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REPLACING THE SEQUESTER

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, APRIL 25, 2012

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REPLACING THE SEQUESTER

WEDNESDAY, APRIL 25, 2012

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:06 a.m. in room 210, Cannon House Office Building, Hon. Paul Ryan [chairman of the committee] presiding.

Present: Representatives Ryan, Calvert, Price, Chaffetz, Stutzman, Lankford, Black, Mulvaney, Huelskamp, Young, Woodall, Van Hollen, Kaptur, Doggett, Blumenauer, Yarmuth, Pascrell, Wasserman Schultz, and Bonamici.

Chairman RYAN. The committee will come to order. Our attendance is taken.

I want to thank our witnesses for appearing today to witness the looming sequester that has been hanging over the Nation's fiscal debate since the enactment of the Budget Control Act since August of last year.

The 2013 sequester is a $109 billion across-the-board inflexible and arbitrary cut in spending that will occur under current law on January 2, 2013. The 10 percent across-the-board cut in defense spending from the sequester would, quote, "hollow out our national defense." Those aren't my words; those are the quotes from the Secretary of Defense as he describes it.

The 8 percent across-the-board cut in nondefense discretionary spending from the sequester would, quote, "inflict great damage on critical domestic priorities." Again, those aren't my words. Those words come from the President's budget.

The only way to avoid these dire results is for Congress to pass, and the President to sign, new legislation. This committee and this House have passed a budget that provides a plan for doing exactly that. In the coming weeks, this committee and this House will continue to lead by proposing legislation that will achieve more than 100 percent of the savings of the sequester that it would have achieved, while doing so in a responsible, priority driven way, rather than driving through the arbitrary meat-axe approach that is obtained in the sequester.

We are joined by Danny Werfel, the controller and head of the Office of Financial Management at the OMB.

Mr. Werfel, thank you for joining us today. It is great to have you here. We hope that your testimony will move beyond the vague generalities of the President's budget and offer specific proposals that the President is making to avoid the consequences of sequester.

We are also joined by Susan Poling, deputy general counsel at the GAO.

Ms. Poling, we look forward to your testimony on the legal regime in which the agencies are operating as they prepare for the possibility of the sequester.

Before turning it over to my friend, Mr. Van Hollen, I want to quote the White House chief of staff who wrote in August of last year, quote, "Make no mistake, the sequester is not meant to be policy," close quote. Whatever the intention, the sequester will take effect. It is law, and we will see abrupt and indiscriminate cuts in government spending unless we act. This is coming. It is there.

So the smart, rational thing to do is to prepare for that. I don't believe this is in the national interest, and the President claims that he agrees. There is no reason why we cannot work together to help replace the sequester. House Republicans are bringing specific proposals to the table, and we invite the administration to do the same.

At this time, I ask unanimous consent to insert in the record a letter from the CBO director cataloguing recent work they have done with respect to the sequester. Without objection, so ordered.

[The information follows:]

CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 23, 2012.

Hon. PAUL RYAN, *Chairman,*
Committee on the Budget, U.S. House of Representatives, Washington, DC 20515.

DEAR MR. CHAIRMAN: In response to your request, the Congressional Budget Office has prepared a list of its publications that analyze the budgetary impact of the Budget Control Act of 2011 (P.L. 112-25).

LETTERS RELATED TO THE CONSIDERATION OF THE BUDGET CONTROL ACT

• On July 26, 2011, CBO estimated the effect on the deficit of the Budget Control Act as posted on the Web site of the Committee on Rules on July 25, 2011.

• On July 27, 2011, CBO published an updated estimate of the effect on the deficit of the legislation as amended by the Faster FOIA Act of 2011.

• Also on July 27, 2011, CBO estimated the effect on the deficit of the Budget Control Act as proposed in the Senate on July 25, 2011 (as an amendment to S. 1323).

• On August 1, 2011, CBO estimated the effect on the deficit of the Budget Control Act as posted on the Web site of the Committee on Rules that day. That version of the legislation was ultimately enacted.

SEQUESTRATION REPORTS AND RELATED PUBLICATIONS

• On August 12, 2011, CBO published its Sequestration Update Report for Fiscal Year 2012. That report detailed the caps on new discretionary budget authority established by the Budget Control Act, including applicable adjustments and the limits on security and nonsecurity budget authority for 2012 and 2013.

• On September 12, 2011, CBO published the Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act. That report detailed the changes in discretionary and mandatory spending that would ensue if lawmakers did not enact legislation originating from the Joint Select Committee on Deficit Reduction that would reduce projected deficits by at least $1.2 trillion over a 10-year period.

• On January 12, 2012, CBO published its Final Sequestration Report for Fiscal Year 2012. In that report, CBO estimated that a sequestration of budgetary resources, as prescribed by the Budget Control Act, will not be required in 2012.

TESTIMONIES

• On September 13, 2011, CBO's testimony entitled Confronting the Nation's Fiscal Policy Challenges before the Joint Select Committee on Deficit Reduction included a comprehensive discussion of the Budget Control Act and its estimated ef-

fect on the budget deficit and CBO's baseline budget projections, including the potential impact of the enforcement procedures of the law (see pages 22 to 24).

• On October 26, 2011, CBO's testimony entitled Discretionary Spending before the same committee highlighted the Budget Control Act's estimated effect on discretionary budget authority and total outlays, again including the potential impact of the enforcement procedures of the law (see pages 14 to 23 and 33 to 36).

BUDGET PROJECTIONS

• In August 2011, CBO published The Budget and Economic Outlook: An Update, which discussed the budgetary effects of the Budget Control Act (see Box 1-1 and Table 1-6) and presented baseline budget projections that incorporated those effects.

• In January 2012, CBO published The Budget and Economic Outlook: Fiscal Years 2012 to 2022, which updated the estimated effects of the Budget Control Act to reflect the fact that lawmakers did not enact legislation originating from the Joint Select Committee on Deficit Reduction that would reduce projected deficits by at least $1.2 trillion over a 10-year period. (The enforcement procedures are highlighted on pages 12, 13, 18, 20, 103, and 104.)

• In March 2012, CBO published Updated Budget Projections: Fiscal Years 2012 to 2022, which continued to incorporate the budgetary effects of the enforcement procedures of the Budget Control Act.

• Also in March 2012, CBO published An Analysis of the President's 2013 Budget, which included CBO's assessment of the President's proposal to eliminate the automatic spending reductions that are scheduled to occur under the Budget Control Act.

I hope this information is useful to you.

Sincerely,

DOUGLAS W. ELMENDORF,
Director.

cc: Hon. CHRIS VAN HOLLEN, *Ranking Member.*

[The statement of Chairman Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, CHAIRMAN, COMMITTEE ON THE BUDGET

I want to thank our witnesses for appearing today to address the looming sequester that has been hanging over the nation's fiscal debate since the enactment of the Budget Control Act in August of last year.

The 2013 sequester is a $109 billion across-the-board, inflexible, and arbitrary cut in spending that will occur under current law on January 2, 2013.

The 10% across-the-board cut in defense spending from the sequester would quote, "hollow out" our national defense. Those aren't my words. That is how the Secretary of Defense describes it.

The 8% across-the-board cut in non-defense discretionary spending from the sequester would "inflict great damage on critical domestic priorities." Those aren't my words. Those words come from the President's budget.

The only way to avoid these dire results is for Congress to pass and the President to sign new legislation. This committee and this House have passed a budget that provides a plan for doing just that.

In the coming weeks, this committee and this House will continue to lead by proposing legislation that will achieve more than 100% of the savings the sequester would achieve while doing it in a responsible, priority-driven way rather than through the arbitrary, meat-ax approach that is the sequester.

We are joined today by Danny Werfel, the Controller and head of the Office of Federal Financial Management at the Office of Management and Budget.

Mr. Werfel, thank you for joining us today. We hope that your testimony will move beyond the vague generalities of the President's budget and offer the specific proposals the President is making to avoid the consequences of the sequester.

We are also joined by Susan Poling, the Deputy General Counsel of the Government Accountability Office. Ms. Poling, we look forward to your testimony on the legal regime in which agencies are operating as they prepare for the possibility of the sequester.

Before turning it over to my friend, Mr. Van Hollen, I want to quote the White House Chief of Staff, who wrote in August of last year, quote, "make no mistake: the sequester is not meant to be policy."

Whatever the intention, the sequester will take effect, and we will see abrupt and indiscriminate cuts in government spending, unless we act.

I do not believe this is in the national interest, and the President claims that he agrees. There is no reason why we cannot work together to replace the sequester. House Republicans are bringing specific proposals to the table and we invite the administration to do the same.

At this time, I ask unanimous consent to insert in the record a letter from the CBO Director cataloging recent work they have done with respect to the sequester. Without objection, so ordered.

With that, I recognize the ranking member, Mr. Van Hollen of Maryland for his opening statement.

Chairman RYAN. And with that, I recognize the ranking member, Mr. Van Hollen, for any statement he may have.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

I want to join the chairman in welcoming the witnesses today.

I think this hearing is an important opportunity to examine the budget sequester and how we got to this point. I think we all know that the Budget Control Act was a difficult compromise designed to avert an economic crisis and to avoid the default on the country's debt. It reduced spending over the next decade by about $900 billion and set in place an agreement to reduce the deficit by another $1.2 trillion.

The sequester was included in the legislation as a last resort to encourage, to pressure the Congress to develop a bipartisan alternative to achieve long-term deficit reduction. However, as is well known, our Republican colleagues continue to resist the balanced approach to deficit reduction that has been recommended by every bipartisan group that has looked at the budget challenge. Our Republican colleagues continue to oppose the idea that we should close even one special interest tax loophole for the purpose of deficit reduction.

This means that, come January, as the chairman said, the Sword of Damocles will go into effect, imposing indiscriminate across-the-board cuts of almost a trillion dollars, 50 percent from defense and 50 percent from nondefense spending. It is a meat-axe approach to deficit reduction that we should avoid.

There is no question that we need to reduce our deficit. I think we all agree, as the chairman has said, that the meat-axe approach is not the way to go. The cuts would be both too deep and too arbitrary. That is why both the President's budget and the House Democratic alternative budget would replace those deep cuts with a plan to achieve greater deficit reduction from targeted, balanced policy choices.

We have seen a number of proposals that are coming out of the process that was set up by our Republican colleagues to deal with the first year of the sequester, and unfortunately we continue to see that lopsided approach.

The Ways and Means Committee has proposed eliminating the social services block grant, which helps 23 million children and adults get essential services, including the Meals on Wheels program, prevention of child abuse and neglect, and child care for low-income parents returning to work. Eliminate it.

In the Ag Committee—in the Ag Committee, Mr. Chairman, not one ag subsidy was cut. Not one penny. Instead, the Republican proposal emerging from the Ag Committee will significantly cut food and nutrition programs for millions of families. Three hundred thousand children will lose their free lunch programs at school; and millions of Americans will see reduced support for food and nutri-

tion, again at a time when not one subsidy for a major agribusiness was cut. That, Mr. Chairman, I think is a twisted result.

Finally, in the Financial Services Committee, they proposed to eliminate the early intervention authority to shut down nonbank financial firms whose failures would have a significant negative impact on the economy. The consequence of this will be the next time around taxpayers will have to pick up the bill.

We saw what happened last time. The Wall Street reform bill designed a process to make sure that the big banks and financial institutions pay for any future failure. Apparently, our Republican colleagues decided to put the taxpayer at risk instead.

So, Mr. Chairman, I would just say that, unfortunately, what we have seen through the process so far is more of the same, more of the same meaning cutting important investments, shredding the social safety net, and again protecting tax breaks for the wealthiest Americans and for special interests.

We can do a lot better. I hope we will all take the same balanced approach to reducing the deficit as has been recommended by bipartisan commissions, meaning combining tough cuts with cuts to tax breaks and tax loopholes for special interests.

I thank you.

[The statement of Mr. Van Hollen follows:]

PREPARED STATEMENT OF HON. CHRIS VAN HOLLEN, RANKING MEMBER, COMMITTEE ON THE BUDGET

This hearing is an important opportunity to examine the budget sequester—and how it is we got to this point.

The Budget Control Act (BCA) was a difficult compromise to avert economic crisis and avoid a default on the country's debt. It reduced spending over the next decade by about $900 billion and set in place an agreement to reduce the deficit by another $1.2 trillion. The sequester was included in the legislation as a last resort to encourage the Congress to develop a bipartisan alternative to achieve long-term deficit reduction. However, our Republican colleagues continue to resist the balanced approach to deficit reduction that has been recommended by every bipartisan group that has looked at the budget challenge. Republicans continue to oppose the idea that we should close even one special interest tax loophole for the purpose of deficit reduction.

This means that come January, this "Sword of Damocles" will go into effect, imposing indiscriminate, across-the-board cuts of almost $1 trillion—50 percent from defense and 50 percent from non-defense spending. It is a meat-ax approach to deficit reduction that we should avoid.

There is no question that we need to reduce our deficit—and I think we all agree that the BCA's slash-and-burn approach does not make sense for our country. These cuts would be too deep and too arbitrary. That's why both the President's budget and the House Democratic alternative budget would replace these deep cuts with a plan to achieve greater deficit reduction from targeted, balanced policy choices.

But instead of working on a bipartisan solution to address these pending cuts, Republicans have doubled down on their lopsided approach to deficit reduction that protects the very wealthy and special interests at the expense of everyone else. Their solution is further cuts to vital services imposed through both the reconciliation instructions and the additional cuts in discretionary spending mandated by the Republican budget that violated the spending levels agreed upon in the Budget Control Act.

The process is not yet complete, but three of the six committees have already recommended cuts to vital services that will affect Americans in many ways. In fact, some of the cuts will hurt millions of low-income and disabled Americans at a time when millions remain out of work through no fault of their own and are struggling to make ends meet. They include:

- Eliminating the Social Services Block grant, which helps 23 million children and adults get essential services. This includes support for the Meals on Wheels program, prevention of child abuse and neglect, and child care for low-income parents returning to work.

