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The Budget Control Act of 2011: Budgetary Effects of Proposals to Replace the FY2013 Sequester

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Summary

The Budget Control Act of 2011 (BCA; P.L. 112-25) provided for an increase in the statutory limit on the public debt in conjunction with a variety of measures to reduce the budget deficit. Included in these measures was the creation of a Joint Select Committee on Deficit Reduction, which was tasked to develop and submit a plan to Congress containing deficit reduction to total at least $1.2 trillion over the FY2012-FY2021 period. However, because the committee did not report out recommendations, the BCA's automatic spending reduction process was triggered. This process, set to begin on January 2, 2013, would reduce federal outlays over the next decade unless legislation is enacted to prevent it.

Both President Obama and some Members of Congress have offered proposals for repealing or modifying the automatic spending reductions. The President's FY2013 Budget Proposal eliminates the automatic spending reductions for all nine years and replaces them with alternative measures to reduce the deficit. The House FY2013 Budget Resolution (H.Con.Res. 112), accompanying budget reconciliation procedures, and the resulting Sequester Replacement Reconciliation Act (H.R. 5652), and the Van Hollen Amendment to H.R. 5652 propose eliminating different elements of the automatic spending reductions in FY2013 only and replacing them with alternative measures to reduce the deficit.

In his FY2013 budget, President Obama proposes replacing the BCA automatic cuts with prescribed spending cuts and tax increases. The largest of these proposals include allowing the 2001/2003/2010 tax cuts for singles making over $200,000 and households making over $250,000 to expire; savings generated from changes to Medicare, Medicaid, agriculture, and other mandatory programs; and placing caps on spending on Overseas Contingency Operations (OCO). Together, these deficit reduction proposals total $2,221 billion above the level otherwise achieved by the BCA's automatic spending reduction process between FY2013 and FY2022.

The Sequester Replacement Reconciliation Act of 2012 (H.R. 5652), agreed to by the House on May 10, 2012, would cancel the sequester of approximately $98 billion in discretionary defense, discretionary non-defense, and mandatory defense FY2013 funding scheduled to take place on January 2, 2013; would lower the current FY2013 cap on discretionary budget authority set by the BCA of $1,047 billion to $1,028 billion; and would cut other mandatory non-defense programs. If enacted, this measure would reduce the deficit by $262 billion over the FY2012 to FY2022 period above the level otherwise achieved by the BCA's FY2013 automatic spending reductions.

Representative Chris Van Hollen offered a substitute amendment to H.R. 5652. His proposal would replace the entire FY2013 sequester with a series of revenue increases and spending reductions. If enacted, this measure would reduce the deficit by $30 billion over the FY2012 to FY2022 period above the level otherwise achieved by the BCA's FY2013 automatic spending reductions. This measure was not made in order by the House Rules Committee.

In addition to the measures proposed above to replace the BCA's automatic spending cuts, President Obama signed into law the Sequestration Transparency Act of 2012 (H.R. 5872) on August 7, 2012. This legislation requires OMB, in consultation with the House and Senate Appropriations Committees, to submit a detailed report within 30 days of enactment containing information on how the BCA's FY2013 automatic spending reductions will affect each non-exempt program, project, and activity.

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The Budget Control Act of 2011 (BCA; P.L. 112-25), signed into law by President Barack Obama on August 2, 2011, provided for an increase in the statutory limit on the public debt in conjunction with a variety of measures to reduce the budget deficit.[1] These measures included the creation of a Joint Select Committee on Deficit Reduction, which was tasked to develop and submit a plan to Congress containing deficit reduction to total at least $1.2 trillion over the FY2012-FY2021 period. However, because the committee did not report out recommendations and therefore no deficit reduction plan became law by January 15, 2012, the BCA's automatic spending reduction process was triggered. This automatic spending reduction process, set to begin on January 2, 2013, would reduce federal outlays over the next decade unless legislation is enacted to prevent it.

