

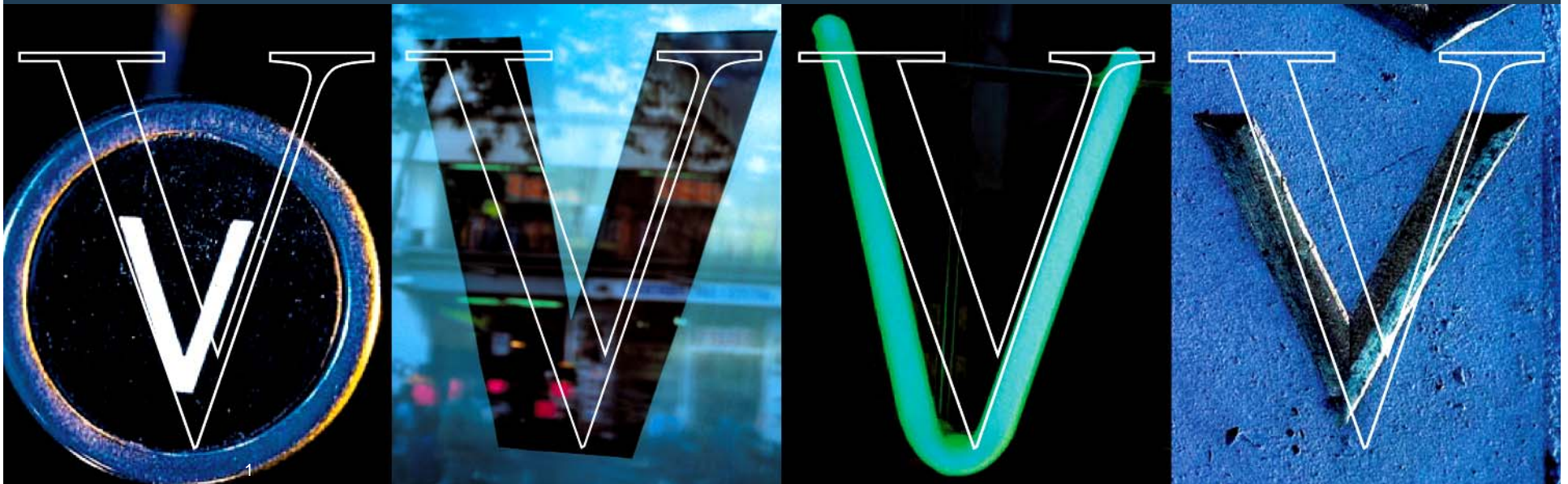
**VENABLE**<sup>°</sup><sub>LLP</sub>

# Joint Select Committee on Deficit Reduction Beyond the Basics...What You Need to Know

September 20, 2011

Moderator: Rob Smith

Speakers: The Honorable Bart Stupak, Robert Burton, John Cooney, Sam Olchyk



## BACKGROUND: MEMBERSHIP

- Rep. Jeb Hensarling (R-Texas) Co-Chair
- Sen. Patty Murray (D-Washington) Co-Chair
- Sen. Max Baucus (D-Montana)
- Rep. Xavier Becerra (D-California)
- Rep. Dave Camp (R-Michigan)
- Rep. James Clyburn (D-South Carolina)
- Sen. John Kerry (D-Massachusetts)
- Sen. Jon Kyl (R-Arizona)
- Sen. Rob Portman (R-Ohio)
- Sen. Pat Toomey (R-Pennsylvania)
- Rep. Fred Upton (R-Michigan)
- Rep. Chris Van Hollen (D-Maryland)



## BACKGROUND: KEY STAFF

### Mark Prater – Staff Director

- Deputy staff director and chief tax counsel of Senate Finance Committee Republican staff
- Joined the Senate Finance Committee staff in 1990

### Sarah Kuehl – Deputy Staff Director

- Senior budget analyst for Senate Budget Committee Democratic staff
- 13 years of Senate experience

### Michael Bloomquist – General Counsel

- Deputy general counsel for House Energy and Commerce Committee
- Prior experience with Energy and Commerce Committee and House Science, Space and Technology Committee



BACKGROUND:  
WEB SITE AND GENERAL INFORMATION

It is notable that all hearings and meetings going forward will be webcast and archived at [www.deficitreduction.gov](http://www.deficitreduction.gov).