• Cutting the Supplemental Nutrition Assistance Program (SNAP) that helps low-income households put food on the table—while not cutting a single unnecessary subsidy for big agri-business. The Republican plan reduces assistance to every single household receiving SNAP benefits almost immediately and cuts 1.8 million people off of food assistance entirely. 75% of these households are families with children. In addition, nearly 300,000 children would lose free school meals, on top of losing the SNAP benefits that provide food at home. Once again, special interests win out over American families.

• Repealing the FDIC's early intervention authority to shut down non-bank financial firms whose failures would have a significant negative impact. The Wall Street Reform law designed this early intervention authority to pay for itself over time, and repealing this authority will ensure that taxpayers will likely have to pay the price if we ever have to bail out financial firms in the future.

This is all more of the same. The Republican budget ends the Medicare guarantee, raises the costs of student loans, increases the tax burden on middle-income Americans, and guts important investments in our economy—all to protect and expand tax breaks for the wealthy and special interests.

Democrats have taken a different approach—one that preserves the promises we've made to seniors, boosts job growth, and makes critical investments in our nation's future. Both the President's budget and the very similar Democratic alternative budget include specific and balanced deficit reduction plans, replacing the meat-ax cuts in the sequester with a combination of reductions from mandatory programs and revenues generated by eliminating tax loopholes and asking millionaires to return to the same top tax rate they paid during the Clinton administration.

I hope our Republican colleagues will ultimately choose to take the approach recommended by every bipartisan commission—a balanced approach to reducing the deficit and replacing the sequester.

Chairman RYAN. Thank you.

Ms. Poling, why don't we start with you?

STATEMENTS OF SUSAN A. POLING, DEPUTY GENERAL COUNSEL, GOVERNMENT ACCOUNTABILITY OFFICE; AND DANIEL I. WERFEL, CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF SUSAN A. POLING

Ms. POLING. Good morning, Chairman Ryan, Ranking Member Van Hollen, and members of the committee. Thank you for inviting me to speak with you today.

I am the deputy general counsel of the Government Accountability Office. Before assuming this position, I was responsible for GAO's appropriations law decisions and opinions, the Red Book, and legal support for, among other teams, our budget issues group.

You asked GAO to speak about two topics today. First, you asked us to discuss the application of two fiscal laws, the Antideficiency Act and the Impoundment Control Act, as agencies prepare for a possible sequestration under the Budget Control Act. And, second, you asked us to discuss the meaning of "program, project, and activity" under the Budget Control Act. GAO has an oversight role with regard to fiscal laws and is statutorily responsible for publishing and maintaining standard terms related to the Federal budget process.

The Budget Control Act of 2011, which amended the Balanced Budget and Emergency Deficit Control Act of 1985, more commonly known as the Gramm-Rudman-Hollings Act, established a process to achieve a deficit reduction target of $1.2 trillion by the end of fiscal year 2021. Among other things, the Budget Control Act requires that the Office of Management and Budget calculate, and the President order, a sequestration of discretionary and direct

spending on January 2, 2013, to achieve reductions for that fiscal year.

Despite the possible impact of any sequestration, agencies must continue to comply with the requirements of the Antideficiency Act and the Impoundment Control Act. The Budget Control Act does not waive the application of these two very, very important fiscal laws, both of which underscore Congress's constitutional power of the purse.

These two laws act in concert. The Antideficiency Act prohibits agencies from spending in excess of or in advance of their appropriation or an apportionment, while the Impoundment Control Act bars agencies from refusing to use the amounts that Congress has appropriated.

Congress enacted the Impoundment Control Act to tighten congressional control over Presidential impoundments and to establish a procedure by which Congress could consider the merits of impoundments proposed by Presidents. Thus, the agency must carry out their appropriations regardless of the possibility of reductions in budget authority that could take place at the beginning of the second quarter of fiscal year 2013.

Agencies do have some experience in maintaining operations in uncertain budget times. In the past decade, agencies have continued to carry out their missions with temporary appropriations under continuing resolutions for many months into the fiscal year.

The Budget Control Act also provides that sequestration for fiscal year 2013 will reduce each nonexempt account by a uniform percentage necessary to achieve the calculated reduction for that fiscal year. OMB is required to implement the sequestration such that the same percentage reduction applies across all programs, projects, and activities in a budget account.

Programs, projects, and activities are to be identified with reference to the relevant appropriation act, the relevant committee reports, any report of the relevant fiscal year, or for accounts that are not included in the appropriations acts with reference to the most recently submitted President's budget. Under this framework, each budget account must be analyzed separately to determine its component programs, projects, and activities.

In 1986, when agencies had to implement the same language in the first sequestration, GAO found that, despite the variety of definitions, most agencies had little difficulty in identifying information sources needed to determine what program, projects, or activities existed within a given account. We did identify in 1986 some ambiguities in various definitions and some oversights and omissions and some very practical problems, where the language of the appropriations act or the committee reports did not coincide with functional program or project information used by the agency budget officials for the actual program execution.

In the final analysis, the Budget Control Act vests OMB with the authority to implement sequestration. The execution and impact of any spending reductions will depend on the legal interpretations and actions taken by OMB. To date, OMB has not issued guidance to agencies on preparing for the implementation of the Budget Control Act or how it would construe program, project, or activity.

This concludes my prepared statement, and I would be happy to answer any questions that you or other members of the committee have at this time.

[The prepared statement of Susan A. Poling follows:]

United States Government Accountability Office

GAO

Testimony

Before the Committee on the Budget, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Wednesday, April 25, 2012

AGENCY OPERATIONS

Agencies Must Continue to Comply with Fiscal Laws Despite the Possibility of Sequestration

Statement of Susan A. Poling
Deputy General Counsel

G A O
Accountability * Integrity * Reliability

GAO-12-675T

April 2012

GAO
Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-675T, a testimony before the Committee on the Budget, House of Representatives.

AGENCY OPERATIONS

Agencies Must Continue to Comply with Fiscal Laws Despite the Possibility of Sequestration

Why GAO Did This Study

This testimony addresses two issues: (1) the application of the Antideficiency Act and the Impoundment Control Act as agencies prepare for a possible sequestration under the Budget Control Act; and (2) the meaning of "program, project, and activity," under the Budget Control Act.

GAO has an oversight role with respect to both the Antideficiency Act and the Impoundment Control Act. GAO provides legal decisions and opinions to Congress and federal officials on the application of the Antideficiency Act. Agencies that violate the Antideficiency Act must report the violation to the President, Congress, and the Comptroller General. GAO compiles and presents certain unaudited data from Antideficiency Act reports filed each fiscal year.

GAO also reviews and reports on each special message made pursuant to the Impoundment Control Act. The Comptroller General must report to Congress any impoundment that the President has failed to report. GAO monitors the status of affected funds as well as prepares statistical summaries and analyses for Congress.

In addition, GAO is statutorily responsible for publishing and maintaining standard terms related to the federal budget process. GAO has previously looked at various definitions of "program, project, and activity" under an earlier iteration of the Balanced Budget and Emergency Deficit Control Act.

View GAO-12-675T. For more information, contact Susan A. Poling at (202) 512-5207 or polings@gao.gov.

What GAO Found

The Budget Control Act of 2011, amending the Balanced Budget and Emergency Deficit Control Act of 1985, establishes limits on discretionary spending for fiscal years 2012 through 2021. In addition, the Act specifies additional limits on discretionary spending and automatic reductions in direct spending because legislation was not enacted that would reduce projected deficits by at least $1.2 trillion by the end of fiscal year 2021. Among other things, the Budget Control Act requires the Office of Management and Budget (OMB) to calculate, and the President to order, a sequestration of discretionary and direct spending on January 2, 2013, to achieve reductions for that fiscal year.

Despite the possible impact of any sequestration, agencies must continue to comply with the requirements of the Antideficiency Act and the Impoundment Control Act. The Budget Control Act does not waive the application of these two important fiscal laws, both of which underscore Congress' constitutional power of the purse. These two laws act in concert: the Antideficiency Act prohibits agencies from spending in excess or in advance of available appropriations or apportionments, while the Impoundment Control Act bars agencies from refusing to obligate the amounts that Congress has appropriated. Agencies must carry out their appropriations in accordance with both the Antideficiency Act and the Impoundment Control Act regardless of the possibility of spending reductions beginning in the second quarter of fiscal year 2013.

The Budget Control Act provides that sequestration for fiscal year 2013 will reduce each nonexempt account by a uniform percentage necessary to achieve the calculated reduction for that fiscal year. OMB is required to implement sequestration such that the same percentage reduction applies across all programs, projects, and activities within a budget account. Programs, projects, and activities are to be identified with reference to the relevant appropriation act or accompanying report for the relevant fiscal year or, for accounts not included in appropriation acts, with reference to the most recently submitted President's budget. Under this framework, each budget account must be analyzed separately to determine its component programs, projects, and activities, and such a determination may require reference to the original appropriation act, to accompanying reports, or to the President's budget. In that regard, GAO's definition of "program, project, or activity" in the *Budget Glossary* may be useful to this analysis.

The Budget Control Act vests in OMB the authority to implement sequestration. The execution and impact of any spending reductions will depend on the legal interpretations and actions taken by OMB. To date, OMB has not issued any guidance to agencies on preparing for implementation of the Budget Control Act or how it would construe "program, project, and activity."

Chairman Ryan, Ranking Member Van Hollen, and Members of the Committee:

Good morning. Thank you for inviting us here to speak with you today. My name is Susan Poling, and I am Deputy General Counsel of the Government Accountability Office. Prior to assuming this position, I was responsible for GAO's appropriations law decisions and opinions, the Red Book,[1] and legal support for our budget issues group.

You asked GAO to talk about two topics today. First, you asked us to discuss the application of two fiscal laws – the Antideficiency Act and the Impoundment Control Act – as agencies prepare for a possible sequestration under the Budget Control Act. You will hear that GAO has an oversight role with respect to both the Antideficiency Act and the Impoundment Control Act. Second, you asked us to discuss the meaning of "program, project, and activity," or "PPA," under the Budget Control Act. GAO is statutorily responsible for publishing and maintaining standard terms related to the federal budget process.[2]

Application of the Antideficiency Act and Impoundment Control Act

As you know, the Budget Control Act of 2011, amending the Balanced Budget and Emergency Deficit Control Act of 1985[3], establishes limits on discretionary spending for fiscal years 2012 through 2021. In addition the Act specifies additional limits on discretionary spending and automatic reductions in direct spending because legislation was not enacted that would reduce projected deficits by at least $1.2 trillion by the end of fiscal year 2021.[4] Among other things, the Budget Control Act requires the Office of Management and Budget (OMB) to calculate, and the President

[1]The *Principles of Federal Appropriations Law*, commonly referred to as the Red Book, is a multi-volume treatise published by GAO on federal fiscal law.

[2]31 U.S.C. § 1112(c). *See* GAO, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP (Washington, D.C.: Sept. 2005) (published in cooperation with the Secretary of the Treasury and the Directors of the OMB and the Congressional Budget Office).

[3]Pub. L. No. 99-177, title II, 99 Stat. 1037, 1038 (Dec. 12, 1985).

[4]Budget Control Act (BCA), Pub. L. No. 112-25, § 302, 125 Stat. 240, 256-59 (Aug. 2, 2011).

to order, a sequestration of discretionary and direct spending on January 2, 2013, to achieve reductions for that fiscal year.[5]

Regardless of the possible effects of any sequestration, agencies must continue to comply with the requirements of the Antideficiency Act and the Impoundment Control Act. The Budget Control Act neither explicitly nor implicitly waives the application of these two important fiscal laws. The Antideficiency Act and the Impoundment Control Act are two of the major laws in the statutory scheme by which Congress exercises its constitutional control of the public purse. These two acts go hand-in-hand: the Antideficiency Act bars agencies from spending in excess of available appropriations or apportionments,[6] while the Impoundment Control Act generally bars agencies from refusing to obligate the amounts that Congress has appropriated. Thus, these two laws in concert require that agencies may spend neither more nor less than what Congress has appropriated for their use. Instead, agencies must carry out the appropriations that Congress has enacted. I will discuss each of these laws in turn.

First, let me provide you with a bit of background on the Antideficiency Act. During the 19th century, agencies often abused their power by incurring obligations that exceeded available appropriations, entering into obligations prior to receiving an appropriation, encouraging employees and others to "volunteer" their services to the agency, and depleting their appropriation early in the fiscal year. As a result, Congress felt compelled to enact appropriations to cover deficiencies in budget authority. Congress enacted a series of statutes to regain control over federal spending. Together, these laws make up the Antideficiency Act.

[5]Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), § 251A, *added by* BCA, § 302.

[6]An apportionment is the action by which OMB (for the Executive Branch) distributes amounts available for obligation in an appropriation or fund account. An apportionment divides amounts available for obligation by specific time periods (usually quarters), projects, activities, objects, or a combination thereof. An apportionment may be further subdivided by an agency into allotments, suballotments, and allocations. *Glossary*, at 12.

The Antideficiency Act includes two main prohibitions:

- First, agencies cannot obligate or expend federal funds in excess or in advance of an appropriation, apportionment, or allotment.[7] In other words, agencies cannot spend more money than they have or spend money before they have it.
- Second, agencies cannot accept voluntary services.[8]

GAO regularly provides legal decisions and opinions to Congress, its committees and Members, and federal officials on the application of the Antideficiency Act.[9] The Antideficiency Act requires agencies violating its proscriptions to report to the President and Congress all relevant facts and a statement of actions taken, and transmit a copy of each report to the Comptroller General on the same date the report is transmitted to the President and Congress.[10] GAO compiles and presents certain unaudited information from reports filed each fiscal year.[11]

Agencies must continue to comply with the Antideficiency Act even as they prepare for a possible sequestration. In anticipation of sequestration, an agency may not overobligate its first-quarter apportionment, enter into contracts without available appropriations, or ask its employees to volunteer their time or waive compensation. An agency must continue to operate within the confines of its appropriations despite the possibility of sequestration.

