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To: Mayor Michael D. Antonovich
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From: William T Fujioka *William T Fujioka by DTS*
Chief Executive Officer

WASHINGTON, D.C. UPDATE ON CONGRESSIONAL JOINT SELECT COMMITTEE ON DEFICIT REDUCTION

This memorandum is to advise your Board of the implications of the failure of the Joint Select Committee on Deficit Reduction (Committee) to report legislation which would reduce the Federal budget deficit by at least $1.2 trillion over ten years.

Executive Summary

The County is better off financially by the failure of Committee-reported legislation to reduce the deficit by at least $1.2 trillion to be enacted even though, under current law, this failure will trigger a combined total of $984 billion in automatic spending reductions in Federal Fiscal Years (FFYs) 2013 through 2021. This is mainly because the County receives the vast majority of its total Federal revenue through Federal programs, such as Medicaid, Temporary Assistance for Needy Families (TANF), and Title IV-E Foster Care and Adoption Assistance, which are exempt from the triggered spending reductions. In fact, the County's Medicaid revenue alone far exceeds the total revenue under all of the programs subject to the triggered cuts. Moreover, if the Committee had reported deficit reduction legislation, it most likely would have included significant Medicaid cuts, which would have resulted in a loss of Federal revenue and/or shift in costs to the State of California and the County. Even if the County were not directly affected by such Medicaid cuts, it is likely that the County indirectly would have been affected by Medicaid cuts affecting the State's budget.

Triggered Automatic Spending Reductions

The Budget Control Act (BCA) of 2011 (Public Law 112-25), which was enacted on August 2, 2011, increased the Federal debt limit and included language to reduce the Federal deficit over ten years. Under the BCA, if legislation recommended by the newly established Joint Committee to reduce the Federal deficit by at least $1.2 trillion is not enacted by January 15, 2012, a sequestration process of automatic spending reductions to achieve $1.2 trillion in deficit reduction savings is triggered. The amount of triggered reductions will total $984 billion because the BCA assumes that Federal debt service savings will represent 18% ($216 billion) of the $1.2 trillion in total deficit reduction savings.

Under the BCA, the $984 billion in automatic spending cuts will be divided equally ($109.33 billion a year) over nine years, beginning in FFY 2013, with the annual cuts also equally divided between defense and non-defense programs, and further divided proportionally between discretionary and mandatory programs within these categories. Moreover, the BCA also provides that certain programs, as provided under the sequestration provisions in Sections 255 and 256 of the Balanced Budget and Emergency Deficit Control Act (BBEDCA), are exempt from cuts or subject to special rules for sequestration cuts.

As estimated by the Congressional Budget Office (CBO), mandatory programs, which account for slightly over half of total Federal spending in FFY 2014, are exempt from the sequestration cuts. **These exempt programs include major Federal revenue sources to the County, including Medicaid, TANF, Title IV-E, Supplemental Nutrition Assistance Program/Food Stamps, and Federal Aid to Highways. Therefore, the vast majority of the County's total Federal revenue will not be subject to the automatic spending reductions.**

The Budget Control Act provides that across-the-board reductions would be applied to non-defense discretionary programs in FFY 2013 and that such reductions would be applied to the annual overall discretionary spending caps in FFYs 2014 through 2021. The CBO estimates that the across-the-board cut in non-defense discretionary spending would be 7.8% in FFY 2013, and that the reduction in annual discretionary non-defense discretionary spending caps will drop from 7.4% in FFY 2014 to 5.5% by FFY 2021.

Congress can amend the BCA to revise its sequestration process before (or after) automatic spending reductions are applied. Supporters of defense programs already have been calling for sparing defense programs from spending reductions. It is noteworthy that similar sequestration cuts rarely were applied pursuant to the BBEDCA of 1985, which established the sequestration process as a budget enforcement tool. In fact, the only fiscal year in which a significant sequestration cut was applied without being rescinded or later reduced was in FFY 1986 when a 4.3% cut was applied to non-defense programs which were not exempt from the across-the-board cuts.

It also is noteworthy that the net impact of a 7.8% across-the-board cut in FFY 2013 on any individual discretionary program will ultimately depend on how much funding initially is appropriated for the program. For example, Congress can mitigate the net impact on any program by increasing its appropriations to compensate for the 7.8% cut.

We will continue to keep you advised.

WTF:RA
MR:MT:er

c: All Department Heads
Legislative Strategist