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Revised Hypothetical Impact of BCA Sequester on Major Discretionary Grants

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Summary

On August 2, 2011, the president signed the Budget Control Act of 2011 (BCA, P.L. 112-25), which provides for an increase in the federal debt limit and includes several provisions aimed at reducing long-term budget deficits (see [Budget Brief 11-13](#) for more details). One of these provisions created a Joint Select Committee on Deficit Reduction (JSC) to develop recommendations for reducing the federal budget deficit by at least \$1.2 trillion over 10 years. The legislation resulting from these recommendations would be considered by Congress under special, expedited procedures, designed to prevent amendment and limit debate. If the efforts of the JSC fail to achieve at least \$1.2 trillion in deficit reduction and are not enacted by January 15, 2012, then an automatic process to reduce spending is triggered. This process, known as sequestration, would take effect on January 2, 2013, for fiscal year (FY) 2013 spending, and result in across-the-board (ATB) cuts to nonexempt discretionary and mandatory spending.

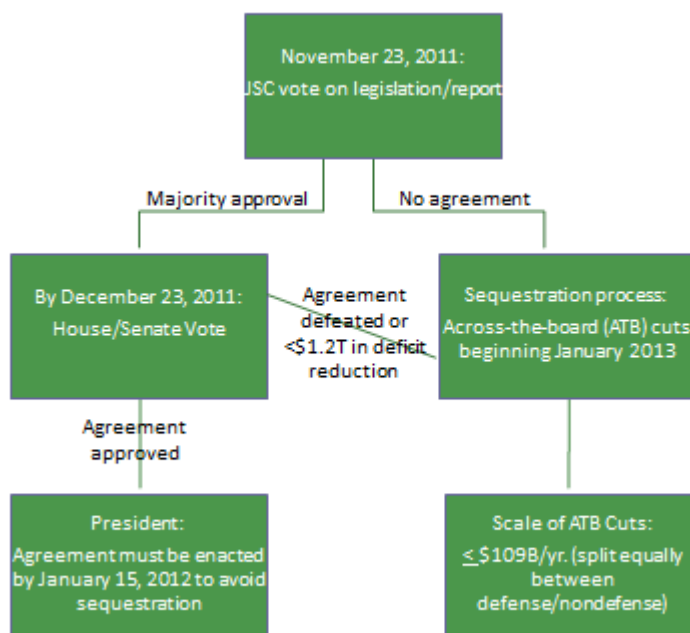
With the apparent failure of the JSC to produce a deficit-reduction proposal, the prospect of sequestration has moved closer to reality. This *Special Analysis* calculates the hypothetical impact of sequestration on funding for major discretionary grant programs of importance to states in FY 2013.

Sequestration Process

Sequestration is defined as the automatic, across-the-board cancellation of budgetary resources. The BCA included such automatic spending reductions to achieve a deficit reduction agreement. Specifically, Congress and the president would have to enact at least \$1.2 trillion in deficit reduction by January 15, 2012 (assuming a Balanced Budget Amendment does not pass Congress), to avoid this trigger. The flow chart on the next page summarizes the JSC process and the steps necessary to avoid sequestration.

Under the BCA, the JSC must vote on its proposal (which is to include legislative language and an accompanying report) by November 23, 2011. For the proposal to be approved, at least seven members must support it. The legislation must pass both the House and Senate by December 23, 2011. (If the JSC or the House/Senate do not meet their deadlines, the bill would not be considered under the fast-track procedures outlined in the BCA.) The deadline for enactment is January 15, 2012. If the bill is not enacted by then, or is enacted but falls short of \$1.2 trillion in deficit reduction, automatic spending cuts are triggered. The JSC is terminated on January 31, 2012.