The Impoundment Control Act, on the other hand, requires that agencies obligate the amounts that Congress has appropriated. At various times in

[7]31 U.S.C. §§ 1341, 1517(a). *See also* OMB Circular No. A-11, *Instructions on Budget Execution*, pt. 4, § 145 (Aug. 18, 2011).

[8]31 U.S.C. § 1342.

[9]Congress authorizes the Comptroller General to settle the accounts of the United States. 31 U.S.C. § 3526. Our authority to issue appropriations law decisions and opinions is drawn from this authority and a statutory direction to issue decisions upon the request of certain federal officials in advance of a payment of appropriated funds. 31 U.S.C. §§ 3527–3529.

[10]31 U.S.C. §§ 1351, 1517(b).

[11]GAO, *Antideficiency Act Resources*, *available at* www.gao.gov/legal/lawresources/antideficiency.html (last visited Apr. 20, 2012).

history, Presidents have occasionally refused to spend money that Congress appropriated for policy reasons, *i.e.*, because they disagreed with the need for the expenditure or the amount of the expenditure. For instance, in 1972, President Nixon directed the Environmental Protection Agency to disburse to the States only about half of the funds appropriated for water pollution assistance. The Supreme Court found that the President did not have the authority to withhold the funds.[12]

Congress enacted the Impoundment Control Act of 1974 to tighten congressional control over presidential impoundments and to establish a procedure under which Congress could consider the merits of impoundments proposed by the President.[13] An impoundment is any action or inaction by an officer or employee of the federal government that precludes obligation or expenditure of budget authority.[14] The Impoundment Control Act separates impoundments into two categories: deferrals and proposed rescissions. Under the Act, if the President wishes to defer or temporarily postpone the obligation of any budget authority provided for a specific purpose or project, he must transmit a special message to Congress proposing such a deferral.[15] The special message must describe, among other things, the amount of budget authority proposed for deferral, the reasons for the deferral, and the period of time during which the budget authority will be deferred.[16] Deferrals are permissible only to provide for contingencies, to achieve savings made possible by or through changes in requirements or greater efficiency of operations, or as specifically provided by law.[17] Deferrals are

[12] *Train v. City of New York*, 420 U.S. 35 (1975).

[13] 2 U.S.C. §§ 681–688. *See also* B-320091, July 23, 2010; GAO, *Impoundment Control Act: Use and Impact of Rescission Procedures*, GAO-10-320T (Washington, D.C.: Dec. 16, 2009), at 1.

[14] *Glossary*, at 61.

[15] 2 U.S.C. § 684(a).

[16] *Id.*

[17] *Id.* § 684(b). Programmatic delays are not impoundments and therefore do not need to be reported. Programmatic delays arise because of factors outside the exclusive control of the agency, such as a lengthy procurement. GAO, *Impoundment Control: Deferral of DOD Budget Authority Not Reported*, GAO/OGC-91-8 (Washington, D.C.: May 7, 1991), at 3-4.

not authorized for policy reasons, *i.e.*, just because the agency disagrees with Congress' priorities.[18]

Under the other category of impoundments, proposed rescissions, the President must transmit a special message to Congress whenever the President determines that all or part of any budget authority will not be required to carry out the full objectives or scope of the programs for which it is provided, or that the budget authority should be rescinded for fiscal policy or other reasons.[19] The special message must describe, among other things, the amount of budget authority proposed for rescission and the reasons it should be rescinded.[20] Any amount of budget authority proposed to be rescinded must be made available for obligation unless Congress, within 45 legislative days, completes action on a bill rescinding all or part of the amount proposed for rescission.[21] Unless Congress rescinds the budget authority in a public law, the agency must make the funds available for obligation to carry out the purposes of the appropriation.

GAO also has a role with respect to the Impoundment Control Act. The Comptroller General is required to review each special message and report his findings to Congress as soon as practicable.[22] The Impoundment Control Act also requires the Comptroller General to report to Congress any impoundment which the President has failed to report.[23] GAO monitors the status of affected funds as well as prepares statistical summaries and analyses for Congress.[24]

[18]GAO, *President's Third Special Impoundment Message for FY 1990*, GAO/OGC-90-4 (Washington, D.C.: Mar. 6, 1990) ("Deferrals intended to further executive branch policies or priorities in place of those policies established in the legislative process are, absent specific statutory authority, unauthorized deferrals.").

[19] 2 U.S.C. § 683(a).

[20]*Id.*

[21]*Id.* § 683(b).

[22]*Id.* § 685(b).

[23]*Id.* § 686(a).

[24]*See, e.g.*, B-321125, June 23, 2011.

Agencies must also continue to comply with the Impoundment Control Act as they prepare for a possible sequestration. We have previously concluded that an agency may not set aside funds[25] or intentionally slow down spending[26] in anticipation of proposed cancellations or rescissions of previously appropriated funds. If an agency proposes to defer the obligation of funds in the wake of a possible sequestration, it would need to show that the deferral met a statutory exception and it would need to send a special message to Congress.[27]

Agencies do have some experience in maintaining operations in uncertain budget times. In the past decade, agencies have continued to carry out their missions with temporary appropriations under continuing resolutions for many months into the fiscal year. While continuing resolutions allow agencies to continue operations at a certain rate, the agencies cannot predict the amount of their final appropriation, which may be lower than anticipated.[28] Similarly, if OMB implements sequestration for fiscal year 2013, agencies will have to absorb reductions beginning in the second quarter of the fiscal year.

[25]B-307122, B-307122.2, Mar. 2, 2006. In October 2005, the President transmitted to Congress a proposal to rescind $2.3 billion of available funding to offset the cost of Hurricane Katrina relief. According to the President, the proposal called for cancellations, not rescissions. GAO contacted each affected agency to determine whether it was withholding budget authority in response to the President's proposal. GAO found that agencies withheld over $470 million in budget authority, affecting 12 programs, for approximately two months. These withholdings constituted impoundments that should have been reported to Congress under the Impoundment Control Act.

[26]B-320091, July 23, 2010. President Obama proposed the cancellation of the National Aeronautic and Space Administration's (NASA) Constellation program in his fiscal year 2011 budget request. In response to a congressional request, GAO determined that NASA had not violated the Impoundment Control Act in its obligation of Constellation funds after the release of the President's budget request. NASA had not withheld funds from obligation or slowed down its rate of spending in fiscal year 2010 in response to the policy proposal.

[27]*See* 2 U.S.C. § 684(a).

[28]GAO has found that continuing resolutions limit management choices and result in inefficiencies. GAO, *Continuing Resolutions: Uncertainty Limited Management Options and Increased Workload in Selected Agencies*, GAO-09-879 (Washington, D.C.: Sept. 24, 2009).

"Program, Project, and Activity" (PPA) under the Budget Control Act

The Budget Control Act provides that sequestration for fiscal year 2013 will reduce each nonexempt account by a uniform percentage necessary to achieve the calculated reduction for that fiscal year.[29] "Account" is defined as "an item for which appropriations are made in any appropriation Act and, for items not provided for in appropriation Acts, such term means an item for which there is a designated budget account identification code number in the President's budget."[30] The Budget Control Act also instructs OMB to implement sequestration in accordance with section 256(k) of the Balanced Budget and Emergency Deficit Control Act.[31] This section states that except as otherwise provided, the same percentage sequestration shall apply:

> "to all programs, projects, and activities within a budget account (with programs, projects, and activities as delineated in the appropriation Act or accompanying report for the relevant fiscal year covering that account, or for accounts not included in appropriation Acts, as delineated in the most recently submitted President's budget)."[32]

Under this framework, each budget account must be analyzed separately to determine its component programs, projects, and activities, as such a determination may require reference to the original appropriation act, to accompanying reports, or to the President's budget.

[29]BBEDCA, § 251A(7)(A), *added by* BCA, § 302. Some programs are exempt from sequestration or subject to a limited sequestration. The BBEDCA provides a list of exemptions in section 255 and a list of special rules in section 256. These two BBEDCA sections were most recently updated by the Statutory Pay-As-You-Go Act of 2010. Pub. L. No. 111-139, title I, § 11, 123 Stat. 8, 23-29 (Feb. 12, 2010). For instance, a number of mandatory programs are exempt from sequestration, including Social Security benefits and Supplemental Nutrition Assistance Program (formerly known as the Food Stamp Program). BBEDCA, §§ 255(a), 255(h). Additionally, funding for Medicare payments cannot be cut by more than two percent. BBEDCA, § 251A(9), *added by* BCA, § 302.

[30]BBEDCA, § 250(c)(11).

[31]*Id.* § 251A(10), *added by* BCA, § 302.

[32]BBEDCA, § 256(k).

In that regard, GAO's definition of "program, project, or activity" in the *Budget Glossary* may be useful to this analysis. The *Budget Glossary* provides that a "program, project, or activity (PPA)" is:

> "an element within a budget account. For annually appropriated accounts, [OMB] and agencies identify PPAs by reference to committee reports and budget justifications; for permanent appropriations, OMB and agencies identify PPAs by the program and financing schedules that the President provides in the 'Detailed Budget Estimates' in the budget submission for the relevant fiscal year."[33]

For example, where Congress barred the National Aeronautics and Space Administration (NASA) from using an appropriation for the "termination or elimination of any program, project, or activity" of a particular program, GAO found the relevant programs, projects, and activities in NASA's budget request.[34]

History can also provide some insight into understanding definitions of "programs, projects, and activities." In 1986, the Balanced Budget and Emergency Deficit Control Act required that the President sequester funds in accordance with definitions of "program, project, and activity" provided by the committees on appropriations. The fiscal year 1986 "program, project, and activity" definitions varied from agency to agency and sometime within agencies from account to account. The definitions were separated into categories corresponding to the different appropriations acts, which generally tied them back to specific language in the appropriations act and committee reports, similar to the Budget Control Act provision. We noted in our review that despite the variety of definitions, "most agencies had little difficulty in identifying information sources needed to determine what programs, projects and activities existed within a given account."[35] We did identify ambiguities in various definitions and some oversights and omissions in the way agencies carried out the sequestration. In addition, some difficulties arose when the language in the appropriations acts and committee reports did not coincide with functional program or project information used by agency budget officials for actual program execution and when the committee

[33]*Glossary*, at 80.

[34]B-320091, July 23, 2010.

[35]GAO, *Compliance Report for FY 1986: Balanced Budget and Emergency Deficit Control Act of 1985*, GAO/OCG-86-2 (Washington, D.C.: Mar. 31, 1986), at 4.

reports did not reflect current programs and activities financed within the account in question.

In the final analysis, the Budget Control Act vests in OMB the authority to implement sequestration. The execution and impact of any spending reductions will depend on the legal interpretations and actions taken by OMB. To date, OMB has not issued any guidance to agencies on preparing for implementation of the Budget Control Act or how it would construe "program, project, and activity."

If you or your staff have any questions about this testimony, please contact me at (202) 512-5207 or polings@gao.gov. Contact points for our Office of Congressional Relations and Office of Public Affairs are on the last page of this statement. Susan J. Irving, Director for Federal Budget Analysis, Julia C. Matta, Assistant General Counsel, Lauren Grossman, Senior Staff Attorney, and Omari Norman, Senior Attorney, made key contributions to this statement.

Thank you, Mr. Chairman. This concludes my prepared statement. I would be happy to answer any questions that you or other members of the Committee have at this time.

Chairman RYAN. Great. Thank you.

Mr. Werfel.

STATEMENT OF DANIEL I. WERFEL

Mr. WERFEL. Mr. Chairman, Ranking Member Van Hollen, members of the committee, good morning.

I am here at your request to provide input on issues related to the Budget Control Act of 2011 and the sequester, the President's proposal to replace the sequester, and OMB's role in implementing the sequester should it take effect on January 2, 2013.

Currently, I serve in the position of controller at OMB. This position was created by the Chief Financial Officer's Act of 1990, with responsibilities for coordinating government-wide policy and reform efforts related to financial management. Historically, the controller, working with agency CFOs, plays an important role supporting the director of OMB in preparing for both ordinary and extraordinary financial circumstances across government. It is in this capacity that I am speaking before the committee today.

The BCA, passed on a bipartisan basis, established caps on discretionary spending for fiscal years 2012 through 2021. The Act also created a Joint Select Committee on Deficit Reduction, instructed to develop a bill to reduce the Federal deficit by $1.5 trillion over a 10-year period ending in fiscal year 2021. If the joint committee failed to propose and Congress failed to enact a bill including at least $1.2 trillion in deficit reduction, the BCA put into place an automatic process of across-the-board cuts to reduce spending known as the sequester.

The President has made clear that Congress can and should act to avoid the sequester. The intention of the sequester was to drive Congress to a compromise through the threat of mutually disagreeable cuts to both defense and nondefense discretionary funding. If allowed to occur, the sequester would be highly destructive to national security and domestic priorities and core government functions. The administration believes that taking action to avoid the sequester in a full and balanced and fiscally responsible manner must be the primary focus of Congress's deliberations in the coming months.

OMB plays a central role in the management, oversight, and execution of appropriations and authorities provided to the executive branch. On occasion, congressional action or inaction requires OMB to plan for extenuating circumstances.

Recently, this has included planning for potential government shutdowns and operating under continuing resolutions, as well as other contingencies. On these occasions, OMB, in coordination with other executive branch agencies, has demonstrated an ability to plan appropriately, provide required guidance to agencies, and take the necessary steps to implement plans of action.

