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Federal Budget Outlook

Senior Executives Association Corporate Lunch

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SEQUESTRATION – AUTOMATIC CUTS – HAS BECOME SHORTHAND FOR SPENDING LIMITS AS WELL

- » Sequestration: automatic reduction of budgetary resources provided in an appropriations bill or another measure
- » Although discretionary sequestration would occur only if the caps were breached, the term has become shorthand for the spending constraints as well
- » The 2011 Budget Control Act (Public Law [112-25](#)) used three forms of sequestration
 - The first enforces the law’s separate caps on defense and nondefense discretionary spending through fiscal 2021 – future enacted appropriations that exceeded the caps would be reduced across the board
 - The second type, a so-called punishment sequestration, was triggered when a special House-Senate committee couldn’t reach agreement on a deficit reduction package and Congress failed to come up with an alternative to save \$1.2 trillion
 - Third, the law, and amendments made to it, requires annual sequestration of mandatory accounts through fiscal 2024
 - Several mandatory programs are exempt from the automatic cuts and the reduction to Medicare non administrative expenses is limited to 2 percent

FISCAL 2016 BUDGET: SUPPORT FOR INCREASES IN DEFENSE BUDGET CONFLICT WITH DEFICIT POLITICS

Spending debate this year is preview of fight over fiscal spending in 2016 and beyond

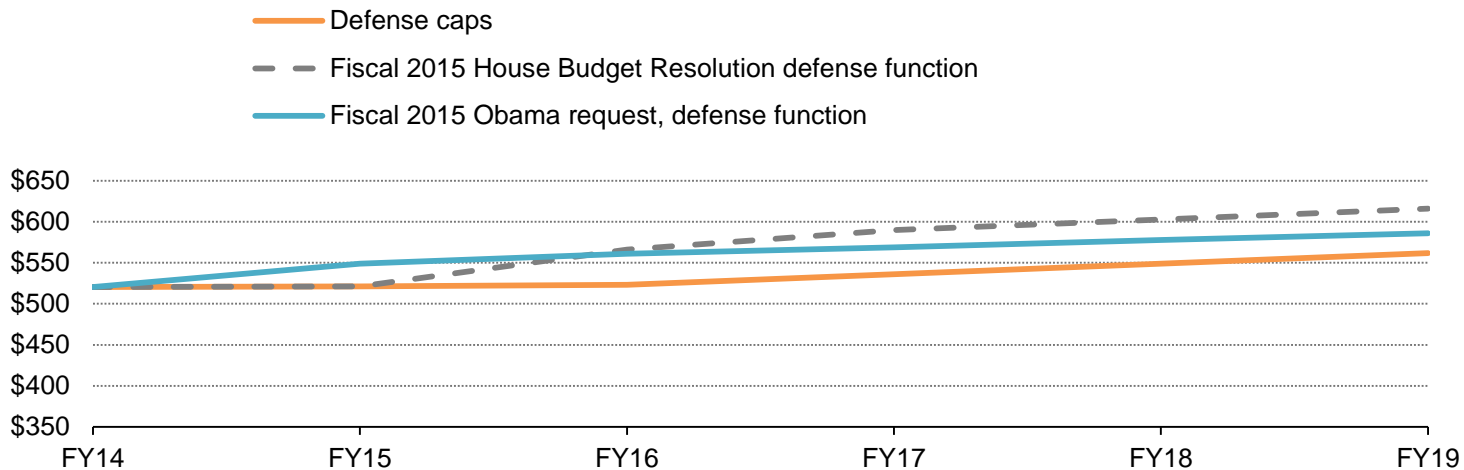
- » White House and House Republican fiscal 2015 budgets proposed increased defense spending compared with caps; White House in 2015, House budget starting in 2016
- » Debate was over how much to increase defense topline and how to pay for the increase

Election signals – don't expect major changes to spending caps

- » BGOV analysis of 10 tightest Senate races revealed little focus on base defense budget
- » Most national security discussions on campaign trail focused on Syria/Iraq and border issues

Budget authority, current dollars in billions

Defense Budget Scenarios



Sources: [House Budget Committee](#), [Congressional Budget Office](#), [Office of Management and Budget](#), [Bloomberg Government: Defense Spending Absent From Senate Races](#)

BUDGET BATTLES: NEW CONGRESS WILL TRY TO CUT NONDEFENSE SPENDING

Spending debate this year is preview of fight over 2016 spending

- » White House wanted to increase nondefense spending compared to caps, starting in 2015
- » Republicans wanted to reduce nondefense discretionary spending, starting in 2016

New Congress will have stronger, but not a free hand, in negotiations

- » Republicans with 54 votes (assuming a Landrieu loss) would still need Democrats to join them to override filibuster threats
- » White House still has ability to veto Republican-sponsored legislation

