The Budget Control Act of 2011 (Debt Ceiling Deal) Frequently Asked Questions

On Aug. 2, President Obama signed into law the Budget Control Act of 2011 (BCA). The bill allows the president to increase the debt ceiling by up to $2.8 trillion, but it will reduce the deficit by $2.3 trillion over 10 years, with at least $840 billion coming from discretionary spending cuts over the next decade. In the first year of enactment, fiscal year 2012, discretionary programs will see a cut of $44 billion (4 percent). There are two ways the federal deficit can be cut – through automatic "caps" on categories of spending or through a proposed budget hammered out by a "Super Committee" of 12 members of Congress. The automatic caps exempt some mandatory programs like Social Security, food stamps, and Medicare. However, no revenues would be raised to help retire the deficit. The Super Committee could cut any program or raise revenues.

The procedures put in place by the new law are complex, and the final budgetary outcome will depend on a variety of factors. This document explains the procedures and potential impacts of each.

How does the Budget Control Act control the budget?

BCA aims to reduce the deficit by $2.3 trillion over 10 years[1] through two main vehicles:

- **Caps on discretionary spending:** BCA limits – or "caps" – overall discretionary spending for the next ten years. These caps will reduce spending by $841 billion[2] over the next decade. If Congress approves budgets higher than the amount specified below, a procedure known as "sequestration" is initiated and across-the-board reductions in discretionary spending will occur. Mandatory programs like food stamps and Social Security are exempt from cuts and the cap.

- **The "Super Committee" deficit reduction plan:** BCA creates a new, special joint committee of Congress charged with finding an additional $1.5 trillion in deficit reduction. This "Super Committee" can cut spending (including Social Security and Medicare), raise revenue, or propose a combination of both. If the committee cannot agree on a plan, or Congress fails to approve it, automatic cuts of $1.2 trillion will be triggered, again through sequestration.

[1] Budget estimates are typically measured over a10-year window. However, this bill does allow for the enactment of a deficit reduction plan that could cover fewer than 10 years.
[2] In discussing spending cuts, it's important to know "cuts compared to what?" or the "baseline." One could compare spending levels to the previous year or to projections of spending for the coming years, which are derived from making certain assumptions. For this document, we adopt the Congressional Budget Office's (CBO) adjusted March 2011 baseline. See the CBO's score for the BCA at https://www.cbo.gov/doc.cfm?index=12357.

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If a plan by the committee does not become law, $2 trillion in spending cuts will be made, with some programs like Social Security and Medicaid completely protected. If the committee produces a plan and that plan becomes law, at least $841 billion in deficit reduction will be achieved through discretionary cuts, and at least $1.2 trillion in additional deficit reduction could come through cuts to any program, including Social Security, Medicare, and Medicaid; or through revenue increases; or through a combination of both. Essentially, more programs could be on the chopping block through Super Committee deficit reduction than through triggered, across-the-board cuts. However, only the Super Committee could raise revenues to reduce the overall amount of cuts that will be required to meet the targets.

What is sequestration?

Sequestration is a mechanism through which automatic, across-the-board spending cuts are made. The BCA will initiate a sequestration if Congress approves spending higher than caps set forth in the law or if a plan from the Super Committee fails to become law. The BCA creates two slightly different sequestration procedures for each scenario.

What is the Super Committee?

Officially the Joint Select Committee on Deficit Reduction, the "Super Committee" is a special joint committee of Congress, made up of 12 members. The majority and minority leadership of both houses choose three members each, leaving the committee with six Democrats and six Republicans, three from each house. This group will have until Nov. 23 to produce a proposal. If a majority of the committee agrees on a plan, it will be sent to Congress for a yes or no vote by Dec. 23. The Super Committee can raise revenue or cut any program in creating a deficit reduction plan. Nothing is off the table.

How much *spending* will be cut under the bill?

The target is to cut between $841 billion and up to $2.3 trillion over the next 10 years. Under the first set of spending caps, discretionary spending will be cut by $841 billion over 10 years, with $44 billion (4 percent) in cuts in FY 2012, accelerating over 10 years to $119 billion (9 percent) in FY 2021 (see chart on next page).

The Super Committee is charged with producing a plan to reduce the deficit $1.5 trillion beyond the initial $841 billion in spending cuts achieved through the discretionary caps. This reduction could be 100 percent revenue increases (very unlikely), and no further spending cuts would be needed under the BCA. Alternatively, the committee could produce a plan that is 100 percent cuts, which would bring the total amount of spending cuts under the bill to $2.3 trillion. Or the Super Committee could also produce a plan that combines both revenue increases and spending cuts.

If the Super Committee produces a plan (and it becomes law) that contains less than $1.2 trillion in deficit reduction, then the Super Committee sequestration procedure will still be triggered, and the total amount of across-the-board spending cuts will equal $1.2 trillion minus the amount of the approved deficit reduction package.