OMB will be prepared to draw on these experiences in implementing the sequester if Congress does not act to avoid it. But as the administration has made clear, it is our firm belief that the sequester is not an appropriate mechanism for deficit reduction and should not occur. The adverse impacts of the sequester cannot be substantially mitigated with advanced planning and executive action. In this sense, the sequester called for in the BCA can still operate as designed, a blunt instrument that is intended to spur action by imposing sweeping, across-the-board cuts.

A CBO report released last November estimated the magnitude of the cuts that would be required by the sequester. It found that base defense discretionary spending would be cut by approximately 10 percent, while nondefense discretionary spending would be cut by almost 8 percent. These cuts would be generally applied in equal percentages, indiscriminately affecting programs without regard to priorities or function. For defense, this means that all operations, from procurement to programmatic activities, will be affected. For

nondefense, the cuts would be equally harmful and wide ranging, for example, cutting funding for education, law enforcement, infrastructure, and research and development.

That is why the administration believes that avoiding the sequester, not trying to mitigate its effects, should be the focus of responsible policymakers. To this end, the President has put forward a balanced deficit reduction package to avoid the sequester. This package achieves more than enough deficit reduction to avoid the sequester if Congress chooses to act and pass it.

Last September, to support the work of the joint committee, the administration released the President's plan for economic growth and deficit reduction. This package identified specific proposals from across the spectrum that far exceeded the deficit reduction target set by Congress. When the joint committee announced last November that it would be unable to achieve its mandate for deficit reduction, the President made clear that he would veto any legislation that attempted to cancel the sequester in part or in full without achieving at least the minimum $1.2 trillion of deficit reduction agreed to in the BCA.

In February of this year, the President transmitted the 2013 budget, which again included a deficit reduction package that would not only meet but exceed the mandate given to the joint committee.

Importantly, unlike the sequester scheduled in current law, both of the President's proposals would achieve deficit reduction in a balanced, responsible way by making clear policy choices and targeted reductions. The administration has repeatedly provided a blueprint for Congress to avoid the sequester, while meeting the Nation's fiscal challenges. Now, responsibility rests with Congress, and ample time remains for such action. OMB stands ready to coordinate government-wide planning and activities for any contingency, but today the more pressing need is for Congress to act to avoid the sequester.

Thank you, and I am happy to answer any questions you may have.

[The prepared statement of Daniel Werfel follows:]

PREPARED STATEMENT OF DANIEL I. WERFEL, CONTROLLER, OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman, Ranking Member Van Hollen, members of the Committee, good morning.

I am here at your request to provide input on issues related to the Budget Control Act of 2011 (BCA) and the sequester, the President's proposal to replace the sequester, and the Office of Management and Budget's (OMB) role in implementing the sequester should it take effect on January 2nd, 2013.

Currently, I serve in the position of Controller at OMB. This position was created by the Chief Financial Officers (CFO) Act of 1990, with responsibilities for coordinating government-wide policy and reform efforts related to financial management. This includes, for example, coordinating financial reporting, audits, financial systems, and other accounting and internal control functions of agency CFOs. Historically, the Controller, working with agency CFOs and other related officials, has played an important role supporting the Deputy Director of Management and the Director of OMB in preparing for both ordinary and extraordinary financial circumstances across government. It is in this capacity that I am speaking before the Committee today.

The BCA, passed on a bipartisan basis, established caps on discretionary spending for fiscal years (FY) 2012 through 2021. The Act also created a joint Select Committee on Deficit Reduction instructed to develop a bill to reduce the federal deficit

by $1.5 trillion over the 10 year period ending in FY2021. If the Joint Committee failed to propose (and Congress failed to enact) a bill including at least $1.2 trillion in deficit reduction, the BCA put into place an automatic process of across-the-board cuts to reduce spending, known as the sequester.

The President has made clear that Congress can and should act to avoid the sequester. The intention of the sequester was to drive Congress to a compromise through the threat of mutually disagreeable cuts to both defense and non-defense discretionary funding. If allowed to occur, the sequester would be highly destructive to national security and domestic priorities, and core government functions. The Administration believes that taking action to avoid the sequester in full in a balanced and fiscally responsible manner must be the primary focus of Congress's deliberations in the coming months.

As noted above, OMB plays a central role in the management, oversight, and execution of appropriations and authorities provided to the Executive Branch. As a matter of course, this involves managing the normal operations of the government as funded through annual appropriations and existing mandatory authorities. However, on occasion, Congressional action or inaction requires OMB to plan for extenuating circumstances.

Recently, this has included planning for potential government shutdowns, operating under continuing resolutions, and managing operations when the government's borrowing limit was nearly reached. On these occasions, OMB, in coordination with other Executive Branch agencies, has demonstrated an ability to plan appropriately for necessary contingencies, provide required guidance to agencies, and, as needed, take the steps necessary to implement plans of action. OMB will be prepared to draw on these experiences in implementing the sequester if Congress does not act to avoid it. As the Administration has made clear, it is our firm belief that the sequester is not an appropriate mechanism for deficit reduction and should not occur.

Sequesters serve as the enforcement mechanism for the two budget controls currently in place: PAYGO and discretionary caps. Many of the statutory principles underlying their enforcement are longstanding. They rely on the framework first established in the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) and modified in the Budget Enforcement Act of 1990 (BEA), Statutory Pay-As-You-Go Act of 2010 (PAYGO), and most recently in the BCA.

Like many of the circumstances described above, the sequester would be severely disruptive to normal government operations and will have far reaching consequences. The adverse impacts of the sequester cannot be substantially mitigated with advance planning and executive action. In this sense, the sequester called for in the BCA can still operate as designed—a blunt instrument that is intended to spur action by imposing sweeping across-the-board cuts.

A CBO report released last November estimated the magnitude of the cuts that would be required by the sequester. It found that base defense discretionary spending would be cut by approximately 10 percent while non-defense discretionary spending would be cut by almost 8 percent. These cuts would generally be applied in equal percentages, indiscriminately affecting programs without regard to priorities or function. For defense, this means that all operations, from procurement to programmatic activities will be affected. For non-defense, the cuts would be equally harmful and wide-ranging, for example, cutting funding for education, law enforcement, infrastructure, and research and development. In his March 28 testimony before the House Committee on Education and the Workforce, Secretary Duncan explained:

A 7.8 percent reduction in funding for large State formula grant programs that serve over 21 million students in high poverty schools and 6.6 million students with special needs could force States, school districts, and schools to slash teacher salaries, lay off teachers, or reduce services to these needy children. More specifically, the resulting cut of more than $1.1 billion to Title I could mean denying funding to nearly 4,000 schools serving more than 1.6 million disadvantaged students, and more than 16,000 teachers and aides could lose their jobs.

These types of deep cuts undercut critical government programs that the American people rely on and eliminate investments needed for future economic growth. These cuts are not the result of policy decisions. That is why the Administration believes that avoiding the sequester—not trying to mitigate its effects—should be the focus of responsible policymakers.

To this end, the President has put forward a balanced deficit reduction package to avoid the sequester. This package achieves more than enough deficit reduction to avoid the sequester if Congress chooses to act and pass it. Last September, to support the work of the Joint Select Committee on Deficit Reduction that the bipartisan BCA established, the Administration released the President's Plan for Eco-

nomic Growth and Deficit Reduction. This package identified specific proposals from across the spectrum that far exceeded the deficit reduction target set by Congress for the Joint Committee. When the Joint Committee announced last November that it would be unable to achieve its mandate for deficit reduction, the President made clear that he would veto any legislation that attempted to cancel the sequester—in part or in full—without achieving at least the minimum $1.2 trillion of deficit reduction agreed to in the BCA. In February of this year, the President transmitted his 2013 Budget, which again included a deficit reduction package that would not only meet but exceed the mandate given to the Joint Committee. Specifically, the 2013 President's Budget implements the discretionary spending caps that were negotiated and agreed to as part of the BCA, generating more than $1 trillion in deficit reduction over the next decade, and reducing discretionary spending to 5 percent of Gross Domestic Product (GDP) in 2022. With these discretionary savings and other deficit reduction policies, including reforms to mandatory programs and new revenue, the President's Budget would cut the deficit by well over $4 trillion over the next decade. Importantly, unlike the sequester scheduled in current law, his proposals would achieve deficit reduction in a balanced, responsible way by making clear policy choices and targeted reductions.

The Administration has repeatedly provided a blueprint for Congress to avoid the sequester while meeting the nation's fiscal challenges. Now responsibility rests with Congress and ample time remains for such action.

OMB stands ready to coordinate government-wide planning and activities for any contingency. But today, the more pressing need is for Congress to act to avoid the sequester.

Therefore, the Administration urges the Committee and this Congress to take action to enact balanced and significant deficit reduction. Thank you, and I am happy to answer any questions you may have.

Chairman RYAN. Thank you.

First off, I want to get the scoring right. CBO estimates that in the first year reductions of $55 billion in defense discretionary programs, which is a 10 percent reduction; $43 billion in nondefense discretionary, an 8 percent reduction; and then $12 billion from mandatory accounts. Does that jibe with your interpretation of the sequester?

Mr. WERFEL. I think the CBO analysis is roughly correct. I think it provides a general framework that I think——

Chairman RYAN. That is what we are basing our——

Mr. WERFEL. I think it is appropriate to rely on the CBO analysis in terms of getting a sense of what the anticipated impact of the sequester would be.

Chairman RYAN. So the sequester formula—in no way is there a tax increase assumed or explicitly required as part of the sequester formula. Is that correct?

Mr. WERFEL. In terms of the sequester formula, I am not aware that a change in taxes, whether increase or decrease in revenue, is relevant to the sequester analysis.

Chairman RYAN. Well, okay, but the sequester says—what—55 from defense, 43 from nondefense, and then 12 from mandatory. And it is those three components that make up the sequester. Correct?

Mr. WERFEL. That is correct. It is defense, nondefense, roughly $55 billion a year across both categories. That is correct.

Chairman RYAN. Right. Okay. Okay.

Then the President's comments, that is where I am a little—they seemed a little ambiguous. He threatened to veto turning the sequester off. Any effort to get rid of those automatic spending cuts to domestic and defense spending he will veto. Is he saying he is going to veto it in the absence of not replacing it, and therefore is he in favor of replacing it? Or is he in favor of keeping it?

Mr. WERFEL. The President is in favor of avoiding the sequester.

Chairman RYAN. And replacing the savings, not just allowing the $1.2 trillion to occur?

Mr. WERFEL. That is correct. He has put together a plan that includes sufficient deficit reduction to more than meet the original mandate of the BCA for $1.2 trillion in deficit reduction over 10 years.

Chairman RYAN. That is what I want to get to. Okay, so you are claiming that his budget is his plan. But where in the budget is the specific proposal to ensure that the sequester won't happen? Where is in the budget the specific plan to deal with the sequester?

Mr. WERFEL. The President's framework would work as follows: Based on the fact that enactment of the President's policies, when building on already enacted legislation and activities, would create $4 trillion in deficit reduction over a 10-year window——

Chairman RYAN. I understand.

Mr. WERFEL. Based on that framework, that is sufficient to avoid the sequester. And, therefore, if Congress were to pass legislation that could pass both Houses of Congress and the President can sign that has a balanced approach to deficit reduction, then the President would further sign any legislative language that would cancel the sequester at that point. But he is not going to do it before that point.

Chairman RYAN. Okay, so that is the plan. Pass the President's budget.

We had a vote on it about 4 weeks ago, and it got zero votes. It was 414 to 0. I don't know if the Senate is even going to have a vote or not, but last year they had a vote on the President's budget, and it was 97 to 0. So if that is the plan to prevent the sequester, just pass my budget, that is not much of a plan. That is already done.

So knowing that this is happening, knowing that the law is the law, I think it would be wise for the Commander in Chief to at least have a plan B, knowing that his budget isn't going to pass. It has already failed. It hasn't passed.

So January is coming, and I think it is probably in our interest to show how we are going to turn this off so that we are not in the middle of the fiscal year and all of a sudden we have a cliff. That is just a statement to OMB and to the President.

The balanced approach, I hear this quite a bit these days. The President already has a pretty steep tax increase in his budget. That didn't pass. The BCA deal did not say raise taxes; it said cut spending. It actually had a specific formula backing up those spending cuts to achieve the deficit reduction. And so it strikes me that the President is changing the definition of the deal or that he is sort of moving the goalposts by going from spending cuts to tax increases.

Now, I know we can claim that either achieve deficit reduction, but the spirit of the deal of the BCA for sure, but I think the law of the BCA also is focused on spending cuts. So is he now saying we can't cut spending to replace the sequester; we must raise taxes in order to replace the sequester? Is that what the new definition of success is or replacing the sequester is?

Mr. WERFEL. Several responses, Mr. Chairman, if you will allow me.

First, I must go back and indicate that it is the administration's understanding that the President's budget has never been voted on by Congress. If you were referring to the amendment introduced by Congressman Mulvaney, it is our understanding that it did not include the various elements of the President's budget. It included some top-line numbers, but did not have all the specific policies.

So I just wanted to get that on the record.

Chairman RYAN. Sure.

Mr. WERFEL. In response to your second question regarding spending versus taxes, it is our belief that the deal that was agreed to in the Budget Control Act was for deficit reduction. And deficit reduction is going to have multiple components to it. In some cases, obviously, there will be spending cuts. In other cases, there will be revenue increases.

The President's overall plan has a mixture. In fact, it has $2.50 of spending reductions for every dollar of revenue increase. So that is the type of balance that the President has been talking about, and that is the type of balance that the President is hoping Congress can work towards and get him a bill that he can sign so we can avoid the sequester.

Chairman RYAN. So, well, those savings, by the way, are already enacted in law. So you can't say that your budget achieves those savings when they are already previously enacted savings by law. So I would just say a different definition.