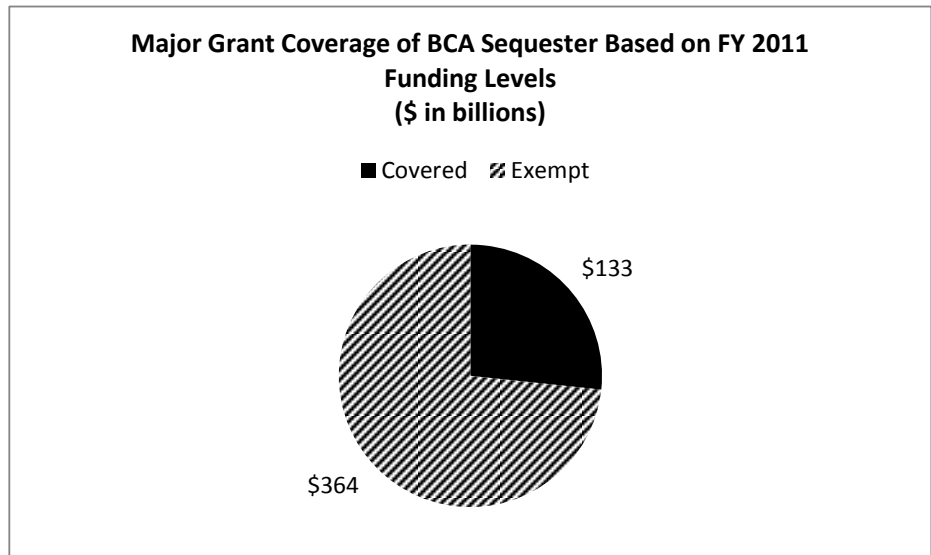
Process for JSC Deficit Reduction Proposal



If sequestration is triggered, P.L. 112-25 outlines the steps that must be followed. In general, half of the reductions would come from defense and half from nondefense spending. The reductions in these two categories are then divided proportionally between nonexempt discretionary and mandatory programs. For FY 2013, discretionary reductions would be achieved by automatic ATB spending cuts. For FYs 2014-2021, the discretionary reductions would be made by a downward adjustment to the spending caps (enforced by sequestration). This means that, beginning in FY 2014, funding levels for specific programs (and the way Congress allocates the reductions) will be determined through the regular appropriations process. For nonexempt mandatory spending, automatic ATB cuts would take place each year.

Many programs—most notably, Social Security, Medicaid, the Children’s Health Insurance Program (CHIP), Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and Federal-Aid Highways Obligation Limitations—are exempt from sequester. A complete listing of the exemptions is available [here](#). While not exempt from sequester, Medicare, community and migrant health centers, and Indian health services would be limited to 2% cuts, although ambiguities remain. Funding included in the Affordable Care Act (ACA, P.L. 111-148 and P.L. 111-152) would not be exempt from sequester unless provided to an exempt program, such as Medicaid.

As a result of the various exemptions, FFIS estimates that the majority of funding states receive via federal grants would not be subject to sequester. The following chart shows the breakdown, based on programs included on FFIS’s [Jim Martin Table](#).



Sequester Example

Following is an example of the steps and calculations required to determine the automatic spending reductions. The example assumes a full \$1.2 trillion sequester and is based, in part, on estimates from the National Governors Association (NGA):

- 1) The split of FY 2013 statutory discretionary spending limits between security and nonsecurity included in the BCA is revised and renamed. The revised security category becomes the defense category and includes only the defense budget function (050). The other spending included in the original security category (i.e., portions of homeland security, Veterans Affairs, National Nuclear Security Administration, intelligence community management, and international affairs) would be transferred to the revised nonsecurity, or nondefense, category. (Absent sequestration, the BCA caps would apply only to total discretionary spending beginning in FY 2014.)
- 2) The total amount of the overall spending reduction is calculated. The \$1.2 trillion is reduced by any deficit reduction enacted as a result of the JSC (in this example, no legislation is enacted).
- 3) The \$1.2 trillion is reduced by assumed interest savings of 18% (\$216 billion). The required cuts are now \$984 billion.
- 4) Since these cuts are implemented over FYs 2013-2021, the \$984 billion is divided by nine years to calculate the annual cuts (\$109 billion per year).
- 4) The cuts are equally split between defense and nondefense (\$55 billion each per year).
- 5) The annual reduction for each of these categories is further divided proportionally between discretionary appropriations and nonexempt mandatory programs.
- 6) For nondefense, NGA estimates the required cuts from Medicare (limited to 2%) and other nonexempt mandatory programs would be approximately \$10 billion. As a result, the reduction to nondefense discretionary programs would be \$44 billion per year.

