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Impact of Sequestration on Nondefense Discretionary Spending



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EXECUTIVE SUMMARY

Background

2011 Budget Control Act mandates \$54.7 billion in cuts to nondefense agencies' discretionary and mandatory spending

- » Cuts take effect on Jan. 2, 2013, if no budget deal completed by the end of the year
- » Only fiscal 2013 funds targeted; prior-year balances carried over are exempt
- » Discretionary spending cut: \$38.5 billion from \$424 billion subject to sequestration, or about 9.1 percent
- » Mandatory spending cut: \$16.2 billion from \$1.88 trillion total*

Impact

- » Cut to nondefense contractor spending about \$9 billion from top 15 agencies, not including Veterans Affairs or Energy
- » Contractor spending cut ranges from about \$90 million at Education to \$1.7 billion at HHS
- » Office of Management and Budget may give agencies discretion in applying cuts
- » Some discretionary spending exempt, including VA
- » Federal workforce cuts likely

^{*} The focus of the study is the discretionary budget.

EXECUTIVE SUMMARY

Total estimated cut to contract dollars in fiscal 2013 is \$8.91 billion

- » Companies with large contracts at multiple agencies could be hit hardest:
 - Lockheed Martin No. 1 at Transportation, Defense and NASA in fiscal 2011
 - SAIC among Top 5 at HHS and Homeland Security
 - Tetra Tech Inc. No. 4 at USAID and EPA
- » Agency/contractor exposure varies: At HHS, contracts are about 25 percent of budget; at NASA, about 84 percent
- » Biggest programs and contractors at risk
- » Agencies will have to reduce spending to achieve required sequestration even if Office of Management and Budget allows discretion in targeting cuts

Impact

EXECUTIVE SUMMARY

Department/Agency	Estimated Fiscal 2013 Sequestration Contract Cut in (dollars in billions)
Health and Human Services	\$1.73
National Aeronautics and Space Administration	\$1.41
Homeland Security	\$1.29
State	\$0.77
Treasury	\$0.64
Justice	\$0.60
Transportation	\$0.48
Agriculture	\$0.46
Agency for International Development	\$0.37
Interior	\$0.37
Commerce	\$0.21
Labor	\$0.20
Environmental Protection Agency	\$0.16
Housing and Urban Development	\$0.13
Education	\$0.09
Energy	N/A *
Veterans Affairs	N/A *
Total	\$8.92

^{*} Cuts to Energy and Veterans Affairs not estimated - Energy cuts split between defense, nondefense; VA sequester cut uncertain, may hit administrative costs

BACKGROUND AND OBJECTIVES

Background

Bloomberg Government reviewed the detailed breakout of the president's fiscal 2013 budget request* and contract spending for fiscal 2011 and determined:

- » Fiscal 2013 discretionary funding that would be subject to or exempt from sequestration
- The major categories of agency contract spending in fiscal 2011 and the top company recipients

Questions Addressed

What is the estimated cut to agency budgets resulting from sequestration?

Which programs are most likely to be affected?

Which companies, based on fiscal 2011 footprint, are potentially at risk from sequestration cuts?

- » Fiscal 2011 is most recent full-year federal procurement data
- Contractor footprints vary from year to year

^{*} Final appropriations may differ from fiscal 2013 budget requests.

CONCLUSION

- 1 Biggest programs and contractors at risk. Agencies will have to reduce spending to achieve required sequestration even if Office of Management and Budget allows discretion in targeting cuts
- 2 Details of reductions to specific programs remain unclear
 - » OMB will determine how much discretion agencies have to apply cuts among programs
 - In the 1986 sequestration, OMB directed every program, project and activity to be cut, but there was variation in how agencies defined these terms
 - » Geographic distribution of cuts depends on which programs are cut
 - » Federal employment could be cut; salaries are a major portion of nondefense agency costs and President Barack Obama can protect only uniformed military personnel funding from sequestration
- Some companies with large defense and nondefense revenue, such as Lockheed Martin, Booz Allen and SAIC, could be hit twice

DEFINITIONS

Fiscal 2013 Budget Request is the nondefense discretionary portion of the president's 2013 budget request, as defined in the 2011 Budget Control Act

Portion Exempt from Sequestration is discretionary funds off-limits to sequestration by law. Study excludes VA spending, but some administrative costs could be hit

Estimated Sequestration Cut was calculated by:

- » Using the total fiscal 2013 nondefense discretionary budget authority request of \$501.87 billion from the Office of Management and Budget
- Subtracting the unambiguously exempt accounts using the Congressional Research Service report "Budget 'Sequestration' and Selected Program Exemptions and Special Rules," published on Aug. 9, 2012, to arrive at a \$424.45 billion non-exempt base
- » Dividing an estimated sequester cut of \$38.5 billion* by \$424.45 billion to arrive at a 9.1 percent reduction to non-exempt budget authority

^{*} The Congressional Budget Office estimated the nondefense discretionary sequester cut at \$39 billion; the Center on Budget and Policy Priorities estimated the cut at \$38.5 billion. To be conservative, BGOV used \$38.5 billion.

DEFINITIONS

Estimated Contractor Cut is fiscal 2011 contract spending as percent of fiscal 2013 budget request times the estimated sequestration cut

» (2011 Contract Spend/2013 budget) x (2013 discretionary budget subject to sequestration x.091)

Major Discretionary Budget Items are those programs that would be the largest recipients of discretionary funding as highlighted in the fiscal 2013 request

2011 Contract Spending is the amount the agency spent on contracts, according to the <u>BGOV200 rankings</u> of federal contractors

Contract Spending Categories are for fiscal 2011 from the BGOV200 (sums may not add to 100 percent due to rounding)

Top Five Contractors received the most revenue from each agency in fiscal 2011 per BGOV200

» Fiscal 2013 contract spending will differ from fiscal 2011 spending; top contractors are more likely to change than biggest contract categories