Table 1. Initial Discretionary Spending Caps (*billions of dollars)*						
Fiscal Year	**CBO March Adjusted Baseline**	**Budget Control Act**				
		Total Discretionary Cap	**Security Cap**	**Non-security Cap**	**Amount Cut from Baseline**	**Percent Cut from Baseline**
2012	1,087	1,043	684	359	44	4
2013	1,109	1,047	686	361	62	6
2014	1,134	1,066	*N/A*	*N/A*	68	6
2015	1,159	1,086	*N/A*	*N/A*	73	6
2016	1,186	1,107	*N/A*	*N/A*	79	7
2017	1,218	1,131	*N/A*	*N/A*	87	7
2018	1,251	1,156	*N/A*	*N/A*	95	8
2019	1,285	1,182	*N/A*	*N/A*	103	8
2020	1,319	1,208	*N/A*	*N/A*	111	8
2021	1,353	1,234	*N/A*	*N/A*	119	9
Total	12,101	11,260	*N/A*	*N/A*	**841**	7

If the Super Committee does not produce a report or if the report does not become law – a likely outcome considering the political polarization that characterizes this Congress – then spending will be lowered by $1.2 trillion, with $109.3 billion in cuts per year (beginning in FY 2013), half of which, $54.7 billion, comes from the Defense Department and the other half from the rest of the budget. These cuts affect both mandatory and discretionary spending with proportionate cuts to both, but Social Security and Medicaid are protected while Medicare providers would see, at most, a two percent reduction in payments.

I am concerned about a specific program. How deeply will that program be cut?

That is unknown at this time. The bill does not lay out any specific program funding cuts. It does set out limits for two broad categories of spending: security and non-security. It will be up to Congress to decide how to allocate spending to specific programs under the two broad spending categories, with two separate caps, when it writes appropriations bills in the coming years.

Specific program reductions will also happen if Congress “breaches” the spending caps set forth in the bill or if a plan from the Super Committee is not enacted. These will be across-the-board cuts resulting from sequestration.

Does the bill cut Social Security, Medicare, or Medicaid?

It could. The initial discretionary caps do not affect Social Security, Medicare, or Medicaid. However, the Super Committee can consider any budget changes when creating its proposal, including cutting Social Security, Medicare, and Medicaid.

Both Social Security and Medicaid are entirely protected if the Super Committee fails, while Medicare fees to providers can be cut by up to two percent.

The Budget Control Act makes a distinction between "security" and "non-security" spending. What does security spending include?

The BCA uses "security" and "non-security" spending categories to set discretionary spending caps. The security spending category includes the Department of Defense the Department of Homeland Security (DHS), the Department of Veterans Affairs (VA), the National Nuclear Security Administration, "intelligence community management," and international affairs. But these definitions can change based on whether a Super Committee plan is enacted.

If a Super Committee plan in not enacted, "security" and "non-security" are redefined. In this case, the security spending category will include mostly Defense Department spending, although a few smaller programs, such as nuclear weapons programs and some FBI spending, are also included. The non-security spending category will include all other discretionary spending, including DHS, VA, and international affairs. The redefinition of these categories means that spending cuts will fall more heavily on Defense Department programs.

Does the bill raise taxes?

No. But the Super Committee created by the bill could raise taxes and other revenues. If the committee does not raise taxes, they will not change as a result of this bill.

What is this "trigger" that I've heard mentioned?

If the Super Committee fails to agree on a deficit reduction plan, or if Congress does not approve it, or if the president successfully vetoes it, then $1.2 trillion in cuts will automatically be "triggered" – i.e., there will be across-the-board cuts from discretionary and mandatory spending programs over the next 10 years.

If the Super Committee agrees on a plan that reduces the deficit by less than $1.2 trillion (and it becomes law), then the difference between that deficit reduction amount and $1.2 trillion will be automatically "triggered."

Exactly how does the discretionary cap sequestration process work?

The Budget Control Act sets out discretionary spending limits through FY 2021, starting with FY 2012. These caps represent spending cuts relative to current spending levels (or baseline). The first two fiscal years, FY 2012 and 2013, have caps for both security and non-security discretionary spending; FY 2014 through FY 2021 have only one overall cap for all discretionary spending.

Within 15 days of Congress ending a session (typically at the end of a calendar year, so each Congress has two sessions), the Office of Management and Budget (OMB) will produce a report estimating spending for that fiscal year. If Congress has appropriated spending levels above the caps set forth in the debt agreement, then the president orders a sequestration. Each non-exempt account is reduced by an equal amount to bring the spending level to the cap. For instance, if security spending ends up above the FY 2012 cap, all security accounts will be reduced by the same amount until overall security spending is below the cap; non-security spending would not be affected if it was under its cap.

