



U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

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Chris Van Hollen,
Ranking Democrat

September 27, 2013

Frequently Asked Questions about Sequestration: An Update for FY 2014

Dear Democratic Colleague:

Attached is a report prepared by the House Budget Committee Democratic staff about sequestration. It's designed to answer many of the questions being asked about how the sequester works.

Fiscal Year 2014 begins on October 1, and with it the second year of sequestration under the Budget Control Act of 2011. Sequestration was designed to reduce the deficit by \$1.2 trillion over nine years, with the upcoming 2014 sequester cutting spending by \$109 billion, half from defense and half from non-defense programs. The first round of annual spending cuts was implemented on March 1, 2013, through across-the-board cuts to all non-exempt programs. Non-defense discretionary programs were cut by 5.0 percent, non-defense mandatory programs by 5.1 percent, defense discretionary programs by 7.8 percent, and defense mandatory programs by 7.9 percent.

While the effect of the upcoming sequestration on individual discretionary programs will not be known until appropriations for 2014 are enacted, the attached report answers some frequently asked questions. Additional materials, including Democratic proposals to replace the sequester with a balanced deficit reduction approach, are on the Committee's website at democrats.budget.house.gov/issue/sequestration.

Sincerely,

Chris Van Hollen
Ranking Democrat



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This document has not been reviewed and approved by the Democratic Caucus of the House Budget Committee and may not necessarily reflect the views of all members. Years generally refer to fiscal years, unless noted or in bill titles.

Frequently Asked Questions about Sequestration: An Update for FY 2014

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Frequently Asked Questions about Sequestration: An Update for FY 2014

Sequestration: The cancellation of budgetary resources, or holding back money that would otherwise be spent under current law.

Background on Sequestration

The Budget Control Act of 2011 (BCA) contains two different mechanisms to achieve spending reductions, both commonly referred to as “sequester.” The **deficit reduction sequester** requires nine annual sequesters of \$109 billion – half from defense and half from non-defense programs – because the work of the Joint Select Committee on Deficit Reduction did not result in enactment of deficit reduction of at least \$1.2 trillion. The first of these annual sequesters took effect this spring (in fiscal year 2013). The BCA also mandates separate **discretionary sequesters** if appropriations for any year exceeds the annual caps set by the law. (See Question 4 below for further details on the categories of discretionary sequesters.)

The first deficit reduction sequester of approximately \$109 billion had been slated to take place on January 2, 2013, but the fiscal cliff deal enacted at the end of the 112th Congress moved the date to March 1 and reduced the required spending cuts by \$24 billion. The deal also lowered the law’s discretionary caps by a total of \$4 billion for 2013 and by \$8 billion for 2014.

Frequently Asked Questions about Sequestration

1. How did the deficit reduction sequester work for 2013?

The BCA requires spending cuts that will accomplish the deficit reduction that the efforts of the Joint Select Committee on Deficit Reduction did not achieve. The cuts, to be carried out over a nine-year period, take even amounts from defense and from non-defense spending, including both discretionary and mandatory programs.

The first round of cuts was implemented on March 1, 2013, through across-the-board cuts to all non-exempt programs: non-defense discretionary (NDD) programs were cut by 5.0 percent, non-defense mandatory programs by 5.1 percent, defense discretionary programs by 7.8 percent, and defense mandatory programs by 7.9 percent. However, specific limits apply to the sequester for certain programs, such as Medicare, which receives cuts to providers that are capped at 2 percent

2013 Sequester Cuts	
Non-defense	
Discretionary	5.0%
Mandatory	5.1%
Defense	
Discretionary	7.8%
Mandatory	7.9%

regardless of the size of the sequester. Agencies had minimal statutory authority to transfer some funding and impose the cuts in ways that minimized their impact, but each non-exempt account had to be cut by the required percentage to produce savings of \$85 billion.

2. How will the sequester work for 2014 through 2021?

Sequestration of mandatory spending programs will work the same way as it did in 2013. The percentage cuts to mandatory programs are shown in the box below.