Budget authority, current dollars in billions

Nondefense Budget Scenarios

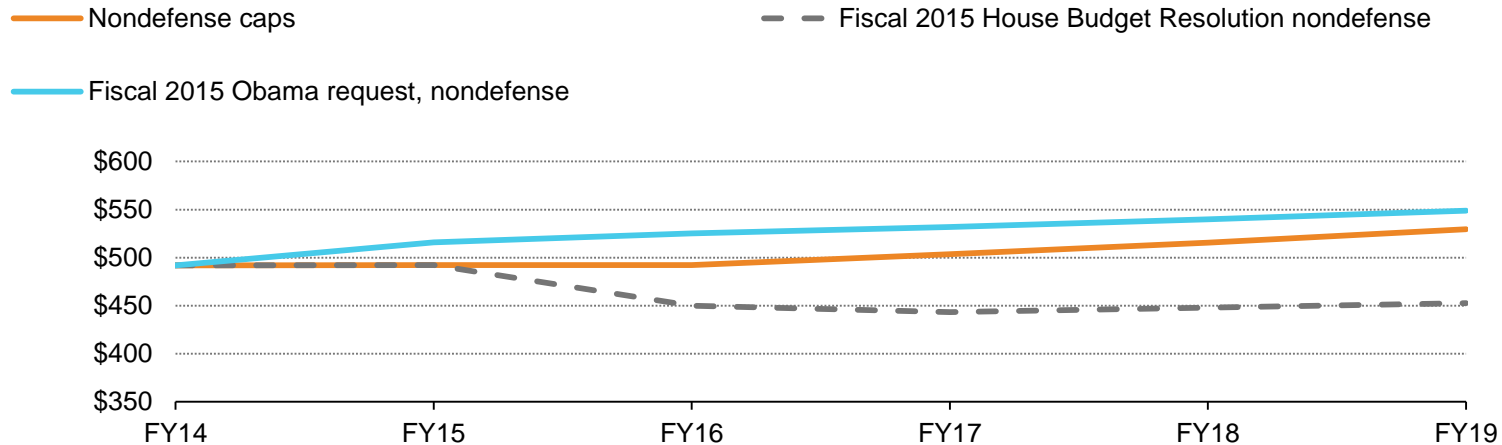


Chart sources: [House Budget Committee](#), [Congressional Budget Office](#), [Office of Management and Budget](#)

2015 BUDGET ASSUMED GROWTH AT COMMERCE, INTERIOR, TREASURY, VA BUT CHALLENGES REMAIN

President's budget assumptions may be challenged in new Congress

- » Commerce growth assumes bump for decennial census
- » Interior growth matches inflation but BLM, USGS, BIA growth may not be priority
- » Treasury/IRS has become political football

Base discretionary budget authority, current dollars in billions

Agency	2014	2015	2016	2017	2018	2019	% Change
Commerce	\$8.3	\$8.7	\$9.1	\$9.6	\$10.5	\$11.7	41.3%
Interior	\$11.5	\$11.8	\$12.0	\$12.3	\$12.6	\$12.9	11.6%
Treasury	\$12.6	\$12.8	\$14.3	\$15.1	\$15.8	\$16.6	31.6%
Veterans Affairs	\$63.4	\$65.3	\$68.4	\$69.8	\$71.4	\$73.0	15.1%

Sources: OMB 2015 Budget [Supplemental Materials](#), CBO August 2014 [Update to the Budget and Economic Outlook: 2014 to 2024](#)

MOST AGENCIES WOULD SEE BUYING POWER ERODING, EVEN UNDER PRESIDENT'S ASSUMPTIONS

CBO assumes inflation of 11.6 percent over the period 2014-2019, higher GDP growth would further erode purchasing power

» Republican control of Congress for next two years means any increases face uphill battle

Base discretionary budget authority, current dollars in billions

Agency	2014	2015	2016	2017	2018	2019	% Change
Agriculture	\$24.1	\$23.2	\$24.6	\$25.1	\$25.6	\$26.2	8.5%
Education	\$67.3	\$68.6	\$69.5	\$70.5	\$71.6	\$72.7	8.0%
Defense*	\$586.9	\$581.3	\$541.4	\$549.9	\$557.8	\$565.6	10.1%
Energy	\$10.1	\$10.1	\$10.3	\$10.6	\$10.8	\$11.1	9.3%
HHS	\$79.8	\$73.7	\$80.1	\$81.9	\$83.7	\$85.6	7.2%
HUD	\$33.7	\$32.6	\$33.2	\$33.9	\$34.5	\$35.2	4.5%
DOT	\$13.5	\$13.5	\$13.9	\$14.2	\$14.5	\$14.8	10.1%
Justice	\$22.3	\$11.8	\$23.1	\$23.6	\$24.1	\$24.7	10.5%

*DOD includes military functions only, does not include Overseas Contingency Operations/war funding

Sources: OMB 2015 Budget [Supplemental Materials](#), CBO August 2014 [Update to the Budget and Economic Outlook: 2014 to 2024](#)

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ABOUT THE ANALYST



Cameron Leuthy is a senior budget analyst with Bloomberg Government. He has more than 20 years of experience in analyzing budgets and legislation at the Office of Management and Budget, the Department of Defense, and at Booz Allen Hamilton. His expertise includes the federal budget and the nexus of national security policy, operational requirements and funding. He has a bachelor's degree from Western Washington University and an MPA from the University of Washington.

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