The BCA specified a reduction of $1.2 trillion in cuts to budgetary resources over a nine-year period, with $216 billion (or 18%) of the total reduction to be achieved via savings on debt service costs. This amount was stipulated in the BCA itself.[2] The remaining $984 billion is to be divided equally across each of the nine years, resulting in annual cuts of approximately $109 billion. Approximately $55 billion of these annual reductions will affect defense spending and $55 billion will affect non-defense spending.

Some in Congress have objected to the mechanism by which spending would be cut in these years and have proposed alternatives to these reductions. However, in order to modify the deficit reduction process contained in the BCA, Congress and the President would have to enact legislation to cancel or replace the automatic reductions.

This report provides information on the levels of deficit reduction if the BCA's automatic cuts are implemented as under current law and contrasts that with the alternative proposals offered by some Members of Congress and President Obama. This report also discusses specific determinations made by the Office of Management and Budget regarding the exempt/non-exempt status of certain programs, as well as a discussion of information to be disclosed regarding the FY2013 BCA sequester impact.

Changes in Federal Spending Assuming that the BCA's Automatic Spending Reductions are Implemented

On January 2, 2013, a set of "across-the-board" reductions in non-exempt programs are set to take effect via a sequestration process. These cuts will affect the remainder of FY2013 and will occur unless Congress and the President act to cancel the cuts. Between FY2014 and FY2021, the

[1] For more information on the Budget Control Act of 2011, see CRS Report R41965, *The Budget Control Act of 2011*, by Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan. For more information on the budgetary effects of the BCA, see CRS Report R42506, *The Budget Control Act of 2011: The Effects on Spending and the Budget Deficit When the Automatic Spending Cuts Are Implemented*, by Mindy R. Levit and Marc Labonte.

[2] The actual amount of debt service savings will depend on future interest rates and the timing of the deficit reduction. As described in CBO's analysis of the net budgetary savings resulting from an automatic $1.2 trillion reduction in the event a Joint Committee bill is not enacted, debt service savings amount to 16% of the total between FY2013 and FY2021. See Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act*, September 12, 2011.

dollar amount of the cuts will remain the same, though the cuts will be implemented in a different way. In those years, the reductions to mandatory spending will be implemented via a sequestration process, while the reductions to discretionary spending will be made via a lowering of the discretionary spending caps, effectively leaving it up to Congress to decide, via the appropriations process, how the cuts would be implemented under the new, lowered caps. Because Congress retains control over how the discretionary spending cuts in later years (FY2014-FY2021) will be implemented, they can choose to target specific programs, rather than have the more non-discriminatory cuts made via the sequester.

Table 1, below, shows how the deficit reductions will be distributed across discretionary and mandatory spending categories. The amount of deficit reduction shown in **Table 1** differs from the amount of the reduction in budgetary resources because the deficit is measured as the difference between outlays and revenue. There is a lag in the time a cut to budgetary resources would result in a reduction in outlays.[3] Due to the provisions of the BCA, no changes are made to revenue in the automatic process under that law; however, some proposals to replace the automatic cuts recommend raising revenues to achieve the desired deficit reduction.

[3] For example, the FY2013 sequester would cut budgetary resources by roughly $109 billion, $55 billion on defense discretionary, $43 billion on non-defense discretionary, and $12 billion on non-defense mandatory. (Cuts to defense mandatory spending total less than $500 million over the FY2013-FY2021 period because the vast majority of defense spending is discretionary.) The corresponding effects on FY2013 outlays is estimated at $32 billion on discretionary defense, $24 billion on discretionary non-defense, and $10 billion on mandatory non-defense. The effect of the remainder of the FY2013 reductions occur in later years. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, Box 1-2 and Table A-2.