However, the sequester for discretionary programs for 2014 through 2021 is intended to be implemented by adhering to lowered defense and non-defense spending caps, and not (as it was in 2013) through an across-the-board cut to already-enacted spending. Thus, Congress can choose to cut or spare individual programs through the appropriations process.

2014 Sequester Cuts	
Discretionary	cut vs. Clean CR
Non-defense	\$1.6B
Defense	\$19.9B
Mandatory	cut vs. current law
Non-defense	7.2%
Defense	9.8%

If funding for any year exceeds a discretionary cap there is a backup discretionary sequester that would cut all non-exempt programs in the category by the percentage required to remove the breach. (The rules of this discretionary sequester are slightly different than the deficit reduction sequester. See question 7 below for additional details.) For example, if Congress were to enact a clean Continuing Resolution (CR) for all programs that do not yet have appropriations enacted for 2014, both defense and non-defense caps would be breached. The resulting discretionary sequester would cut \$1.6 billion from NDD spending and \$19.9 billion from defense spending. The defense cut is larger because Congress increased 2013 defense spending above the initial cap primarily because: (1) different definitions of “security” spending under the original cap and “defense” spending under the cap in the fiscal cliff deal resulted in more defense spending and less non-defense spending for 2013; and (2) the fiscal cliff deal decreased the size of the 2013 sequester, and virtually all of the spared defense spending is discretionary, which allowed more defense spending than in 2014, when the defense cap is lower.

3. How much of the sequestration comes from discretionary versus mandatory spending?

The bulk of sequestration savings comes from discretionary programs (those funded by annual appropriations bills) as opposed to mandatory programs (also known as direct spending, or entitlement spending, where a program’s annual cost is generally determined by eligibility criteria established by law). The required savings are to come half from defense programs and half from non-defense programs. Within each half, the savings are allocated to discretionary and mandatory programs based on the contribution each makes to the total of discretionary budget authority and sequesterable direct spending. Because defense has almost no mandatory funding subject to sequestration, almost all of the defense portion will come from discretionary programs. On the non-defense side of the

budget, mandatory programs will account for about one-third of the non-defense savings. Thus, almost all defense savings and about two-thirds of non-defense savings will come from discretionary programs.

4. What are the firewalls and categories for discretionary caps?

The BCA set different spending caps for different discretionary categories, separated by a “firewall” for enforcement purposes. If a cap is breached in one category, the firewall requires an offsetting discretionary sequester only within that portion of discretionary spending rather than across all discretionary categories.

For 2014 through 2021, the firewalls and caps are set for the categories of non-defense spending and defense, which is the federal budget’s national defense function. It includes the Department of Defense, nuclear-energy related activities at the Department of Energy, the national security activities of several other agencies such as the Selective Service System, and portions of the activities of the Coast Guard and Federal Bureau of Investigation. (The 2013 firewall used a slightly different, broader security category that also included all programs within the Departments of Homeland Security and Veterans Affairs, and accounts in the International Affairs budget function.)

5. What percentage of the cut is in “defense” versus “non-defense” programs?

The deficit reduction sequester requires that half of the savings come from defense programs and half from non-defense programs.

6. Is funding for Overseas Contingency Operations (OCO) exempt from the discretionary sequester?

No. Classification as OCO does not necessarily exempt spending from a discretionary sequester. However, to the extent that OCO funding is covered by other exemptions in the law, it will be exempt. As specifically allowed under the law, the President has exempted military personnel from the sequester. As a result, the military personnel accounts classified as OCO will also be exempt.

7. Which programs will be sequestered?

For 2013, the deficit reduction sequestration applied individually to all discretionary and mandatory programs that are not specifically exempted by budgetary law. In its March 1 [report](#) to Congress, OMB listed how much each account was to be cut. As described in question 2 above, the discretionary sequester for 2014 through 2021 is designed to work differently – to be implemented through caps on spending, with Congress allocating spending for each program beneath the cap.

