

Sequestration and the FY 2013 Federal Budget

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Sequestration

Defined

- For our purposes - mandatory budget reductions over a 10 year period to reduce the National Debt

History of the Budget and Deficits

- Funding the Government - pay as you go
 - Funding sources- taxes or borrowing by the US Treasury
- Deficit – expenditures exceed revenue
- Debt ceiling set by Congress/Increase requires approval of both houses
 - Potential impacts without ceiling increase
 - Theoretical default on interest payments
 - Credit rating- higher cost of borrowing
 - Obvious alternatives: Reduce spending/Raise taxes

First year – public debt?

- 1776
- First reported- 1791-\$75,463,475.52 (\$1.0B 2012)
- Now \$16 Trillion

Borrowing

- As of 2011 - 40 percent of Govt. spending is borrowed

Growing concern with Deficit and impending debt ceiling breach led to Budget Control Act of 2011

Key components of Act

- Super Committee established to produce debt reduction legislation by Nov 2011- no agreement reached
- Sequestration triggered without \$1.2T deficit reduction
 - January 2013 \$1.0T in Government wide automatic spending reductions across FY 2013 through 2021 without further legislation

FY 2013 Continuing Resolution - Six months

- **Expected early September 2012-\$1.0T House bill**
- **Impact on Sequestration???**

OMB recommendations –budget reductions- Sequestration Transparency Act

- **Due Sept 7 –report delayed- new date TBD**

Potential Impacts: without budget reduction or increase in debit ceiling

- **Government shutdown**
- **Program delays/terminations**
- **Workforce reductions**
- **O&M funding first source for funding reductions??**

Congressional action on BCA not expected before election

Recommended actions

- **Request available funding on existing contracts**
- **Review contract termination liability**
- **Assess Congressional action on OMB/CBO web site**