

May 30, 2012



Sequestration – “A Ticking Time Bomb”

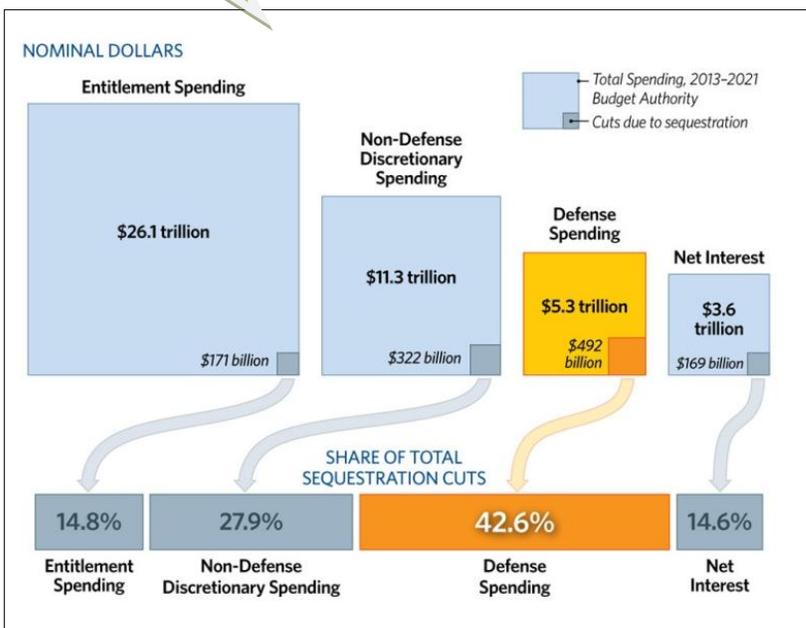
It has been called a “ticking time bomb”, “a sword of Damocles”, and the greatest threat to our national security by none other than the Chairman of the Joint Chiefs of Staff: sequestration is set to explode on the federal budget on January 2, 2013 unless Congress and President act to soften or avoid the mandate. The debacle of the Budget Control Act of 2011 set up the problem and the consequences, particularly to our defense budget, are massive. Recall that the BCA, as it is often referred to, set up the “Super-Committee” to define at least \$1.2 trillion in budget cuts over 10 years, which turned out to be a politically impossible task. No cuts defined; no Congressional action. Therefore, sequestration will be triggered unless actions are taken to soften it, make the cuts (revenue adjustments) early or postpone it by changing the dates in the BCA. However, not kicking this legislative mandate down the road will result in across-the-board budget cuts to *non-exempt* defense, domestic discretionary and some mandatory or entitlement programs.

The numbers are interesting: Congress gives credit for interest ‘savings’, so the \$1.2 trillion in cuts is reduced by 18% to \$984 billion. The cuts are evenly divided annually for the next nine years, resulting in an annual cut of \$109 billion. The annual cut is split evenly between non-exempt portions of defense and non-defense spending; unless exempt; the cuts are applied to both mandatory and discretionary spending.

Summary & Take-Away .

Taking into account the number of domestic programs that are exempted from sequester and the relative size of the defense budget versus non-defense discretionary budget, the sequestration cuts will be 46% of the total defense budget as compared to 27.9% of non-defense and 14.8% of entitlement spending.

The severe cuts, particularly to defense, are a major concern and Congressional efforts to soften or avoid sequestration are moving forward. On May 7th, Chairman Ryan and the House Budget Committee approved a bill (H.R.



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4966) that would, among other things, stop the sequestration for defense and non-defense discretionary programs, but leave the sequester for entitlement programs. However, H.R. 4966 is linked to the Ryan budget and as a result would cut non-defense discretionary spending in 2013 to about the same levels that will result if sequestration does take place.

The situation with Congress today is that Mr. Ryan's proposal and any similar actions in the House will not be taken up nor will they be initiated by the Senate. So, where does that leave us? Two possible outcomes:

Expect the sword to drop. Unless Congress and President can act in a very limited time available, probably less than six working weeks left in this election year, to deal with sequestration as well as the Bush tax cuts and debt ceiling, we can expect across-the-board cuts to every line item of every federal agency's budget in the 10% range. At the WESTCAS Fly-in last month, based on conversations with Bureau of Reclamation and EPA staff the expectation was 10% and 7.8%, respectively, for across-the-board cuts. In fact, a couple of federal agencies were not sure about the details of sequestration or the potential impacts that might result (this adds to the pressure to resolve and will add to the confusion next budget year if the sequester happens)

or,

Avoid the issue totally—kick-the-can. Since many economists are saying that if sequestration occurs, it may throw the nation deeper into recession, a possible outcome will be that Congress and President decide to amend the dates in the BCA and push the burden off to another Congress.