If, at any time after the initial sequestration, Congress passes a law increasing spending above any of the spending caps, there is another sequestration fifteen days after the passage of the law. If the law is passed before July 1, the sequester occurs for that fiscal year; if the law is passed on or after July 1, the relevant cap for the next fiscal year is lowered by the amount of the breach.

Thus, the spending caps have a purpose other than simply setting targets for deficit reduction. By setting discretionary spending levels for the next ten years, the BCA resets the baseline for all federal spending.

How does the Super Committee sequestration process work?

Although charged with reducing the deficit by an additional $1.5 trillion[3], the Super Committee can produce a plan that reduces deficits by $1.2 trillion without triggering a sequestration. If, however, the committee does not come up with a report; or if it is not passed by Congress and signed into law; or if the plan reduces the deficit by less than $1.2 trillion, then the Super Committee sequestration process is triggered.

A new set of discretionary spending caps will be created (according to a complicated formula) to replace the ones outlined above, and a process to cut to mandatory spending over nine years, beginning in early 2013, starts. While the overall levels will remain the same, the definitions of security and non-security change so that security includes just Department of Defense spending. This means Department of Defense spending cuts will be unavoidable with the Super Committee sequestration process. By moving some Homeland Security spending and the VA into the non-security column, the overall baseline would increase, but a larger number of very diverse programs would be competing for funding under the overall cap.

For Super Committee sequestration purposes, FY 2013 is a special case. In 2013, discretionary spending caps are not lowered, but cuts are made from whatever discretionary and mandatory spending Congress approves for FY 2013, regardless of whether the level is at the spending caps or not (in other words, discretionary spending that year may be cut below the cap already instituted). For the other years, FY 2014 through FY 2021, the discretionary caps are lowered and mandatory spending is reduced by their respective calculated amounts.

The revised discretionary spending caps are shown in Table 2, although it should be noted that the numbers are a very rough estimation, since exact numbers for some accounts are not publicly available.

[3] BCA is silent on what baseline the Super Committee must use. While it will likely adopt CBO's baseline, which assumes the Bush tax cuts will expire, it is entirely possible that the committee will use some variation of the CBO's baseline so as to achieve greater apparent deficit reduction.

Table 2. Estimates of Revised Discretionary Spending Caps Following Failure of Super Committee Proposal (*billions of dollars*)						
Fiscal Year	**CBO March Adjusted Baseline**	**Budget Control Act**				
		Total Discretionary Cap	**Security**	**Non-security**	**Amount Cut from Baseline**	**Percent Cut from Baseline**
2012	1,087	1,043	684	359	44	4
2013	1,109	954	491	462	155	14
2014	1,134	974	501	472	160	14
2015	1,159	994	511	483	165	14
2016	1,186	1,016	522	494	170	14
2017	1,218	1,041	535	505	177	15
2018	1,251	1,066	548	517	185	15
2019	1,285	1,093	561	532	192	15
2020	1,319	1,120	575	545	199	15
2021	1,353	1,146	589	557	207	15
Total	12,101	10,446	5,520	4,926	**1,655**	14

What is exempt from sequestration?

A wide variety of programs. In the first round, all mandatory programs are exempted, along with some discretionary programs. The second round, precipitated by a failure of the committee report, is wider. That list includes most of the retirement programs, such as Social Security and Railroad Retirement benefits, as well as refundable tax credits such as the Earned Income Tax Credit. Medicaid is exempt, and Medicare provider fees are cut, at most, two percent. A list of exempt programs is available at
http://www.law.cornell.edu/uscode/html/uscode02/usc_sec_02_00000905----000-.html

Additionally, discretionary spending for the wars in Afghanistan and Iraq, as well as anything labeled emergency spending, increases the budget caps. Congress can also pass a limited amount of exempt disaster relief spending.

When do the sequestrations occur?

- **After discretionary caps are breached:** Within 15 days of Congress adjourning for the end of a session (usually at the end of the calendar year), OMB issues a "final sequestration report." If Congress has approved spending bills that breach either the non-security or security caps, then discretionary cap sequestration will occur.

  These across-the-board cuts can also occur after Congress adjourns for the session (i.e. after the end of the calendar year) and before July 1, if Congress passes additional bills that breach the cap. The cuts happen 15 days after the bill is passed. If Congress approves spending bills that breach the spending caps after June 30, the amount of the breach is taken out of the spending cap for the following fiscal year.

- **Jan. 2, 2013, if the Super Committee fails:** The Super Committee sequestration process, if triggered, will be initiated on January 2, 2013. This sequestration will cut FY 2013 discretionary spending; it will also reduce mandatory spending for FY 2013 through FY 2021.

