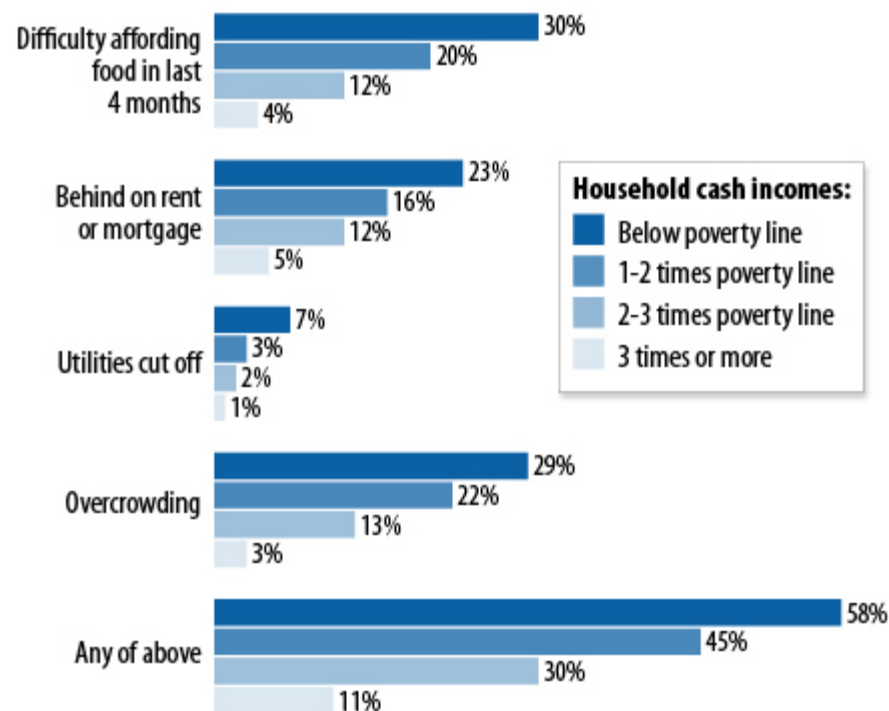
**SEQUESTRATION'S IMPACT ON
COMMUNITY ACTION**

Sequestration's Impact on Community Action

Sequestration comes at a pivotal time for the community action network and will effect households and individuals dependent on our programs.

Hardship Rates Are High for Both Poor and Near-Poor Children

Percent of children in households with selected conditions, in 2011



Source: CBPP analysis of Survey of Income and Program Participation

Sequestration's Impact on Community Action

On March 1st, by law, our federal government will slash funding to domestic programs such as CSBG, WIC, Head Start, Fuel Assistance, job training, etc. Programs that are essential to our network and deemed discretionary spending.



For this year's 2013 budget, a **5.1% cut** will be squeezed and magnified into the remaining 7 months. Then, for each of 9 more years, these indiscriminate, across-the-board cuts will continue until \$1.1 trillion is slashed from the federal budget.



See how these cuts will have a negative impact on families, children and workers in every state at <http://1.usa.gov/13JFfHO>

