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THE CRD ASSOCIATES'

HEALTH POLICY REPORT

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The Headline:

- **The Continuing Resolution, Sequestration and You**

With the Congress in recess, we thought this might be an ideal time to give a clear and understandable explanation of the status of funding in Washington…and the threats that are looming, notably sequestration. This article was originally published as a blog last week on the CRD Associates website. Written by Staff Assistant Tiffany Kaszuba, we hope you find it informative.

The Continuing Resolution, Sequestration, and You

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Just in case the bipartisan Budget Control Act (BCA) spending caps and automatic spending cuts known as "sequester" weren't confusing enough, a continuing resolution (known inside the beltway as a CR) has now been thrown into the mix. This has left many people asking how the CR will impact the sequester. The short answer is: **no effect at all.** On January 2, 2013, the sequester will blindly cut federal spending to levels not seen since before the Eisenhower administration. They do, however, inevitably interact. Let's look at how.

First, let's go back to basics. A continuing resolution is a tool that Congress uses to continue funding the government when they cannot pass regular appropriations bills before October 1, which is the beginning of the federal government's fiscal year. Typically, a CR continues funding at the previous year's level for a set period of time, allowing Congress to finalize its work on appropriations for the remainder of the year.

The CR that Congress just passed sets discretionary federal spending at $1.047 trillion for the next six months—a level that comes directly from the cap specified in the BCA for FY2013. In passing the BCA in August 2011, Congress set the overall discretionary spending cap for a decade to reduce spending and the deficit and partially offset the cost of a necessary increase in the debt ceiling. Congress cannot exceed these spending limits on appropriations without triggering additional sequestration measures, according to the law.

The sequester comes directly from the failure of the "super committee," charged with finding $1.2 trillion dollars in savings over nine years. This failure triggered the automatic spending cuts. The law stipulated that should the committee fail, the $1.2 trillion dollars in additional savings would be "sequestered" and spending would be reduced. For the first year, FY2013, the cuts would be evenly divided between defense and nondefense spending, accomplished by automatic cuts through a process known as sequestration. For FY2013 and FY2013 alone, Congress and the Administration would have no choice in how the cuts would be applied. Defense and nondefense programs would each be cut by $55 billion for the year and the cuts would be applied across the board to every project, program and activity. (If the math seems fishy, try factoring the savings that would come from the interest on our debt … or just trust the experts).

The key here is that the dollar amount for the cuts has been determined since the BCA was written and the Super Committee failed to act. The $55 billion dollar cut to each portion of the budget would be applied to whatever budget was in effect on that date. The effective percentage cut to each program was unknown, because the FY 2013 funding level was unclear. Not knowing what the budget would be on January 2nd has been part of the cause for the differences in the estimated percentage of the cuts (along with not knowing what would be exempt before the September 14th Office of Management and Budget (OMB) report). The FY 2013 CR provides the information needed to allow the OMB and others to determine the exact percentage by which each budget item could expect to be cut.

The OMB Report released on September 14th provided the final clarification on which programs are subject to sequestration and by how much, as well as which programs are exempt. The report estimates that the percentage cuts for non-exempt programs are: 8.2% for nondefense discretionary programs, 2% for Medicare payments, 7.6% for other nondefense mandatory spending, 9.4% for defense discretionary spending and 10% for defense mandatory spending. The OMB used current spending levels (FY2012) to calculate these percentages. Current levels are slightly below the $1.047 trillion level in the FY 2013 CR so if everything goes as planned and the CR is enacted, the percentage cuts will be just slightly lower than the OMB projections. These cuts are nonetheless devastating to most federal programs.

So, the bottom line is the FY 2013 CR does not delay sequestration or change it in any way. It simply sets funding levels through March 2013, and tells us from what funding level sequestration will cut. The only thing that can stop these huge cuts—that everyone agrees will be devastating—is an act to cancel sequestration passed by Congress and signed by the President—or a bipartisan "grand bargain." With only 99 days left to sequestration, Congress and the President need to work together and swiftly to avoid these damaging cuts.

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