7) According to NGA's estimates, a \$44 billion reduction in nondefense discretionary programs would result in cuts of approximately 8.8%. NGA estimates a 10% reduction for defense programs.

8) The 8.8% nondefense discretionary cut would be applied to FY 2013 funding levels at the budget account level as determined by the appropriation process and subject to the revised nonsecurity caps. The percentage reduction would be applied to budgetary resources in all programs, projects, and activities within a budget account, as specified by the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), which first established sequestration.

Hypothetical Impact on Major Grants

Table 1 shows hypothetical FY 2013 funding levels for major programs of importance to states assuming a full \$1.2 trillion sequester. FFIS estimates that overall funding levels for major discretionary grant programs could be reduced by -\$16 billion (-8.8%) in FY 2013 compared to enacted FY 2011 funding, and -\$11 billion (-6.2%) from estimated FY 2012 levels. These are hypothetical illustrations designed to give states a sense of possible FY 2013 funding levels under a full sequester. It is impossible to determine the precise implications of the spending reductions for the reasons outlined below.

Assumptions. Many of the program levels against which FY 2013 sequesters will be taken are not yet known and are difficult to estimate. These estimates rely on FY 2012 spending levels based on either the continuing resolution (CR) that is in effect until December 16, 2011, or FY 2012 enacted levels for programs covered by the "minibus" appropriation bill that covered several federal agencies (see [Budget Brief 11-16](#) for more information). The two columns listed in Table 1 for FY 2012 indicate which programs fall into each of those categories.

Next Steps

The final sequester percentage will depend on budgetary actions and decisions that occur between now and January 2013. Moreover, it is possible for sequestration to be altered or avoided altogether if Congress and the president decide to repeal or modify the BCA before sequestration takes place in January 2013.

In the coming weeks, FFIS will apply this estimation methodology to its full program database, so that individual states will have a sense of the implications of a BCA sequester on their own federal grant funding in FY 2013.

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Table 1

Hypothetical Impact of BCA on Major Discretionary Grants

(dollars in millions)

Major Discretionary	FY 2010	FY 2011	FY 2012		FY 2013
	Enacted	Enacted	CR Level	Enacted	Hypothetical 1/
Department of Agriculture	\$7,252	\$6,734	\$0	\$6,618	\$6,036
Women, Infants & Children (WIC)	7,252	6,734		6,618	6,036
Department of Commerce	255	246	0	220	201
Economic Development Assistance	255	246		220	201
Department of Education	37,688	37,232	36,673	0	33,445
Title I: Education for the Disadvantaged	14,492	14,463	14,246		12,992
Title I: School Improvement Grants	546	535	527		481
Striving Readers	250	0	0		0
Even Start	66	0	0		0
Current School Improvement Programs	72	27	27		24
Mathematics and Science Partnerships	180	175	172		157
English Language Acquisition	750	734	723		659
Improving Teacher Quality	2,948	2,468	2,431		2,217
Teacher Incentive Fund	400	399	393		359
Educational Technology State Grants	100	0	0		0
Impact Aid	1,276	1,273	1,254		1,144
21st Century Community Learning Centers	1,166	1,154	1,136		1,036
State Assessments	411	389	383		350
Special Education State Grants (Part B-611)	11,505	11,482	11,310		10,314
Career and Technical Education State Grants	1,161	1,124	1,107		1,009
Adult Basic and Literacy Education State Grants	628	596	587		535
Federal Supplemental Ed. Opportunity Grants	757	736	724		661
Work Study	980	979	964		879
Race to the Top	0	699	688		628
Health and Human Services	27,151	26,293	25,898	0	23,725
Substance Abuse Block Grant	1,799	1,783	1,756		1,601
Mental Health Block Grant	421	420	414		377
Maternal & Child Health Block Grant	662	656	646		590
Community Health Centers 2/ Preventive Health Block Grant	2,190	1,581	1,557		1,526
Family Planning	102	80	79		72
Immunization Grants	317	299	295		269
Ryan White AIDS Grants	497	426	420		383
Hospital Preparedness Formula Grants	2,291	2,337	2,302		2,099
CDC-State & Local Capacity (Bioterrorism)	420	378	372		340
Head Start	761	664	654		596
Child Welfare Services	7,235	7,560	7,446		6,791
Community Services Block Grant	282	281	277		252
Child Care & Development Block Grant	700	679	668		610
Low-Income Home Energy Assistance	2,127	2,223	2,189		1,996
Refugee Assistance	5,100	4,701	4,630		4,222
Administration On Aging	731	729	719		655
	1,516	1,497	1,475		1,345
Department of Housing and Urban Development	42,815	41,678	0	40,480	36,918
Community Development Block Grant - Entitlement	2,793	2,335		2,064	1,882
Community Development Block Grant - Nonentitlement	1,197	1,001		884	806
Homeless Assistance Grants	1,865	1,901		1,901	1,734
HOME Program	1,825	1,607		1,000	912
Public Housing Operating Fund	4,775	4,617		3,962	3,613
Public Housing Capital Fund	2,500	2,040		1,875	1,710
Tenant-Based Rental Assistance (Section 8)	18,184	18,371		18,914	17,250
Project-Based Rental Assistance (Section 8)	8,551	9,257		9,340	8,518
Housing for the Elderly	825	399		375	342
Housing for Persons with Disabilities	300	150		165	150