On the discretionary side of the budget for 2014 through 2021, an across-the-board sequester cut will only occur if appropriations provided by Congress breach the lowered

caps in any of those years. The total amount of the cut is determined by the amount appropriations are in excess of the cap. Like the 2013 deficit reduction sequester, some programs would be exempted from a discretionary sequester order. Pell grants, spending from most transportation trust funds (which support highways, mass transit, and airports), all programs administered by the Department of Veterans Affairs, and – if the President deems it so – military personnel accounts, would be exempt from a discretionary sequester. However, unlike the deficit reduction sequester, discretionary administrative funds for programs that are otherwise exempt, including those for veterans services, would be subject to a discretionary sequester.

It is also important to note that to comply with the lowered discretionary cap levels in the future, Congress could choose to cut any discretionary program, including programs such as Pell grants or veterans' health care, that would be exempt from an across-the-board sequester.

On the mandatory side of the budget, the bulk of spending is either exempt or subject to a special rule. Social Security is exempt from sequester cuts, as are many programs that serve low-income beneficiaries, including Medicaid, Supplemental Nutrition Assistance Program (formerly called food stamps), Supplemental Security Income, and Temporary Assistance for Needy Families. Federal retirement and disability accounts and veterans' programs are exempted, as are most refundable tax credits. Other specific exemptions include a variety of government insurance programs and activities funded from private donations or voluntary contributions. Most of Medicare payments to providers are subject to sequestration but limited to a 2 percent reduction. (Some of Medicare is exempt and a small portion is subject to the full sequester.) Farm support programs comprise the largest component of the remaining mandatory spending subject to full sequestration.

8. Who determines the size of the required cut, and when will we know the specifics?

OMB manages all aspects of the sequester. The law specifies that OMB estimates are to be used to determine both which programs are exempt from the sequester and the size of the cut on the remaining programs. Neither the Congressional Budget Office nor the Budget Committees plays a role in implementing the sequester.

OMB has issued a report showing the size of the 2013 cut to each budgetary account, and a report estimating the percentage cut to mandatory programs for 2014. On the discretionary side, until Congress enacts 2014 funding we cannot know how each program will fare. If appropriations exceed either of the post-sequester discretionary caps, that discretionary sequester would occur 15 days after the end of the Congressional session.

9. How much discretion does the President have in how the sequester is applied?

Almost none. The President does not have discretion to vary the size of the cut to agency budgets. The President has exercised his authority to exempt military personnel accounts from sequestration. That does not change the total defense sequester; it just increases the cut to other defense programs under a defense discretionary sequester. Agencies will continue to have their existing specific transfer authority.

10. Is there a waiver of the deficit reduction sequester?

There is no waiver of the deficit reduction sequester unless there is a declaration of war. The only option for changing it would be to enact legislation to amend the BCA.

11. Are there current proposals to repeal the 2014 sequester?

Democrats have repeatedly proposed to replace the sequester with at least as much deficit reduction through a balance of targeted spending cuts and revenue from eliminating subsidies to big oil and gas companies and implementing a "Buffett Rule" ensuring that middle class families do not face higher effective tax rates than the wealthy. However, Republicans have not allowed the full House to vote on this proposal.

Sources for information mentioned in this report

OMB Sequestration Preview Report for 2014 and OMB Report on the Joint Committee Reductions for 2014 (corrected version of May 20, 2014):

http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy14_preview_and_joint_committee_reductions_reports_05202013.pdf

OMB report on the 2013 sequester, March 1, 2013:

http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy13ombicsequestrationreport.pdf

The Budget Control Act of 2011 (P.L. 112-25): <http://www.gpo.gov/fdsys/pkg/PLAW-112publ25/pdf/PLAW-112publ25.pdf>

The American Taxpayer Relief Act of 2012 (H.R. 8, P.L. 112-240):

<http://www.gpo.gov/fdsys/pkg/BILLS-112hr8enr/pdf/BILLS-112hr8enr.pdf>

Congressional Research Service report on “Budget ‘Sequestration’ and Selected Program Exemptions and Special Rules,” November 23, 2011:

<http://www.crs.gov/pages/Reports.aspx?PRODCODE=R42050&Source=search>