With respect to the vote we had, what Mr. Mulvaney did—I will try to speak for him; correct me if I am wrong, Mr. Mulvaney—is he took the CBO's score of the President's budget and simply put that into legislative text. So, as you know, budget resolutions are a series of numbers and totals of budget functions. We took CBO's interpretation of the President's budget, and that was the vote we took. It is the closest you can get to actually voting on a proposal. The point being the proposal didn't pass.

So that plan for preempting and avoiding the sequester is not a viable plan anymore, and now we have do something else. And it sounds like the administration has not come up with their position as to how they would solve the sequester. That is the point we are trying to make here.

And I also say you have a $2 trillion tax increase proposed in the President's budget, and are we now to conclude that this sequester won't happen unless we have a big tax increase, at least a $1.2 trillion tax increase?

Mr. WERFEL. Let me go back to one earlier point, and then we will quickly move past it.

Again, I think it may be an issue of semantics, but the administration does not believe that the President's budget was truly voted on. But I think more importantly, whether the President's budget was voted on from a technical standpoint or not, what is more important to the American people is that we have a solution to the issue, and therefore the primary focus has to be that both Houses of Congress come together and send the President a bill he can sign.

Now, to your second question in terms of whether the plan needs—did you say $2 trillion in tax-created revenue?

Chairman RYAN. From the CBO score of your budget.

Mr. WERFEL. The President's budget—I just want to clarify, the net revenue impact of the President's tax proposals is $1.5 trillion in increased revenue.

And the other point that I would make is that the President has asked for balance, and I think the President is ready to work with Congress on a balanced approach. And so, you know, I don't know that we need to draw any lines in the sand on any particular elements here, but the guiding principle is balance, and that is what we should be focused on.

Chairman RYAN. Just because I am running out of time and I want to be mindful of that, we use CBO's interpretation. Just like you say, the CBO interpretation of the formula for the sequester is pretty accurate. It is the same CBO interpretation we used for the revenues.

I have got a technical question I want to ask you. There has been a discussion about the sequester base. I think you recently put out a letter yesterday on veterans' programs. We want to get a good understanding of this.

So here is my question: Will you provide for the record in an electronic format a listing of each budget account, organized by its classification, that is exempt from the sequester, including the statutory basis for the exemption—again, to clarify these concerns—nonexempt, or subject to a special rule in the event of a sequestration, including the statutory basis for this rule?

So we want to make sure we are operating off the same understanding of what is and what is not in the sequester, what is the base, and what is the statutory basis for that. That is really—I mean this in a real technical way, so that as we prepare for our sequester mitigation efforts we are talking the same language.

Mr. WERFEL. So if I could respond, what we certainly can commit to is an explanation and a listing of those programs and activities that are explicitly exempt from sequester in the law, and I can go through some of those with you right now.

Chairman RYAN. And your interpretation. Just give it to me in electronic format if you can, because we want to get the spreadsheets.

Mr. WERFEL. We can certainly provide that.

Chairman RYAN. By account.

Mr. WERFEL. But what I want to clarify, because I don't want there to be any mistake about what I am indicating here, is that there are certain categories of activities that I think, and I believe, require further review before determination can be made in terms of whether they are exempt or not. And those reviews have not taken place in all cases and will likely not take place until some point in the future.

Because the key is—and I want to, if I could, just key in on something that you said in your question. You said something associated with planning to mitigate. And I can't overstate enough it is so important to understand that planning, while we will do it when necessary and if necessary, is not going to mitigate the impacts of this sequester.

Chairman RYAN. That is right. But we want know what it is so we can prepare for it.

Mr. WERFEL. Absolutely. But what our position is on the issue of planning for the sequester is that there are certain activities that would need to take place, but some of those activities are premature. There is still 8 months to go before the sequester would take place. And we want to make sure that the primary focus of everyone's efforts is on passing a bill and getting it to the President's desk to avoid the sequester. We don't want to create a scenario in which we are prematurely running a lot of different activities and drills for something that is 8 months in the future.

Chairman RYAN. So you are saying you are not going to provide it, basically.

Mr. WERFEL. Saying what we will provide is those programs that are explicit in statute. But I cannot commit to provide you the programs that require further review because those reviews have not taken place yet.

Chairman RYAN. So we don't know what is going to be affected in totality by an account basis by the sequester.

Mr. WERFEL. At this time there are still activities that need to be reviewed to determine their application under a sequester, yes.

Chairman RYAN. All right. When should we expect it?

Mr. WERFEL. I don't know that there is a specific time frame here. I mean, again, I think our position would be the activities should be rendered moot by a plan that the President can sign to avoid the sequester. But at the appropriate time we will review the activities and we will provide Congress with that information.

Chairman RYAN. So we don't even know how it is going to work when it hits. How can we prepare in Congress to replace it if we don't know what is going to happen? I don't understand that.

Mr. WERFEL. There is a couple of elements here, if you will allow me.

Chairman RYAN. No, I am running out of my time.

Mr. Van Hollen.

Mr. VAN HOLLEN. Well, thank you, Mr. Chairman.

As you indicated in your opening statement, we know certainly in broad strokes what the impact will be both on defense and nondefense; and I think we all agree that that meat-axe, indiscriminate approach is the wrong way to go.

Let's start by putting aside the phony baloney stuff about the President's budget. It was one of those, you know, congressional games. The reality is that they put up something that didn't contain any of the backup that the President provided in his extensive budget, and the White House made clear that that did not represent the President's budget. Moreover, the White House made clear that the Democratic alternative that we provided closely hewed in most respects, closely followed in most respects, the President's plan, and in that sense said that that was a better marker for support for the President's approach. And in fact, we got a very strong support, vote, Mr. Chairman, on that proposal.

Just with respect to whether or not the $1.2 trillion is deficit reduction or just cutting, it is very clear that it is deficit reduction. The Supercommittee went through a number of efforts to try and get there. We could not get there because our Republican col-

leagues continue to take the position that we are not going to take one penny of revenue for the purpose of deficit reduction.

And, Mr. Chairman, during the negotiations over the design of that sequester, it was proposed by the administration and others that, instead of some of the cuts on defense, we instead cut some special interest tax loopholes so that that is the way the sequester would operate. And, unfortunately, our Republican colleagues decided it was more important to protect some of those special interest tax loopholes than it was to protect the defense portion of the spending.

Now, if you are going to take the position that sequester calls for spending only, which it doesn't, I don't see how you can't also take the position that 50 percent of that spending has to come from defense. That is the way it is written.

I don't think either is true. I think that the sequester calls for $1.2 trillion in deficit reduction. The President has put forward a plan to get rid of that over 10 years and replace it with a balanced approach. The Democratic alternative did the same thing.

And I would point out that both the President's proposal and the Democratic alternative replaced the sequester for the entire 10 years of the budget, whereas the Republican proposal only gets rid of the sequester for the first year. You leave defense exposed for the remaining 9 years. You leave everything else exposed for 9 years.

So if you really want to protect against those across-the-board and indiscriminate cuts for the 10-year period, you should embrace the Democratic alternative or something like the President's proposal.

I would also point out that the process that we are seeing play out right here in the House shows why it was so important to come up with a balanced approach.

Let's take the Ag Committee, for example. The sequester was designed to protect vulnerable populations during economic downturn. The sequester does not touch the food and nutrition programs. The sequester would hit some of the big ag subsidies, right? But in what is coming out of the Ag Committee, they flipped it on its head. The President's budget proposes cuts to ag subsidies.

Chairman RYAN. So does ours.

Mr. VAN HOLLEN. But not what is being reported out of the Ag Committee. What you did was hit food and nutrition programs, about close to 100 percent of the cuts coming out of the ag, and not one penny from ag subsidies. So you were asking whether the administration has put anything on the table as part of its budget on the cutting side. Well, there is an example. They put ag subsidies on the table. So what we are seeing out of this process is a totally unbalanced approach.

Now, we obviously at some point have to prepare for the worst, but first we want to avoid the worst. And that is what we hope we can do by taking the balanced approach we have had.

Now, we also may face another issue as a result of the House Republican budget. That deals with discretionary spending. Because we all know that the Budget Control Act set a level of discretionary spending. Now, our Republican colleagues take the position, well, that spending is anywhere from $1.047 billion to zero. Now, that

would make a mockery of an agreement. Right? Why would you enter into an agreement where our Republican colleagues can come back and say well, hey, we can spend $1 billion on all the operations of the U.S. Government, and that is true to the agreement.

And we have seen this sort of—we have seen this violation exposed. We just saw on the Senate side the other day Republican Senators, Senator Cochran, Senator McConnell, they all endorsed the level that was agreed to for discretionary spending under the Budget Control Act.

So let's get the sequencing right here. I hope we are not going to be driven to a government shutdown by our Republican colleagues on the House side saying that we got to adopt their spending levels, which are a violation of the Budget Control Act, and if we don't they are going to threaten to shut down the government. I know you have had experience having to prepare for that last summer. But I assume that is the kind of thing you don't go into all the details about until you get to that point. But what kind of measures are you going to have to take if our Republican colleagues in the House continue to insist on violating that agreement when even their Senate Republican colleagues have said, you know, the levels are what they were in the Budget Control Act?

Mr. WERFEL. Thank you, Ranking Member Van Hollen.

I think one of the major lessons learned of any government-wide planning exercise like we saw in advance of the potential shutdown in April, 2011, is that that planning can be disruptive to ongoing government activities. In many measures, it involves pulling technical experts in the way in which the Federal Government runs, chief financial officers, chief acquisition officers, budget execution experts, and pulls them out of their normal rhythm and operations to plan for the types of contingencies that are involved in the event of a funding lapse like what we saw in April of 2011.

That is what makes it so important, because of how disruptive that planning can be, to make sure that we don't do it prematurely and that we time and calibrate it effectively. Because, as we all know, we have a limited resource environment. And every asset, every individual that we pull off their current mission-critical activities and priorities to do planning for certain contingencies has a cost associated with it.

It is really, really important I think for Congress and others to understand that there is a cost associated with these planning efforts. For shutdown, it involves bringing communities together to understand what are the common questions around things like technical accounting questions, systems, personnel, acquisition. We have to make sure that we are providing clear and consistent guidance. There is important interpretations of the Antideficiency Act in terms of what activities would be accepted or not and a lot of logistical implications. All of them, I believe, we successfully sorted through in advance of April.

So we have done some of the groundwork, but that doesn't change the fact that we would have to reup that planning and it would be disruptive. So it is something that certainly I think everyone can agree is important to avoid.

Mr. VAN HOLLEN. Thank you.

Mr. Chairman, I just want to close on this because I know your budget proposed cuts to ag subsidies.

Chairman RYAN. Yes.

Mr. VAN HOLLEN. But that is not what the Ag Committee chose to do. What they chose to do was to cut food nutrition programs that will cut food assistance immediately to every single household receiving those food nutrition programs. It cuts $1.8 million off of food assistance entirely. Seventy-five percent of those households are families with children. And, in the process, it will knock about 300,000 kids off the school lunch program.

Now, that is not a balanced approach. Not one penny from big agribusiness, not one penny from ag subsidies. All of it from food and nutrition programs, almost all of it. At a time when the very thing we are talking about here, the sequester, was specifically designed to protect the most vulnerable populations in our country, especially at a tough economic time. So what we are seeing coming out of this process is the exact opposite of the balanced approach that we need.

In addition to making those kind of cuts, we also should be cutting some of the big tax subsidies that are out there and asking the wealthiest Americans to go back to paying the same share that they were paying during the Clinton years, which was a time we know the economy was doing well.

Chairman RYAN. When we mark up the reconciliation bill, I think we will have plenty of time to talk about these other points.

I would say for the record this category, nutrition, has grown by over 200 percent. We just had testimony last week that said if it was just adjusted for the recession, it would have only grown 40 percent. What the Ag Committee said is you have to be eligible for the benefit to actually receive the benefit. That is hardly draconian.

And with respect to the commodity programs, we do propose to cut ag subsidies at the same level, I think, the White House did. And the reason they didn't do it now is because they are trying to write a farm bill. And that is where the budget gives them the instructions to go after farm subsidies, because they are going do that in the farm bill.

So I think first things first here.

Mr. VAN HOLLEN. If I could, Mr. Chairman, just on that. As you know, the farm bill includes the food nutrition programs, and so the same rule would apply with respect to cuts to the food and nutrition programs.

Chairman RYAN. Right. But farm programs didn't increase by 270 percent like food stamps.

Mr. VAN HOLLEN. A majority in this body, Mr. Chairman, on the Budget Control Act, voted to make sure that the programs like food and nutrition programs for the most vulnerable were not subject to these deep cuts; and now you are proposing to replace the sequester deep cuts with deep cuts in an area where a majority in this House voted to protect.

Chairman RYAN. Two hundred seventy percent increase to me is just not sustainable. And, more importantly, let's make sure that people are actually eligible for the benefit if they receive it. These are common-sense reforms.

Mr. Akin.

Mr. AKIN. Thank you, Mr. Chairman.

On August 2, 2011, the President signed the Budget Control Act of 2011. And my question is, do you agree that section 302 of the law requires a reduction of approximately about $109 billion in spending on January of this next year? Is that correct?

Mr. WERFEL. That is correct.

Mr. AKIN. Okay. Thank you.

Then the second thing is, does the Budget Control Act include any tax increases? Does it include any tax increases? Simple question. Yes or no.

Mr. WERFEL. I just want to make sure that you—I can't see you, and I want to make sure you are directing the question to me.

Mr. AKIN. Okay.

Mr. WERFEL. I thought I would give it a try.

No, I am not aware that the Budget Control Act includes tax increases within it.

Mr. AKIN. Well, I am not, either. I just wanted to make sure of the facts.