cont.

Major Discretionary	FY 2010	FY 2011	FY 2012		FY 2013
			CR Level	Enacted	Hypothetical 1/
Departments of Energy and EPA	3,747	2,709	2,669	0	2,434
DOE Weatherization Assistance Program	210	174	172		157
DOE State Energy Program	50	50	49		45
EPA Clean Water State Revolving Fund	2,100	1,522	1,499		1,367
EPA Drinking Water State Revolving Fund	1,387	963	949		865
Department of Justice	2,115	1,662	0	1,252	1,142
Violence Against Women	419	418		413	377
COPS/21st Century Policing	792	495		199	181
State Criminal Alien Assistance Program (SCAAP)	330	273		240	219
Byrne Justice Assistance Grants (JAG)	519	430		370	337
Juvenile Accountability Block Grant (JABG)	55	46		30	27
Department of Homeland Security	2,380	1,816	1,789	0	1,632
REAL ID	50	45	44		40
State Homeland Security Grant Program (SHSGP)	890	579	570		520
Citizen Corps	13	10	10		9
Urban Area Security Initiative	887	724	713		650
Emergency Food and Shelter	200	120	118		108
Emergency Management Performance Grants	340	339	334		305
Department of Labor	6,919	6,726	6,625	0	6,042
Dislocated Worker Assistance	1,184	1,063	1,047		955
Adult Training	862	771	759		693
Youth Training	924	826	814		742
Workforce Innovation Fund Programs	0	125	123		112
Employment Service State Administration	704	702	692		631
Unemployment Insurance State Administration	3,246	3,239	3,190		2,910
Department of Transportation	59,474	55,920	0	54,099	53,862
Airport Obligation Limitation 3/	3,515	3,515		3,350	3,350
Highway Obligation Limitation 3/	41,757	41,107		39,144	39,144
Highway Funding Exempt from Ceiling	739	739		739	674
Highway Traffic Safety Grants 3/	620	620		550	550
Capital Assistance for High Speed Rail Corridors	2,500	0		0	0
Mass Transit Formula Grants Obligation Limitation 3/	8,343	8,343		8,361	8,361
Mass Transit Capital Investment Grants	2,000	1,597		1,955	1,783
Total: Discretionary	\$189,796	\$181,018	\$73,654	\$102,669	\$165,436

Footnotes

1/ This estimate reduces FY 2012 figures by the estimated BCA-required across-the-board spending reduction (-8.8%).

2/ Automatic cuts to Community Health Centers would be limited to 2%.

3/ These transportation programs are exempt from the across-the-board reductions.

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