Table 1. Deficit Reduction Under the BCA and Alternatives to Replace the FY2013 Sequester

(in billions of dollars of outlays; positive/negative numbers indicate an increase/decrease in spending or revenues)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2012-FY2022
BCA Automatic Spending Reductions												
Discretionary	n/a	-$56	-$79	-$87	-$89	-$90	-$90	-$89	-$88	-$87	n/a	-$755
Mandatory	n/a	-$10	-$14	-$14	-$15	-$15	-$16	-$16	-$17	-$17	n/a	-$134
Revenue	n/a	$0	$0	$0	$0	$0	$0	$0	$0	$0	n/a	$0
Total Deficit Reduction	n/a	-$66	-$93	-$101	-$104	-$106	-$106	-$105	-$105	-$105	n/a	-$890
President's FY2013 Budget												
Discretionary[a]	$0	$13	$4	-$7	-$28	-$102	-$105	-$107	-$110	-$116	-$119	-$677
Mandatory	$11	$2	-$17	-$42	-$50	-$59	-$63	-$66	-$74	-$88	-$140	-$586
Revenue	*	$103	$84	$168	$225	$197	$204	$208	$231	$239	$254	$1,913
Increase in Deficit Due to Eliminating BCA Automatic Spending Reductions	$0	$71	$96	$105	$109	$109	$109	$109	$109	$109	$38	$966
Total Deficit Increase (+) or Reduction (-)	$11	-$17	-$1	-$112	-$194	-$249	-$263	-$272	-$306	-$334	-$475	-$2,212
Sequester Replacement Reconciliation Act (H.R. 5652)[b]												
Discretionary	$0	-$11	-$5	-$2	-$1	-*	$0	$0	$0	$0	$0	-$19
Mandatory	-$2	-$16	-$18	-$24	-$24	-$21	-$21	-$22	-$22	-$23	-$29	-$222
Revenue	-*	$2	$4	$6	$9	$12	$12	$12	$12	$12	$12	$94
Increase in Deficit Due to Eliminating BCA Automatic Spending Reductions		$36	$21	$12	$2	$1	$0	$0	$0	$0	$0	$72
Total Deficit Reduction[c]	-$2	$7	-$5	-$19	-$32	-$33	-$33	-$34	-$34	-$35	-$41	-$262

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2012-FY2022
Van Hollen Amendment to H.R. 5652[c]												
Discretionary	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Mandatory	$0	$0	-$5	-$2	-$2	-$3	-$3	-$3	-$3	-$3	-$3	-$27
Revenue	$1	$9	-$3	$8	$8	$9	$10	$10	$11	$11	$11	$85
Increase in Deficit Due to Eliminating BCA Automatic Spending Reductions	$0	$46	$21	$12	$2	$1	$0	$0	$0	$0	$0	$82
Total Deficit Increase (+) or Reduction (-)	-$1	$37	$19	$2	-$8	-$11	-$13	-$13	-$13	-$13	-$14	-$30

Source: CBO, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, Table A-2; Office of Management and Budget, *Budget for FY2013*, *Summary Tables*, Table S-2; CBO, *Sequester Replacement Reconciliation Act* (cost estimate), Table 2; CBO, *Letter to the Honorable Chris Van Hollen Regarding a Proposed Amendment to the Sequester Replacement Reconciliation Act of 2012*, Table 2.

Notes: The President's proposal eliminates the BCA automatic spending reductions in all years (FY2013-FY2021). The Sequester Replacement Reconciliation Act and the Van Hollen Amendment eliminate the BCA automatic reductions in FY2013 only. For each proposal, the deficit reduction that replaces the BCA automatic spending reductions are achieved over the FY2012-FY2022 period. Totals may not sum due to rounding. Changes in spending and revenue listed above do not include debt service savings. n/a indicates "Not Applicable." * indicates $500 million or less.

a. Contains less than $28 billion in mandatory savings related to program integrity initiatives that could not be separated out from other discretionary savings.

b. Assuming July 1, 2012, enactment.

c. Includes discretionary spending reductions as a result of lowered FY2013 discretionary cap level from current BCA FY2013 cap levels. Amount of deficit reduction attributed to the caps change is illustrated in the discretionary category. This amount could change based on future appropriations actions for FY2013.

Proposals to Replace the FY2013 Sequester

Some Members of Congress have offered proposals for repealing or modifying the automatic spending reductions before they go into effect. In some instances, the proposals replace the entire process through FY2021, and in other instances, they only replace the process in FY2013. The President's FY2013 budget proposal eliminates the automatic spending reductions for all nine years and replaces them with alternative measures to reduce the deficit. The Sequester Replacement Reconciliation Act (H.R. 5652) and the Van Hollen Amendment to H.R. 5652 propose eliminating different elements of the automatic spending reductions in FY2013 only and replacing them with alternative measures to reduce the deficit. These measures and their resulting levels of deficit reductions are shown in **Table 1**.

