

Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

ISSUE BRIEF

Date: 2/26/2013

Prepared by: Stephen Klein

Sequestration:

Implemented as across the board spending cuts:

- Affects non-exempt Defense and Non-defense Discretionary Spending
- Impacts FY 2013 - FY 2021
- \$1.176 trillion in projected budgetary savings, \$85 billion targeted in first year

Sequestration 2013

- Applied across the board
- CBO estimates that sequestration could reduce economic growth 0.6% from a projected 1.4% growth rate for FY 2013 and impact/eliminate 750,000 jobs

Types of Impacts

- Non-defense discretionary -5.3%
- Defense discretionary -7.9%
- Non-defense mandatory -5.8%
- Medicare -2.0%

Congressional alternatives to address sequestration

- Delay until 3-27-13
 - Date of non-defense and defense discretionary continuing resolution (CR) expiration.
 - Could be replaced with full CR with or without these or other changes,
 - Could be replaced by CR until 5-18-2013 (see below)
- Delay until 5-18-13
 - Date of Debt limit expiration. On January 31, 2013, the Senate passed H.R. 325, the "No Budget, No Pay Act of 2013," a short-term debt limit bill proposed by House Republicans. In addition to extending the debt limit through May 18, 2013 for fiscal year (FY) 2014, the bill mandates that if either chamber does not pass a budget by April 15, 2013 members of that chamber will have their pay withheld.
- Keep sequestration intact but allow agency discretion in applying cuts
- Keep some cuts intact and replace some reductions with other cuts or revenues

Things to consider relative to sequestration

- Be aware that Federal FY 2013 ends in September 2013 - After the first quarter of our FY 2014 -- Most impacts likely to be felt in first quarter of State FY 2014
- Recognize that we are not likely to know final impacts right away. March?? May?
- Recognize that the FFY 2013 sequester is first of eight years - this is a long term concern
- Build state budget in the context of:
 - Recognition of declining federal funds
 - Inability to make up all federal reductions
- Consider reserves for federal reductions that the state finds appropriate to address
 - In the past two years the legislature set aside \$7 million each a year to be available for meeting federal cuts
 - This year 1/4 of any surplus will be set aside for that purpose
- Create systems of flexibility:
 - Balance use of Emergency Board/Joint Fiscal Committee with Legislature's desire not to delegate decision making Examples: Block Grant example; farm aid; LIHEAP, Rescissions

Sources:

Federal Update: What issues in Washington, D.C. will impact New England in 2013, Michael Bird, Senior Federal Affairs Counsel, National Conference of State Legislatures