So it sounds like to me this thing that we keep calling the balanced approach, the President's balanced approach, it seems like it breaks the Budget Control Act's deal. Because there aren't any tax increases in it. It seems to me like we are kind of getting whipsawed. And it is almost like a blackmail. We are not going to do anything to help protect the national defense if you guys don't go along with a big tax increase. And so, to me, that doesn't seem like a balanced approach. It seems like breaking an agreement.

But I appreciate your answering my questions.

I yield back, Mr. Chairman.

Chairman RYAN. That was fast.

Mr. Blumenauer.

Mr. BLUMENAUER. Thank you very much.

I view this as sort of a continuing effort to kind of talk past each other. With all due respect, if I am catching the drift of your testimony, Mr. Werfel, you are suggesting that maybe we get on with our business, getting a budget enacted, working going forward. That if we spent all the time and energy like we have on hearings like this where nothing is accomplished, that maybe we wouldn't be dealing with sequestration in the fall. Is that the gist of what you——

Mr. WERFEL. That is correct.

And if I could, Congressman——

Mr. BLUMENAUER. I will come back to you in just a second. I will give you a chance to sum up.

Mr. WERFEL. Please.

Mr. BLUMENAUER. But I am concerned, you know, that we have an exercise where the President's budget, absent the policy framework that would make it come alive, give it texture, give people reason to evaluate it, not just something to make out what they will and shoot at it, was defeated. I voted against it.

I support the President's efforts. Mr. Van Hollen pointed out that we actually did something that had more of the policy detail that you can put your arms around. I think virtually every President's budget has been offered up in an unflattering way by people year

in, year out. Reagan budgets were voted against by Republicans. I mean, this is something we do.

But getting to the point where, you know, the fact is the Republican budget that has passed the House and embraced by the presumed Presidential nominee, Mr. Romney, people are running away from the details there. You know, we get a little whisper, Romney in a fundraiser talks about, well, we are going to go after certain departments and the mortgage home deduction because there is no detail that has been given to us about all these tax preferences that are going to be scaled down so that you can have a massive tax reduction for people who need it the least and make it deficit neutral.

People run away from details, and we are putting off the day where we roll up our sleeves and get to work.

The Senate has made a decision, Republicans, that they are going to stick by the deal, and we are going to be getting a budget from them, Democrats and Republicans, that at least has the same top line number so we can move forward. And I think that is important. Because I really believe in the heart of hearts of a number of my friends on the other side of the aisle—I know because I have had conversations with some of them—that they absolutely know that we can scale down defense spending and still have the most powerful military in the world. No question about it. Significantly. Would that, instead of playing this game, we get into doing that.

I, Mr. Chairman, have worked with you on agriculture reform for a decade. I think we are closer to doing that than we have ever had before. But, instead, we have this missile launched up that is going to have real consequences on real people. You know, they tried to rewrite the farm bill in the committee of 12. It wasn't up for reauthorization then, but they had a chance to try and work something through.

And, again, that is sort of beside the point. We could have the Budget Committee actually get into the weeds and help provide momentum for doing things that I think we actually agree on, agriculture reform and reform of defense spending. But the longer we spend time like this and we have reconciliation instructions that will never be enacted but are really draconian, it complicates everybody's job, and it makes it less—it makes it actually more likely that the default of the sequester comes into play.

Chairman RYAN. Would you yield just in a friendly way on that?

Mr. BLUMENAUER. I would yield.

Chairman RYAN. You say reconciliation instructions that will never be enacted. I think that is true given this current Congress. But I also think it is irresponsible for us not to show how we would replace the sequester if we don't think it should—the formula should be impacted as it is.

So what we are doing is we are saying here is how we will fix this issue that everybody acknowledges needs to be fixed, and what we are not seeing from the administration, from the Senate is their solution on how to fix this issue before this moment comes. And that is what is frustrating to us.

Mr. BLUMENAUER. Mr. Chairman, I really want to foster—I guess I only have 15 seconds left—I want to foster this discussion. I want you to be able to express your thoughts. But I truly think that

there are areas here where we could have solutions if it isn't all about the next election, if it isn't all about positioning artificially with the Senate, running up to a deadline where there might be a shutdown, which could happen.

Look what happened with the FAA. We put 70,000 people out of work last summer, furloughed 4,000 people before we ended up accepting what was essentially a bipartisan compromise that was supported by 90 Senators.

And I just hope that we minimize this and get to the details, where I think we can avoid sequestration, I think we can an avoid a shutdown, and I think we can show that we actually agree on some stuff. But I appreciate what you do in agriculture.

Chairman RYAN. Likewise, appreciate your work as well.

Mr. Lankford.

Mr. LANKFORD. Thank you, Mr. Chairman.

Ms. Poling, let me ask a quick question on just some clarification on the nonexempt question. Veterans, some conversation about that. Would you consider the veterans, veterans' benefits as a nonexempt area that would avoid sequestration?

Ms. POLING. GAO has a congressional request at this point in time for an opinion on whether the VA programs are exempt from sequestration; and as part of our process we reach out to the agencies involved, VA and Office of Management and Budget. And so we are working the issue right now. We expect to issue an opinion on this in the next several weeks.

Mr. LANKFORD. Okay. What about transportation?

Ms. POLING. We don't have any requests on transportation.

Mr. LANKFORD. Okay. What about the payroll of our troops?

Ms. POLING. The MILPERS appropriation, if the President chooses, he can exempt that.

Mr. LANKFORD. Okay. It would just increase the sequester in other areas.

Ms. POLING. That is exactly right.

Mr. LANKFORD. Payroll can be protected based on the President's decision whether he is going to protect the payroll of military personnel, but it increases the sequester amount in other areas if that is done.

Ms. POLING. That is true.

Mr. LANKFORD. Okay. Mr. Werfel, good to see you. We have been in multiple Oversight and Government Reform meetings together. It is good to be able to see you again.

The House budget makes a proposal, the one that we had passed, makes a proposal to bring down spending now, earlier and faster, starting to prepare for the sequester, and to get ready for that and its total reduction on that, reducing our spending in the nondefense area by about $28 billion. The BCA reduces it by $43 billion. So what we don't see is the budget as irresponsible. We see it as preparing for what is law at this point.

Now, we may have some disagreements on what needs to be cut and what doesn't need to be cut, but the law does include the sequester. We can either ignore the law or abide by the law. We are in the process of preparing for that in that.

So as we go through that process of preparation, are there areas the President—that you have that you would specifically suggest,

the President is suggesting a cut in nondefense area? We have seen the cuts in the defense areas, but in the nondefense areas?

Mr. WERFEL. The President's budget for 2013 includes cuts associated with meeting the agreements that were made in the Budget Control Act. And the President's budget meets all of the relevant budget caps that were put in place for fiscal year 2013.

We don't agree with the premise that you can mitigate the impacts of the sequester. We don't agree that now is the time to be diverting resources away from an approach and a proposal that can avoid the sequester with steps to try to mitigate it. And we can go through the litany of different programmatic impacts on both the defense and nondefense side of the sequester. I am not aware of any activity, and nothing in the House Republican budget, that would create any kind of ramp downward that is going to help.

The reality is that the implications of such reductions are going to be harsh; and, therefore, we can only reach the conclusion that, given the harshness of those realities and given that there is no way to mitigate it, that the best thing we can do on behalf of the American people is avoid it.

Mr. LANKFORD. That is what I am trying to understand. We can't mitigate it, so we have got avoid it.

Your previous statement was there has to be within this framework of a balanced approach that the only way the President is going to agree to any cuts in spending in any area is if we also agree to be able to raise taxes. So it has to be this framework that you have mentioned multiple times, if we are going to reduce spending, which you are saying he is willing to agree to, we have to also increase taxes.

Is there some magic number the President is looking for? If we will just increase $5 billion in taxes? Ten billion? What is balanced? Because balanced has never been defined. Will it hit balance if we will increase taxes this many billion? Can you help us with that?

Mr. WERFEL. I think—in response to that, I think there is a couple of important points. First——

Mr. LANKFORD. I am running short on time, so be as specific as you can. I am sorry.

Mr. WERFEL. I will try to be.

There is no line in the sand. The President's proposal involves——

Mr. LANKFORD. So if we increase taxes $5 million, that is a balanced approach? It just—it has to be something? Somewhere somebody has got to get hit?

Mr. WERFEL. The President's budget provides a framework that we think is an important starting point to discuss the parameters of appropriate balance. It has $2.50 in spending cuts——

Mr. LANKFORD. A lot of it is the war cuts. It is proposing 10 years of spending out of the war—we all know we are not going to spend at the same level for the next 10 years. We could just say we are going to spend $500 billion in 2020, and then we will cut it, and then suddenly we just saved $500 billion. It is not a real cut.

With that, I yield back.

Chairman RYAN. Thank you.

Ms. Bonamici.

Ms. BONAMICI. Thank you, Mr. Chairman.

I want to start by reiterating the comments from my good colleague, Mr. Blumenauer, about the importance of avoiding the sequester. And I have no doubt that the public would like us to work together and get that done. I have no doubt about that at all.

Mr. Werfel, you talked about an approximate 8 percent reduction in nondefense discretionary programs in your testimony. And in your written testimony you mentioned that in his March 28 testimony before the House Committee on Education and the Workforce Secretary Duncan explained that a 7.8 percent reduction in funding for large State formula grant programs that serve over 21 million students and high poverty schools and 6.6 million students with special needs could force States, school districts, and schools to slash teacher salaries, lay off teachers, or reduce services to those needy children.

More specifically—and this is again Secretary Duncan—the resulting cut of more than $1.1 billion to Title 1 could mean denying funding to nearly 4,000 schools serving more than 1.6 million disadvantaged students, and more than 16,000 teachers and aides could lose their jobs.

Now, in my district I know school districts are already eliminating teaching positions. They have fewer counselors, they are cutting music and librarians, and that is especially challenging for low-income students. And, frankly, our children don't get those early years back. And what is going to happen to our efforts to rebuild the economy and our long-term competitiveness in a global market when we are doing this to our future leaders? And I am struggling to understand how protecting agriculture subsidies and tax breaks for millionaires can be more important than our children's education.

So I wonder, Mr. Werfel, if you could tell me—I know Secretary Duncan talked about the numbers for Title 1. Could you tell me what these cuts in the sequester would mean for programs like the IDEA, Individuals with Disabilities Education Act, and the important Head Start programs across our State and Nation?

Thank you.

Mr. WERFEL. Absolutely, Congresswoman.

As I have mentioned and as has been articulated many times throughout the hearing, the sequester, if it is not avoided, will have severe impacts on domestic investments, on national security, and on core government services. To give more color into the impact on domestic investments, you asked about the Individuals with Disabilities Education Act program within the Education Department. Secretary Duncan has indicated that over 10,000 special ed teachers, aides, and other staff serving children with disabilities could lose their job. That is 10,000 jobs lost. And it is not just the job loss, which is obviously a significant economic impact, but also obviously the children with disabilities that they are serving are also impacted by those job losses as well.

You mentioned Title 1. Four thousand schools serving 1.6 million disadvantaged students could be denied funding; and, as you mentioned, 16,000 teachers and aides could lose their job. And, again, that is a double-edged impact of both job loss and economic im-

pacts, as well as the students and the educational outcomes that those teachers are trying to and working hard to serve.

Head Start, 100,000 low-income children would lose access to early childhood education, 100,000 low-income children.

So that is a good way of providing real meaning to what the sequester would create, and that is why I think it gives more urgency for Congress to come together and work together and put a bill that both Houses can pass and the President can sign.

And going back to the questions of Congressman Lankford, there is no bridge to try mitigate the impact of these job losses and the students and the student services that will be impacted. Those will occur whether there are bridges in place or not. And we must take action to avoid it.

Ms. BONAMICI. While I appreciate that funding education is primarily a State function, these important programs like IDEA, Title 1, Head Start fill a very critical need; and in our districts that are already struggling the impact that these further cuts would cause I fear will be devastating to the future.

Thank you very much for your important testimony.

I yield back.

Chairman RYAN. Thank you.

Mrs. Black.

Mrs. BLACK. Thank you, Mr. Chairman.

Mr. Werfel, I want to go to page 28 of the President's budget, and in there where it states that the sequester—and I quote here—"would inflict great damage on critical domestic priorities as well as the country's national security." So I am concerned about what it will do to our national security. The Secretary of Defense was here, and he testified as well to this committee that these cuts would hollow out our military. Do you agree that the sequester cuts would be detrimental to our national security and our military in particular?

Mr. WERFEL. Well, I would certainly rely on Secretary Panetta to provide the subject matter expertise and the input. And I have read his comments, and I have no reason to disagree with them.

Mrs. BLACK. So can you tell us what the President's plans are to not hollow out our military and where we can go to make sure we sustain our strong military and national defense?

Mr. WERFEL. The President has put forward a framework that would avoid the sequester. Setting up a priority, things that we need to do and take action. And it is clear, and I think Secretary Panetta has been clear about this, we must make it a priority to avoid the sequester, given its impacts. And to avoid the sequester, the President is holding firm to the agreements that were made in the Budget Control Act, that we have to identify $1.2 trillion over 10 years of balanced deficit reduction in order to do that. And that is the framework of which we are operating under.

I think the President's budget, advised closely by Secretary Panetta and other leaders, makes the right investments to have a sustainable military and a sustainable defense operation going forward.

But if the sequester is triggered, that will certainly compromise that important objective. So priority one has to be avoiding the sequester. The President has a put forward a plan, and we would

really like Congress to act and send a bill to the President's desk that he can sign.

Mrs. BLACK. Let me also go to the question of whether the sequester is going to also affect—does the OMB consider funds appropriated for the war to be subject to the sequester?