Available Information (as of September 19)

- ✓ Rules
- ✓ Members
- ✓ Press releases
- ✓ Calendar (public hearings require 7 days' notice)



## BEYOND THE BASICS: ESTABLISHMENT

- Established: Budget Control Act of 2011
- Mandate: Issue a formal report (findings, recommendations and legislative language) on how to reduce the deficit by at least \$1.5 trillion over FY2012 to FY2021
- Limitations on report: NONE
  - ✓ no limits on revenue
  - ✓ no limits on spending
- Termination date: January 31, 2012



## BEYOND THE BASICS: KEY DATES

- October 14: deadline for House and Senate committees' submission of deficit reduction recommendations
- November 23: deadline for JSC vote on final report (majority vote required)
- December 2: date by which approved report must be transmitted to House and Senate
- December 23: deadline for House and Senate votes
- January 15, 2012: deadline for enactment to prevent automatic spending reduction process (a/k/a sequestration)



## BEYOND THE BASICS: Special Procedural Protections

If approved by November 23, JSC legislation is afforded special procedural protections:

- ✓ House and Senate Majority Leaders must introduce the legislation without change as a bill.
- ✓ By December 9, each House and Senate Committee with jurisdiction must report the legislation without amendment.
- ✓ Senate:
  - maximum 30 hours of debate only
  - simple majority of Senators voting
  - must vote by December 23
- ✓ House:
  - maximum two hours of debate only and then vote on final passage
  - all points of order are waived
  - must vote by December 23



## BEYOND THE BASICS: WHAT HAPPENS IF...

**Q: The JSC does not vote on a report by November 23?**

A: No legislation will be eligible for the special procedural protections

- Sequestration takes effect in January 2013, unless
  - Congress enacts other legislation in 2012 that reduces the deficit by \$1.2 trillion, or
  - Congress repeals or modifies the Budget Control Act

**Q: The JSC report reduces the deficit by less than \$1.2 trillion?**

A: Sequestration applies with respect to the shortfall (unless Congress repeals/modifies the Budget Control Act)





## BACKGROUND PRINCIPLES

1. Modification of sequestration procedures adopted in Gramm-Rudman-Hollings act of 1985
2. The White House, through the Office of Management and Budget, will make the calculations and, if necessary implement the sequestration using its own assumptions
3. Longstanding differences between OMB and the congressional budget office about how to calculate spending levels

These differences are sufficiently important that congress took on and lost a supreme court case in 1986 seeking to have the comptroller general run the sequester



## DEFINITION OF SEQUESTRATION

- Sequestration = automatic, indiscriminate, across-the-board budget cuts to force reductions in spending to defined levels written into statute
- Sequestration = a gun congress holds to its own head to force program advocates to propose and to agree to compensating cuts elsewhere for fear of having their own favorite programs cut



## BASIC GROUND RULES

1. If sequestration occurs, the automatic, indiscriminate spending cuts will be divided roughly equally between:
  - eligible defense programs
  - eligible non-defense programs
2. Many domestic entitlement programs are exempt from cuts:
  - Social Security
  - federal retirement programs
  - Medicaid
  - cuts in Medicare limited to 2%
3. The major difference between this bill and Gramm-Rudman – many more defense programs are subject to sequestration.  
Proponents of defense spending have greater incentives to engage in the process and demand spending cuts elsewhere.



## OPTION 1: CONGRESS ADOPTS A DEFICIT REDUCTION LAW FOR FY 2012-2021

- Step 1: OMB calculates the reduction in spending from the bill
  - If the amount is less than \$1.2 trillion, OMB sequesters the difference between that amount and \$1.2 trillion
- Step 2: OMB subtracts 18% of that amount for interest on the debt
- Step 3: OMB divides the remainder by 9, to allocate the spending cuts to each of the 9 covered years
- Step 4: OMB divides that amount by 2, to establish the amount to be cut separately from defense and non-defense programs
- Step 5: OMB calculates the uniform amount each eligible program in these two categories must be cut



## OPTION 2: CONGRESS FAILS TO ADOPT A DEFICIT REDUCTION LAW

- Step 1: OMB starts with the deficit reduction amount established by the statute \$1.2 trillion
- Step 2: OMB subtracts 18% of that amount for interest on the debt
- Step 3: OMB divides the remainder by 9, to allocate the spending cuts to each of the 9 covered years
- Step 4: OMB divides that amount by 2, to establish the amount to be cut separately from defense and non-defense programs
- Step 5: OMB calculates the uniform amount each eligible program in these two categories must be cut



## IF CONGRESS FAILS TO PASS A DEFICIT REDUCTION BILL

- CBO's best estimate:
  - eligible defense programs will be cut by 10%
  - eligible non-defense or “discretionary” programs will be cut by 7.8%
  - Medicare will be cut by 2%
- The resulting spending reductions:
  - appropriated programs will account for 71% of the cuts
  - mandatory spending (entitlement) programs will account for 13% of the cuts
  - the reduction in interest payments on the debt will account for 16% of the savings



# Appropriations?



# Tax Reform?





# Concern from Contractors?



# OMB versus CBO?



# Sequestration?



# Jobs for America Act?



## Contact Information

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