Other alternatives have been proposed, but in order to facilitate comparisons between the different proposals, only those with CBO or OMB scores are included in **Table 1**. For a brief discussion of additional proposals that have yet to be scored, see the section below titled "Other Alternatives."

President Obama's Proposal

In his FY2013 budget, President Obama proposes replacing the BCA automatic cuts with prescribed spending cuts and tax increases. The largest of these proposals include allowing the 2001/2003/2010 tax cuts for single filers making over $200,000 and married joint filers making over $250,000 to expire; savings generated from changes to Medicare, Medicaid, agriculture, and other mandatory programs; and placing caps on spending for Overseas Contingency Operations (OCO). Together, these deficit reduction proposals total $2,221 billion (see **Table 1**) above the level otherwise achieved by the BCA's automatic spending reduction process between FY2013 and FY2022.[4]

Sequester Replacement Reconciliation Act (H.R. 5652)

The House-passed FY2013 budget resolution proposes to replace the Budget Control Act's automatic cuts with spending cuts to be achieved elsewhere. Pursuant to instructions included in the FY2013 budget resolution, the Sequester Replacement Reconciliation Act of 2012 (H.R. 5652), as considered by the House, proposes to replace portions of the FY2013 sequestration with spending cuts achieved elsewhere while leaving the FY2014 to FY2021 automatic cuts in place.

The legislation would cancel the sequester of approximately $98 billion in discretionary defense, discretionary non-defense, and mandatory defense FY2013 funding scheduled to take place on January 2, 2013. The sequestration of FY2013 non-defense mandatory funding of approximately $12 billion would remain in place. In exchange for eliminating the majority of the FY2013 automatic spending reductions, H.R. 5652 would lower the current FY2013 cap on discretionary budget authority set by the BCA of $1,047 billion to $1,028 billion and would cut other

[4] The deficit reduction proposed in the President's budget to replace the automatic spending reduction process total $3,187 billion. However, the budget also proposes to cancel $996 billion in automatic cuts. Therefore, the cumulative effect of these reductions is $2,221 billion. CRS calculations based on Office of Management and Budget, *Budget for Fiscal Year 2013*, *Summary Tables*, Table S-2.

mandatory non-defense programs. The change to mandatory programs include alterations of the SNAP benefits and eligibility criteria, modifications to certain housing and financial authorities, alterations to the provisions related to health insurance exchanges established by the Affordable Care Act, adjustments to the required retirement contribution rates paid by federal employees and Members of Congress, and changes to Medicaid and CHIP.

If enacted, this measure is projected to reduce the deficit by an estimated $262 billion over the FY2012 to FY2022 period (see **Table 1**) above the level otherwise achieved by the BCA's FY2013 automatic spending reductions.[5] The deficit in FY2013 itself would be higher as a result of H.R. 5652 than it otherwise would have been had the BCA's automatic spending reductions remained in place. This measure was agreed to by the House on May 10, 2012, by a vote of 218-199.

Van Hollen Amendment to H.R. 5652

Representative Chris Van Hollen proposed a substitute amendment to H.R. 5652. His proposal would have replaced the entire FY2013 sequester with a series of revenue increases and spending reductions. Changes in spending would have been achieved mainly by ending the direct payment program for agricultural producers. Among the revenue measures contained in this amendment were a new minimum tax for taxpayers with adjusted gross income of greater than $1 million, increased retirement contributions paid by Members of Congress, and limits on certain tax deductions used by oil and gas companies.

If enacted, this measure would have projected to reduce the deficit by $30 billion over the FY2012 to FY2022 period (see **Table 1**) above the level otherwise achieved by the BCA's FY2013 automatic spending reductions.[6] The deficit in FY2013 through FY2015 would be higher as a result of this amendment than it otherwise would have been had the BCA's automatic spending reductions remained in place. This measure was not made in order by the House Rules Committee, and therefore was not offered.