Mr. WERFEL. If you are referring to the overseas contingency operations fund, we are examining—earlier, in response to a question from the chairman, I referenced that there are certain activities and programs that are explicit in law as being exempt, and there are certain activities that warrant further examination. The overseas contingency operations is one of those activities that warrant further examination. Once those reviews are complete, we would be happy to provide that answer and that conclusion back to the committee.

Mrs. BLACK. Well, I am waiting to hear that. Because this is coming about and will come about very quickly. So we would like to hear a plan and like to know what the President plans to do.

Let me go to another subject which has been in the news a lot, and that is the GSA. As the comptroller, you have the lead responsibility for determining accounting and financial controls and management of asset policies government-wide. Of course, we know about the $800,000 Las Vegas party, suggesting those policies may not be adequate or certainly not being followed if they are there. Can you help us with some of the steps that you are taking to review these policies and increase the compliance with this scandal?

Mr. WERFEL. Yes. Let me start by saying that the findings that you are referring to and what occurred with respect to this conference are both offensive and unacceptable. They are offensive to me as the controller. And I think, as you mentioned, one of my primary responsibility is to work across the Federal Government in mitigating instances of government waste and error and fraud and other activities. And we take that job and the President takes that job very seriously for both big items and small items that are involved in that portfolio mitigating fraud, error, and waste.

In the case of the GSA, as I said, what occurred was offensive and unacceptable. The people involved have been held accountable and are being held accountable on an ongoing basis. We are taking steps in a variety of different ways to learn from this and make sure that we move forward in a capacity where this does not happen again.

I think it is important to know that we have been taking steps from day one in the administration to tackle this issue and have had critical successes. Obviously, the GSA issue is an unacceptable outcome and we have to make sure that those things don't happen again.

But the President has dedicated significant attention, his attention, to things like improper payments. He worked on a bipartisan basis on new legislation that would reduce improper payments, and we are making effective results there.

Mrs. BLACK. Reclaiming my time—and I know I am out of time—but, with the limited dollars we have, this is something that, as the public looks at what is happening, they are outraged. Because we are talking about sequesters for our military and our national secu-

rity and yet we have this going on. I hope we will hear more from you and the President on the seriousness of this issue.

Thank you.

Chairman RYAN. Thank you.

Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman, and I thank the witnesses for being here today.

I wasn't going to talk about my amendment, but since it got a little bit of attention at the outset of hearing I thought I would make a couple of points about it.

We recognize that it didn't have everything that the President's budget has in it because the President's budget isn't presented to us in a fashion that could be submitted as a bill. The same is true, by the way, of the Simpson-Bowles proposal. But the closest that we had a chance to vote to the President's budget was my amendment.

The White House—and I think you referenced it, as did Mr. Van Hollen—released a statement encouraging Democrat members to vote for Mr. Van Hollen's budget. And I was going to ask you, Mr. Werfel, where is the statement from the White House encouraging the Democrats in the House to vote for his budget?

Mr. WERFEL. To vote for the President's budget?

Mr. MULVANEY. Yes, sir. Did he ask any Democrats in the House to introduce his budget or vote for his budget?

Mr. WERFEL. I am not aware of a particular moment in time other than the President submitting his budget in February to Congress. And I think by both explicit and implicit nature of submitting his budget to Congress, he is submitting it for congressional consideration.

Mr. MULVANEY. If it is his plan, though, for turning off the sequester, do you think he should have been pushing his budget a little bit more during the budget process?

Mr. WERFEL. I don't know that it is fair for me to comment on how hard we are pushing.

I know, for example, that this committee has received testimony from both Acting Director Jeff Zients, from Secretary Tim Geithner. I have watched those hearings. They were emphatically urging the passage of the President's policies and priorities.

Mr. MULVANEY. Reclaiming my time, let me ask it a different way.

Did the President like Mr. Van Hollen's budget better than his budget? Mr. Van Hollen's budget doesn't raise taxes by as much as the President's does. It doesn't raise spending by as much as the President's does. Does the President like Mr. Van Hollen's budget better than his own?

Mr. WERFEL. The President is ready to roll up his sleeves and work on a plan that can pass both Houses of Congress and that he can sign. He has set out guiding principles for such a plan, and I don't think it is a question of like one versus the other. He wants to get to a point where we are in serious working mode towards a plan that can serve the American people the best.

Mr. MULVANEY. I agree, and that is why we are here today having this hearing.

You mentioned let us roll up our sleeves. It is a priority to get the sequester turned off because of its impacts. I think one of the thing you said today was that all of your activities are focused on getting a bill that the President can sign in order to turn off the budget.

The President was at our school yesterday. You and I both attended the University of North Carolina Chapel Hill Law School, and he was there talking about student loans. Do you think that was helping turn off the sequester?

Mr. WERFEL. That is a very good question, if I can respond to it.

We have existing actions and priorities that we need to take on behalf of the American people on a day-to-day basis, and there are things that we need to be focused on in multiple capacities. We have to work to make college more affordable. From my standpoint in my job, I have to work to make sure that funds are spent to the right people in the right amount for the right purpose and that we mitigate fraud, waste, and error.

The President has submitted his budget. The plan is there. Congress now needs to act and send him a bill. You have heard testimony from multiple witnesses about the President's budget and about our plans. I think we are working as hard as we can on a variety of different priorities. But I would actually greatly support and endorse the President taking the steps that he is taking to improve college affordability. It is one of many priorities that we need to be working toward.

Mr. MULVANEY. That is fair enough, Mr. Werfel.

Later that same day he taped Late Night with Jimmy Fallon. Do you think that was helping us get to a bill that we could pass in order to turn off the sequester that you say is going to dramatically, severely impact domestic investments, national defense, and cut core government services?

Mr. WERFEL. I think the President's message here is that he is ready to roll up his sleeves and work. He has submitted a plan to Congress. It contains $4 trillion in deficit reduction over 10 years. It is a balanced approach.

Mr. MULVANEY. Has he asked Secretary Panetta to roll up his sleeves to prepare for the sequester?

Mr. WERFEL. Secretary Panetta has a wide-ranging set of responsibilities. I am certainly not the subject matter expert on all of them.

What I do know as a general matter is that Secretary Panetta, like others, have to make judgments about where they need to be deploying their resources at any given time. The sequester is 8 months away. The planning for it will not mitigate its impacts. We believe, based on our expertise, both at OMB—and we have decades of experience with this—and in consultation with Secretary Panetta, that we will find the right time between now and January 2, if necessary, to initiate a more formal planning exercise.

But, right now, I think everyone needs to understand that there are costs associated with doing that type of planning. In particular, that is as clear as it can be in the Defense Department where they have ongoing, mission-critical priorities that need Secretary Panetta's attention and need the leadership attention at the Pentagon.

Mr. MULVANEY. Mr. Chairman, I yield back the balance of my time, but I broke the microphone.

Chairman RYAN. We will get on that.

Mr. Huelskamp.

Mr. HUELSKAMP. Thank you, Mr. Chairman.

When Secretary Panetta appeared before this committee, I asked him if the DOD had put in place any plans for dealing with the sequester. And he answered no, which is a little different than what you suggested to my colleague. I asked him that, since this was the law of the land, why had they not planned for such contingency? And he responded that OMB directed him not to. Is this true, Mr. Werfel?

Mr. WERFEL. I am not aware of that testimony. I don't think I can comment on it. I have no personal knowledge of that. I will say that what I have provided and what I have talked about is a responsibility for us to meet our current priorities.

Mr. HUELSKAMP. You are not aware of the OMB actually telling Secretary Panetta to ignore the sequester? Because that's what he told the committee, and I have a letter in hand that confirms that.

Mr. WERFEL. I am not aware of any direction to ignore the sequester.

Our direction, that I am aware of, has been to carry out your mission-critical functions as effectively as we can, and that we will work together to determine the appropriate time to initiate planning for the sequester.

Mr. HUELSKAMP. My question is whether or not OMB told the Secretary of the Department of Defense to ignore the law of the land. You say you do not know. Who would make that decision if not you? How high are you up in OMB as comptroller? Are you just in the press office, or do you actually make decisions?

Mr. WERFEL. I am definitely not in the press office. I am a division director. I report to the deputy director for management at OMB, who reports to the director of OMB.

Mr. HUELSKAMP. So you are here today, and you are telling us that you do not know if someone above you, which is just a couple people, actually told the Department of Defense to ignore the sequester in their budget plans. This is pretty serious. It is not about a budget issue. It is if the House and Senate and Congress, along with the President, do not come to a decision before January 2, these devastating cuts will take place, and Secretary Panetta says I have made no plans in case that would occur.

Mr. WERFEL. And my answer is not only am I not aware of that communication but I am aware of communications that run inconsistent with what you are indicating.

Mr. HUELSKAMP. Would you provide me with a copy of those communications?

Mr. WERFEL. I am not aware of any written communications.

Mr. HUELSKAMP. What kind of communications do you have that suggest that perhaps Secretary Panetta misled the committee—which I don't think he did. He actually sent a letter, and I presume that he is in communication with OMB when he sends that communication to the committee.

Mr. WERFEL. I am talking from my own personal knowledge. From my personal knowledge, I am unaware of a communication,

written or otherwise, that would instruct the Defense Department to ignore the sequester. I am aware of general verbal communications that we provide to the Defense Department that revolves around back-and-forth discussions on planning for a variety of different contingencies. And at this time we have discussed that, with 8 months before the sequester would take place, formal planning is not initiated.

I think what Secretary Panetta said specifically when asked was that planning would likely initiate in the summer. It is April 25. It is not yet the summer. I think the plan would be to consult with Secretary Panetta over time to find out when the right time is to initiate planning.

But again, I have to emphasize: Planning will not mitigate the impacts. Secretary Panetta has been very vocal about the impacts of the sequester, and planning will not mitigate those impacts.

Mr. HUELSKAMP. I appreciate that. But I am very concerned. Apparently, there is a lack of communication in OMB as far as the devastating sequester, and that is the language that comes from Mr. Panetta and others.

My other question is more along the lines of you continue to use the words "revenue increase." Is there a difference between revenue increase and tax increase in your mind, Mr. Werfel?

Mr. WERFEL. Well, there are many ways to generate revenue for the Federal Government. Taxes is one of them. I think it is important to point out that the generic concept of a tax increase is something that the President's budget is very specific with in terms of the individuals that are impacted by any tax increase, and those are individuals who are earning more than $250,000 a year. But revenue has many elements to it. The President's proposal has a revenue plan.

Mr. HUELSKAMP. I appreciate that. I think 90-some percent, maybe 99 percent of it includes tax increases, not fee increases.

You talk about the $250,000 threshold. In the President's budget, does it raise taxes on anyone, any families that makes less than $250,000?

Mr. WERFEL. It is my understanding that, overall, there is a net tax cut for the middle class and small businesses under the President's plan.

Mr. HUELSKAMP. In the next decade? Over the 10-year plan? It will raise $1.5 trillion or $2 trillion in tax increases, and it all will be on the top 1 percent?

Mr. WERFEL. The way it works, as I understand it, it is $1.5 trillion in revenue. It includes the expiration of the 2001 and 2003 tax cuts for the highest earners, it eliminates inefficient and unfair tax breaks, and there are, within that $1.5 trillion, net reduced revenue due to tax cuts for middle class and small businesses.

Mr. HUELSKAMP. Thank you, Mr. Chairman. I yield back.

Chairman RYAN. Mr. Young.

Mr. YOUNG. Thank you, Mr. Chairman.

Thank you, Ms. Poling and Mr. Werfel, for being here today. I do appreciate it very much.

Mr. Werfel, as far as the funds appropriated for this war that we continue to fight overseas, let me be clear, do you regard those funds as exempt from the sequester or not?

Mr. WERFEL. As I indicated, the overseas contingency operations funding is an area where more review needs to be taken before determination can be made on its applicability to the sequester. So my answer is it is premature for me to provide a definitive answer at this time. At the point in which the review is completed, we will provide our response to the committee.

Mr. YOUNG. Have you given any order of priority to different programs that might require the attention of OMB in making this determination?

Mr. WERFEL. I don't know that there has been an order of priority. I think it was mentioned earlier in the hearing that there was a determination made with regard to veterans affairs. It is my understanding that the issues associated with VA programs presented a very straightforward legal question that OMB general counsel was able to answer, and that is why we answered it.

But in terms of other issues I am not aware right now of the nature of the complexity of those reviews. I do know that those reviews have not been initiated or completed, so it would be premature for me to comment on them.

Mr. YOUNG. You spoke with some level of specificity with respect to certain programs of government that would be adversely impacted, at least as characterized by you, by a sequester. For example, the Head Start program. You told us exactly the number of estimated people that would be impacted adversely through a sequester. Yet no attention whatever within OMB to the OCO function, to fighting a war overseas. It strikes me as this ought to be an urgent priority. Because as of January 2, it is conceivable that moneys will be pulled away from our fighting men and women, and our commander in chief has no plan. Right now, the plan seems to be to leave them in the lurch.

Now I think your counter, of course, will be—and I will give you an opportunity to respond—is that we within Congress need to pursue a balanced approach. Before I give you an opportunity to respond, I am still trying to wrap my brain around what is meant by a "balanced approach". Because under the Budget Control Act, there were no tax increases; is that correct?

Mr. WERFEL. Yes. And hopefully you will give me an opportunity to respond more broadly. Because I understand, based on receiving this question several times, the question of whether there were tax cuts in the Budget Control Act, the particular point that is being made, and if I can have an opportunity to respond to it, I think I can give you some context to it.

Mr. YOUNG. I will. I will give you an opportunity both to respond to the fact that the President has not prepared for this contingency that moneys could be pulled away from the fight over in Afghanistan, leaving our men and women in the lurch, and the fact that the President signed on to a Budget Control Act without tax increases, thus seemingly violating his own mantra of a balanced approach.

