Waterman & Associates GOVERNMENT RELATIONS

MEMORANDUM

TO: Paul McIntosh
Executive Director, CSAC

FROM: Joe Krahn, Tom Joseph, and Hasan Sarsour
CSAC Washington Representatives

CC: Karen Keene
Deputy Director of Federal Affairs, CSAC

DATE: August 4, 2011

SUBJECT: Summary of Debt Limit/Deficit Reduction Legislation

On Monday, August 1, the House of Representatives approved landmark legislation that raises the federal debt limit and reduces government spending. The House cleared the measure (S 365) on a 269-161 vote, with 95 Democrats and 66 Republicans voting against the bill.

The Senate followed suit on Tuesday, August 2, with 74 senators voting in favor of the legislation and 26 members of the upper chamber voting against it; six Democrats joined 19 Republicans and one Independent in opposing the bill. President Obama signed the measure into law shortly thereafter, effectively ending a crisis that had threatened to plunge the nation into default and destabilize the global economy.

Under the terms of the historic agreement, which was negotiated by the president and top congressional leaders, the 14.3 trillion debt ceiling will be increased between $2.1 trillion and $2.4 trillion. The increase is slated to come in two steps, with the first boost of $900 billion occurring immediately.

A subsequent hike of $1.2 trillion to $1.5 trillion is available later, with the total size of the second increase dependent upon action taken by Congress to restrict growth in the nation's debt. Under the legislation, if Congress has approved by early next year budgetary savings of $1.5 trillion for fiscal year 2012 through 2021 (see *Second Round of Spending Cuts – Joint*

Congressional Committee Recommendations below), the second increase in the debt limit would also total $1.5 trillion. If Congress approves savings of less than $1.5 trillion – or if Congress fails to pass *any* additional budgetary savings – the second debt limit increase would be $1.2 trillion. The increases are expected to provide adequate borrowing power to the Treasury Department through early 2013.

Alternatively, the debt limit could be raised by $1.5 trillion if a Constitutional Amendment requiring a balanced budget is adopted by Congress and sent to the states for ratification – such a scenario is seen as unlikely.

It should be noted that the legislation calls for the majority of budgetary savings to be identified by a new joint deficit-reduction committee. The committee will be comprised of 12 members of Congress, three Republicans and three Democrats from each chamber. The members of the committee will be named by congressional leaders later this month.

First Round of Spending Cuts – Statutory Caps

With regard to achieving long-term deficit reduction, the legislation provides for two rounds of spending cuts. The first round would impose statutory caps on discretionary spending for fiscal years 2012-2021; according to the Congressional Budget Office, savings would amount to $935 billion over 10 years.

Notably, for fiscal years 2012 and 2013, the legislation includes a firewall between security spending (National Defense, Homeland Security and related activities) and non-security spending. The firewall is designed to ensure that domestic programs are not raided to provide increases in security accounts. Beyond fiscal year 2013 (for fiscal years 2014 through 2021), the legislation does not segregate security and non-security spending.

In recognition of the fact that achieving the type of budgetary savings envisioned in the bill will be politically challenging, lawmakers approved an enforcement mechanism that triggers across-the-board cuts in discretionary accounts if lawmakers do not adhere to the spending caps. The cuts, which would not apply to military pay and certain other items, would be triggered when Congress adjourns for the year. Notably, the enforcement tool is similar to the spending "sequesters" that were enacted in the 1985 Gramm-Rudman law (PL 99-177).

At this point, it is unclear how individual county programs will be affected by the statutory caps imposed under S 365. As is normally the case, congressional appropriators will exercise decision-making authority over discretionary spending, meaning some programs could be impacted more than others as lawmakers operate under the new limitations of the debt limit/deficit reduction legislation.

Second Round of Spending Cuts – Joint Congressional Committee Recommendations

Under the second round of cuts, the aforementioned joint congressional committee would make recommendations on ways to reduce the deficit by up to an additional $1.5 trillion. Along with the $935 billion under the first round of spending cuts, the $1.5 trillion in potential second-round reductions could bring total budgetary savings to more than $2.4 trillion over 10 years.

Should the recommendations of the joint committee not produce at least $1.2 trillion in additional budgetary savings, automatic spending cuts would be triggered to achieve the savings; the cuts would be applied equally across nine fiscal years. Any potential "sequester" would be equal to the portion of the $1.2 trillion savings target that was not achieved and would affect security and non-security accounts equally.

The entire federal budget will be subject to potential cuts as part of the second round of spending reductions, including entitlements. However, there are no immediate reductions or caps on entitlement programs, including Medicaid, IV-E foster care, SNAP (food stamps), SSI, child support and the Temporary Assistance for Needy Families program (CalWORKS). The WIC program and child nutrition also have been identified as being exempt from the discretionary cuts. Incidentally, health and human services programs could be subject to cuts and policy changes through legislation crafted by the joint committee.

It should be noted that if the deficit reduction committee does not specifically identify entitlement savings, these programs would not be subject to the across-the-board sequestration/trigger.

The joint committee is required to issue its report to Congress by November 23 of this year. The House and Senate must vote on the recommendations by December 23.

We hope this information is useful to you. Please do not hesitate to contact us if you have any questions or if you need any additional information.