Other Alternatives

In addition to the proposals discussed above, other legislation has been introduced but has not been issued a public cost estimate by CBO. Chairman of the House Armed Services Committee Representative Buck McKeon introduced the Down Payment to Protect National Security Act of 2011 (H.R. 3662) on December 14, 2011. The bill replaces the entire FY2013 sequester with limits on the number of new federal employees who can be hired to replace employees who leave federal service. Senator Jon Kyl introduced a similar measure in the Senate, titled Down Payment to Protect National Security Act of 2012 (S. 2065), on February 2, 2012. In addition to the provisions contained in H.R. 3662, it also contains a provision that extends the federal employee pay freeze through June 2014. No action has been taken on either of these measures.

[5] Congressional Budget Office, Cost Estimate for *Sequester Replacement Reconciliation Act*, Table 2.

[6] Congressional Budget Office, *Letter to the Honorable Chris Van Hollen Regarding a Proposed Amendment to the Sequester Replacement Reconciliation Act of 2012*, Table 2.

Legislation Requiring Disclosure of Sequester Impact

In addition to the measures proposed above to replace the BCA's automatic spending cuts, on August 7, 2012, President Obama signed into law the Sequestration Transparency Act of 2012 (H.R. 5872). The act requires the President, with the assistance of OMB and federal agencies, in consultation with the House and Senate Appropriations Committees, to submit a "detailed" report within 30 days of enactment containing the uniform percentage reduction and dollar amount reductions for each account, and each program, project, and activity within those accounts, required under the sequestration scheduled to occur on January 2, 2013. The report also is required to include a list identifying all exempt discretionary and mandatory spending accounts. The BCA requires OMB to submit a report containing information regarding the calculations and reductions required under the automatic process, including the FY2013 sequestration, on January 2, 2013, and with the President's budget submission each year thereafter. No other reporting requirements are included in the BCA itself.

However, OMB has issued responses to questions raised by Members of Congress regarding certain sequestration implementation issues. In a May 25, 2012, letter to House Budget Committee Chairman Paul Ryan, OMB's Acting Director Jeffrey Zients wrote that the Administration had determined, reiterating from an earlier letter, all programs administered by VA, including Veterans' Medical Care, were exempt from sequestration.[7] In a June 15, 2012, letter to House Committee Chairman Howard P. "Buck" McKeon, Ileana Ros-Lehtinen, and Mike Rogers, Mr. Zients wrote that the Administration has "identified no statutory basis for generally exempting OCO funds from sequestration."[8] Finally, on July 31, 2012, Zients sent a letter to Speaker Boehner notifying him of President Obama's intent to exempt military personnel accounts from the FY2013 sequestration.[9]

[7] The letter does not address whether administrative expenses for the VA programs would be exempt from sequestration. Letter from Jeffrey Zients, Acting Director of the Office of Management and Budget, to The Honorable Paul Ryan, Chairman of the House Committee on the Budget, May 25, 2012, http://www.whitehouse.gov/sites/default/files/omb/legislative/letters/response-letter-to-chairan-ryan-05232012.pdf.

[8] Letter from Jeffrey Zients, Acting Director of the Office of Management and Budget, to The Honorable Howard P. "Buck" McKeon, Chairman of the House Committee on Armed Services, The Honorable Ileana Ros-Lehtinen, Chairwoman of the House Committee on Foreign Affairs, and The Honorable Mike Rogers, Chairman of the House Permanent Select Committee on Intelligence, June 15, 2012, http://www.whitehouse.gov/sites/default/files/omb/legislative/letters/response-letter-to-chairman-mckeon-ros-lehtinen-rogers-06152012.pdf.

[9] Letter from Jeffrey Zients, Acting Director of the Office of Management and Budget, to The Honorable John A. Boehner, Speaker of the House of Representatives, July 31, 2012, http://www.whitehouse.gov/sites/default/files/omb/legislative/letters/military-personnel-letter-boehner.pdf.

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