



U.S. HOUSE OF REPRESENTATIVES

# COMMITTEE ON THE BUDGET

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## **Frequently Asked Questions about Sequestration: Updated to Reflect Changes under the Bipartisan Budget Act of 2013**

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# Frequently Asked Questions about Sequestration: Updated to Reflect Changes under the Bipartisan Budget Act of 2013

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## Background on Sequestration

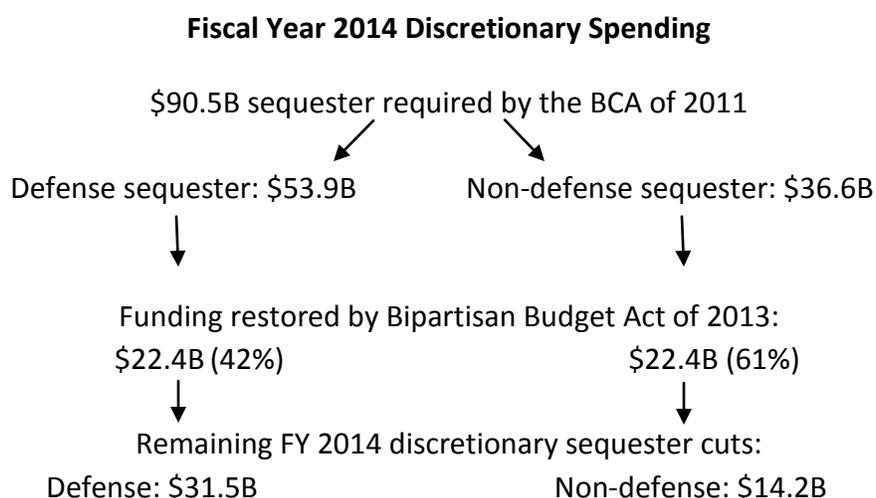
The Budget Control Act of 2011 (BCA) contained two different mechanisms to achieve spending reductions, both commonly referred to as “sequester.” The **deficit reduction sequester** required nine annual sequesters of \$109 billion – half from defense and half from non-defense programs – to reduce the deficit by \$1.2 trillion. The first of these annual sequesters took effect in March 2013. The BCA also mandated separate **discretionary sequesters** if appropriations for any year exceed the annual caps set by the law.

The fiscal cliff deal enacted at the end of the 112th Congress delayed the first deficit reduction sequester of approximately \$109 billion from January until March 2013, and reduced the spending cuts required for fiscal year (FY) 2013 by \$24 billion. The deal also lowered the law’s discretionary caps by a total of \$4 billion for FY 2013 and by \$8 billion for FY 2014.

The Bipartisan Budget Act of 2013 made additional changes, cutting the size of the discretionary sequester for FY 2014 roughly in half – reducing it by \$44.8 billion, evenly split between defense

<b>New Defense and Non-Defense Discretionary Caps</b>					
(in billions of dollars)					
	<b><i>FY: 2012</i></b>	<b><i>2013</i></b>	<b><i>2014</i></b>	<b><i>2015</i></b>	<b><i>2016 est</i></b>
Defense		519	520	521	523
NDD		468	492	492	493
<b>Total</b>	<b>1043</b>	<b>986</b>	<b>1012</b>	<b>1014</b>	<b>1016</b>

and non-defense – and cutting the FY 2015 discretionary sequester by \$18.5 billion, also evenly split between defense and non-defense. This sequester relief will save jobs – the Congressional Budget Office estimated that the full FY 2014 sequester would have cost the country 800,000 jobs by the end of the year. The new caps will keep the defense and non-defense discretionary caps basically flat from FY 2014 through FY 2016. The Act also extended the mandatory sequester for two years, through FY 2023.



## Frequently Asked Questions about Sequestration

### 1. How does the deficit reduction sequester work for mandatory spending?

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 by early 2012. 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 in FY 2013 involved across-the-board cuts to all non-exempt programs. Specific limits apply to the sequester for certain programs, such as Medicare, which receives cuts to providers that are capped at 2 percent regardless of the size of the sequester.

For FY 2014 through 2023, sequestration of mandatory spending programs will work the same way, with the size of the across-the-board cuts calculated annually by the Office of Management and Budget. In FY 2014, non-defense mandatory programs will be cut by 7.2 percent, and defense mandatory programs will be cut by 9.8 percent.

### 2. How does the deficit reduction sequester work for discretionary spending?

The sequester for discretionary programs for FY 2014 through 2021 will be implemented by adhering to lowered defense and non-defense spending caps, and not through across-the-board cuts to already-enacted spending for all non-exempt programs, as it was for 2013. Thus, Congress can choose to cut or spare individual programs through the appropriations process.

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.)

### 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 (except

for FY 2014, because much of the discretionary non-defense sequester was eliminated by the Bipartisan Budget Act, so mandatory cuts are a bigger percentage of the remaining sequester). Thus, in most years, 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.

**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 2013 [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 will work differently, with Congress allocating spending for each program beneath annual caps on defense and non-defense spending. The sequester lowers the caps originally set by the Budget Control Act, although subsequent legislation has modified the discretionary caps and the size of the sequester for 2013 through 2015.

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.

Note that to comply with the lowered discretionary cap levels, 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 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, the 2014 omnibus complies with both the NDD and defense discretionary caps, thus a discretionary sequester is not triggered. If appropriations had exceeded either of these new discretionary caps, 15 days after enactment OMB would implement a discretionary sequester of the amount of the breach in that category of spending.

**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, which Congress already has done twice (in December 2012 and December 2013, as described on page 1).

## 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](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](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>

The Bipartisan Budget Act of 2013 (part of a FY 2014 continuing resolution):

<http://www.gpo.gov/fdsys/pkg/BILLS-113hires59enr/pdf/BILLS-113hires59enr.pdf>

Congressional Budget Office letter describing the economic effects of eliminating the FY2014 sequester, September 26, 2013:

<http://cbo.gov/sites/default/files/cbofiles/attachments/44630-Van-Hollen.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>