  The overlap of these two sequestrations could matter for FY 2013 funding levels. Super Committee sequestration will cut FY 2013 discretionary spending by a set amount, regardless of whether spending levels are above the cap or not. If Congress approves spending bills that breach FY 2013's cap, and if Congress adjourns late enough (i.e. after Dec. 18, 2012), then Super Committee sequestration will occur before the cap-breach sequestration. This cut could push spending levels below the cap, thereby preventing a cap-breach sequester. On the other hand, if Congress breaches FY 2013's cap, and the Super Committee sequestration occurs second, the cap-breach sequestration will reduce spending to the cap and then an additional cut, via Super Committee sequestration, will reduce FY 2013 levels even further. The timing of when either sequestration occurs could determine if a cap-breach sequestration takes effect and subsequently how much is actually cut from FY 2013 discretionary spending.

How do the sequestrations work if there is a Continuing Resolution?

If Congress does not pass a budget, and instead passes a series of stop-gap Continuing Resolutions (CRs) that fund the government for a month or two at a time, sequestrations will only occur if Congress passes a CR that causes discretionary spending to breach the caps. If the CRs never push total discretionary spending for the fiscal year above any of the caps, there will not be a sequestration.

For FY 2013, however, the process is more unclear, since this particular process has never been used before. The Super Committee sequestration happens on Jan. 2, 2013, regardless of the level of spending appropriated for that year. But under a CR, due to OMB's accounting rules, the Super Committee cuts would essentially be doled out in relation to the CR's duration. Thus, for instance, if Congress passed a four-month CR, only one-third of the cuts would occur on Jan. 2 (since four months is a third of the year). The rest of the cuts would occur whenever Congress passes funding for the rest of the fiscal year. At the end of the year, the cuts are the same, but when they occur depends on if Congress is operating under these stop-gap funding bills.

How much will be cut from non-defense discretionary spending if a Super Committee report is not enacted?

That amount is difficult to estimate based on available spending data. While non-defense spending, both discretionary and mandatory, will be cut by $54.7 billion if the committee doesn't produce a report or if Congress doesn't enact it, the breakdown of those cuts is difficult to determine. There is a list of programs exempt from sequestration, available in the U.S. Code (see http://www.law.cornell.edu/uscode/html/uscode02/usc_sec_02_00000905----000-.html).

However, there are no official estimates of how big these programs are, and this figure is important in determining how large the discretionary cuts will be. The president's budget, usually the most comprehensive, multi-year source for budget numbers, does not provide line items for many of the exempt programs, which can be very small and specific (such as pensions for former presidents).

The president's budget lists mandatory spending by function. However, it is impossible, using publicly available material, to ascertain how much of that spending is exempt and nonexempt from the sequester. As such, there is no way to know exactly how much non-defense discretionary spending will be cut.

What is the exact formula for calculating the new, lower discretionary caps and mandatory spending cuts if the Super Committee's report is not enacted?

The amount of spending reduction is calculated by subtracting from $1.2 trillion any amount of deficit reduction achieved by an enacted committee report (if there is no enacted report, the formula assumes $0 in deficit reduction), subtracting another portion to account for reduced debt payments, and then apportioning the rest evenly across the remaining nine fiscal years (FY 2013 through FY 2021). This individual fiscal year amount is then equally split between defense and non-defense spending.[4] To derive the proportion of cuts that will come from discretionary and mandatory spending, nonexempt mandatory spending is then factored in so that the larger the nonexempt mandatory spending, the smaller the cut to discretionary levels. For example:

- $1.2 trillion - $0 [assumes no deficit plan enacted] = $1.2 trillion
- $1.2 trillion - ($1.2 trillion * 18%) [to account for lower interest payments] = $984 billion
- $984 billion / 9 [years] = $109.3 billion
- $109.3 billion / 2 [for each for defense and non-defense categories] = $54.7 billion
- $54.7 billion x $510 billion [the spending cap for that year; for non-security in FY 2014, this is $510 billion] = $27,880 billion
- $27,880 billion / ($510 billion + ~$206 billion) [the non-security spending cap plus the non-defense, nonexempt mandatory outlays] = $38.9 billion
- $38.9 billion = This is the amount the non-defense discretionary cap is lowered for FY 2014

The mandatory spending cuts are then the difference between the deficit reduction number for that category (in this example, $54.7 billion) and the discretionary cuts for that category in that year (in this example, $38.9 billion). In the above example, non-defense, nonexempt mandatory spending, such as unemployment insurance, would be cut by about $15.7 billion ($54.7 billion - $38.9 billion).

[4] We make a distinction between "defense"/"non-defense" and "security"/"nonsecurity," because the latter are reserved to denote categories of discretionary spending for discretionary cap setting purposes. The process described here determines cuts to both discretionary and mandatory spending, and BCA makes the distinction between defense and non-defense when calculating these cuts. Defense spending is largely Department of Defense spending plus some smaller programs in other agencies.