Please respond, Mr. Werfel.

Mr. WERFEL. I will take the issues in turn.

First of all, when I outlined the implications of IDEA and Title 1, I didn't do so in a way that indicated that Secretary Panetta and others at the Defense Department aren't looking very closely at

what the implications of the sequester would be in terms of programmatic impact. It is important for us to understand those programmatic impacts. Because I think if you know about it, if the American people know about it, then it will incentivize action.

The President is very committed to a sustainable and an effective Defense Department going forward, and we have great leadership there, and they are doing everything they can. And no one is taking their eye off the ball on any issue. I can assure you of that.

With respect to the question that I have received multiple times on whether there are tax increases in the Budget Control Act, my understanding of the framework and the parameters that surrounded the Budget Control Act was that the parties came together to come up with a deficit reduction plan, and the parties could not reach agreement on certain elements. And so what was put in place, the sequester, was intended to incentivize compromise, an agreement, across a broad set of parameters.

The fact that there is no tax increases in there does not mean in any way, shape, or form that a parameter of the Budget Control Act is no agreement going forward can have a tax increase or a revenue impact. The sequester and the Budget Control Act set up a framework to compromise and negotiate and discuss a balanced approach that would meet the interests and the needs of both parties going forward. It is that type of balance that is needed.

And the President has been clear the approach needs to have a revenue component to it. He has put forward a plan in the President's budget that has a revenue component. It has revenue generated by taxes to the highest earners in the country, and that is his plan.

Chairman RYAN. Thank you.

Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman and Mr. Van Hollen.

The way I look at this, the hearing today is really about whether Congress is going to kill the patient to test a radical budget procedure here, given a name that most Americans really can't define, called sequester. If we fail to reach a reasonable budget compromise just 8 months from now, killing the patient with a meat axe will mean that nearly a trillion dollars of indiscriminate decisions will occur across discretionary spending, which accounts for a little less than 40 percent of all Federal spending.

People are not talking about mandatory spending. They are not talking about the tax side of the equation. They are just trying to solve the problem through one set of accounts.

You know, you might recall we are in this pickle because about a year ago the world sat in disbelief when the Republican caucus rejected plan after plan after plan to raise the debt ceiling, and the sequester ended up being the last option to keep the government of the United States and the greatest Nation in the world from actually defaulting.

We don't need meat axes in this country. We need to grow this economy and not give any more bad starts or fitful starts to harm growth and to rein in the deficit and restore our financial health.

We have examples in the past, including under President Clinton, when this Congress measured up to its responsibilities. Truthfully, the Republican budget is not a serious proposal to do so. Re-

publican math actually ends up hurting people; and their whole idea is that, in cutting the deficit, they are going to protect expanded tax cuts for the most wealthy and then cut programs for the most needy. We have seen them do that before.

But, for me, that is morally and civilly unacceptable. Why should we give millionaires special tax rates, significantly lower for many of them, than what average working Americans pay and then say we are going to cut food assistance to people who are trying to hold it together out there across this country where unemployment still remains unacceptably high, hurting seniors, hurting children, and hurting the disabled? You just need to go to any food bank to see what is going on out there. This country needs a balanced approach to budget balancing.

I wanted to ask Mr. Werfel, if you might, CBO estimated that the sequester, the meat axe, would result in a 7.8 percent cut to discretionary programs. Do you have any specifics on how individual programs on the discretionary side would be affected?

And then I also wanted to ask Ms. Poling, the GAO has examined the impact that the sequester would have on programs that I view as contributing to economic growth, the Patent Office and a host of other functions that the American people depend on, the FAA. I would like to ask you: Where in the Republican proposal will we see the biggest economic disruptions?

Those are my two questions, starting with Mr. Werfel.

Mr. WERFEL. Thank you, Congresswoman.

We mentioned earlier—and I will summarize briefly—that in the area of education and Head Start the impact of the sequester would have 10,000 special ed teachers, aides, and other staff serving children with disabilities losing their jobs.

We would have 4,000 schools serving more than 1.6 million disadvantaged students would be denied funding. Sixteen thousand teachers and aides would lose their job.

In Head Start, 100,000 low-income children would lose access to early childhood education.

In other areas, FAA cuts would have deleterious impacts on operations.

In the area of global health, approximately 1.5 million at-risk people would be denied treatment for the preventions and interventions from malaria, jeopardizing thousands of lives.

Food safety inspections would be cut.

Nine hundred and fifty thousand women and children being served by WIC would lose or be denied their benefits.

At NIH, the number of grants awarded would be cut by 700, slowing research that would lead to new treatments to cure diseases such as cancer and Alzheimer's.

The National Science Foundation would have 1,650 fewer competitive basic research and education grants, supporting almost 20,000 researchers, students, and teachers.

Roughly 300 national parks would either be closed in full or partial.

OSHA would reduce approximately 4,000 workplace inspections, leading to diminished protections for workers.

And over 120,000 people with disabilities would be delayed in their decision or determination for SSA benefits.

Mr. KAPTUR. I guess my metaphor that the Republican budget kills the patient is absolutely true.

Mr. Chairman, Ms. Poling wasn't able to answer the question. Could she spend 15 seconds at least on that?

Ms. POLING. It will be very short.

I am not aware of any specific work that GAO has in this area. You have a lawyer sitting here instead of a program person.

Ms. KAPTUR. Thank you.

Chairman RYAN. Mr. Stutzman.

Mr. STUTZMAN. Thank you, Mr. Chairman.

Thank you to both of you for being here.

I want to follow up real quickly to the question that Ms. Kaptur asked and the answer that you gave regarding all of the statistics of those folks who would be cut from services. It sounds like a pretty long list. I want to focus in a little bit on the SNAP program, and could you give us an idea of what the cuts would be to the SNAP program, Mr. Werfel?

Mr. WERFEL. Yes. That is a program where there is an explicit exemption in statute. So, in terms of SNAP, there would not be a direct impact on the SNAP program as a result of the sequester, because it is exempt.

Mr. STUTZMAN. Okay. But I am assuming, just like every other program that you mentioned, we have seen increases in these particular programs over the past decade. SNAP has expanded over 270 percent over the past decade; and in the House Agriculture Committee, which I serve on, we have put forward a 4 percent spending reduction on that particular program.

There seems to be a disconnect between the unemployment in this country and also the caseloads for programs like this. We are seeing unemployment fall between 2003 and 2007, but the caseloads go up over 20 percent. I am trying to figure out, if we are going to see such great cuts within these particular programs—as was mentioned earlier, the President's budget proposes to cut ag subsidies. But if you look at the administration line, there are no cuts to any of the bureaucracy that administers the program. Will there be any bureaucrats that lose their jobs due to these cuts?

Mr. WERFEL. Well, let me start by saying that it is important again to reiterate the premise that these cuts and these implications would occur. They don't need to occur. There is a path forward here to prevent them from occurring.

Mr. STUTZMAN. You listed off the children, the women, the people who will be losing services. Is the bureaucracy, is the administration going to take any of the hit from these cuts?

Mr. WERFEL. The President's budget has numerous proposals in it that relate to cutting infrastructure and administrative expenses. In fact, there is a page in the President's budget that demonstrates—it is in the Cuts, Consolidations and Savings volume—that shows a commitment to reduce administration expenses by $8 billion between base year 2010 and 2013. That's part of our overall effort to do more with less, to streamline our infrastructure. In fact, the Cuts, Consolidations and Savings volume has numerous examples of where government is becoming leaner and more efficient under the President's policies to move forward in a sustainable way.

Mr. STUTZMAN. Can you share any of those with the Budget Committee in writing?

Mr. WERFEL. Absolutely.

Mr. STUTZMAN. That would be helpful.

What I see happening is there is this rhetoric of where we are going to be cutting services from children, from seniors, and those people who are out there receiving these benefits. And with the SNAP program, if there are going to be cuts, if these cuts even reach any children—I went to the USDA Web site and looked at the programs that are listed. You have Child and Adult Care Food Program; you have the Commodities Supplement Food Program; you have Eat Smart, Play Hard; Farmers' Market Nutrition Program; Food Distribution Program on Indian reservations, and a plethora of others. Do you believe any of those programs overlap where we can start consolidating some of these programs, making sure there is no waste in programs like this?

Mr. WERFEL. Certainly the President is interested in exploring a lot of different avenues for streamlining and reducing duplication. Within the budget volume that I mentioned, the Cuts, Consolidation, we have a variety of different efforts. We are consolidating 38 K-12 education programs. We are closing offices for both USDA and NOAA. We are consolidating 16 different Department of Homeland Security grant programs into one.

If this committee or anyone in Congress has ideas for further consolidations, we are ready to work with you.

Mr. STUTZMAN. What bothers me is the Federal Government has grown by 100,000 employees since President Obama has taken office. There seems to be more of an emphasis on hiring government employees rather than really focusing on making the cuts necessary and streamlining programs and making them more efficient. Just like I mentioned earlier with the ag cuts, I think there is bipartisan support to eliminate ag subsidies, but there is no cut within the workforce in the Federal Government.

Thank you, and I yield back.

Chairman RYAN. Ms. Wasserman Schultz.

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Chairman.

Mr. Werfel, welcome to the committee.

Let me just emphasize again, Democrats and Republicans clearly both believe that sequestration is something that we should avoid and the path we are headed down needs to be altered. The difference, as you pointed out, is that Democrats believe that the Republicans through the Romney Ryan budget, their cuts-only approach to deficit reduction is irresponsible. It is not balanced. It makes sure that the social safety net is shredded. It makes sure that we end the Medicare guarantee. It reaches deficit reduction by giving more tax breaks to millionaires and billionaires, and it slashes key investments that are crucial to continuing our economic development and economic recovery.

You have already detailed the really harmful impact that a cuts-only approach to deficit reduction—how it would affect children in Head Start programs. I want to ask you about something—some details that the National Education Association has talked about. Sequestration would effect 1.5 million low-income kindergarten through 12th grade students who would be affected by harmful pro-

gram cuts in Title 1 if sequestration happened. That would be at least a $1.1 billion cut in 2013. And if you apply CBO's estimated percentage cut, that is what that comes out to. That would also result in the loss of 16,000 teachers and other education staff jobs.

So do you agree with the NEA on those statistics, and how would a cut like that, again, an additional cuts-only approach to deficit reduction, affect the efforts of our school systems to improve the quality of education for low-income students?

Mr. WERFEL. Thank you, Congresswoman.

The facts and figures that you referenced are the same ones that I have seen and understand to be further validated by Secretary Duncan as well, who is certainly concerned and certainly the administration's expert on these issues.

As I testified earlier, the sequester, should it take place, would have its intended impact of serving as a blunt instrument and having both programmatic impacts such as significant deterioration in the current services that disadvantaged children are receiving in schools across the country but also job impacts, tens of thousands of teacher and aide jobs lost.

I said that the sequester is having its intended impact. It was intended to be a blunt instrument to bring the parties together to come up with an approach that can pass both Houses of Congress and the President can sign. To do that, it is going to have to be multidimensional in its approach. An approach that only cuts spending and does not impact revenue is one that the President has indicated is not part of a path forward that he sees, a bill that he can sign.

Ms. WASSERMAN SCHULTZ. So let us be clear. In the President's budget, he proposed cuts to discretionary programs. So we are not suggesting that we achieve deficit reduction without cuts. In fact, Democrats have repeatedly voted for painful cuts. I can tell you I have voted for cuts in discretionary spending programs that I have opposed for my whole career. So we understand that compromise and working together is important. Unfortunately, we only have one side of the table willing to do that.

Let's take a quick look at the reconciliation process that the Republicans have initiated. Republicans have put forth cuts in the reconciliation process, which is their alternative to actually achieving this balanced approach, that are going to hurt millions of low-income and disabled Americans. The Republican plan, through reconciliation, eliminates the social services block grant, which helps 23 million children and adults get services that they need to survive. And that includes support for the Meals on Wheels program, prevention of child abuse and neglect, and child care for low-income parents returning to work. It also includes cuts to the Supplemental Nutritional Assistance Program. Their plan reduces assistance to every single household receiving SNAP benefits and cuts 2 million people off of food stamps entirely. So can you detail how harmful the reconciliation approach would be that the Republicans have been pursuing?

Mr. WERFEL. It is my understanding that when you take the House budget resolution and the reconciliation there is roughly $6 trillion in additional spending cuts above and beyond what the President's budget included. And if I understand it correctly, the

way it is structured, it is taken on almost exclusively on the non-defense side of the ledger, going right at fundamental issues such as education, research, infrastructure, and many of the things you raised.

Ms. WASSERMAN SCHULTZ. The bottom line here is we are careening down an unsustainable path. The solution is to work together and take a balanced approach, not take a meat axe to important programs that are going to hurt people unless we work together.

Chairman RYAN. Thank you.

Dr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

We look forward to working with anybody who is positively interested in solving the challenges that we face, and we hope that we have the President's input on that.

You mentioned in your testimony: "The sequester is not appropriate and should not occur." You stand by that position?

Mr. WERFEL. Absolutely.

Mr. PRICE. The sequester—and I apologize for being out of the room if this was covered—the sequester was included in the BCA?

Mr. WERFEL. It was included in the BCA as a mechanism to put in place mutually disagreeable cuts to bring the parties together to find a path forward that can work.

Mr. PRICE. And the President signed the BCA?

Mr. WERFEL. The President signed the BCA on the understanding that we would have efforts, including through the joint committee and other efforts, to bring together a plan again that both Houses can pass and the President can sign.

Mr. PRICE. And those have moved forward. Sometimes they haven't been successful. We are working on hopefully what will be a successful plan as we move forward. But it is important to appreciate, I think, and for the American people to appreciate, that the President signed the Budget Control Act that included the sequester that the administration now says should not occur?

Mr. WERFEL. That is correct. The President wants to work with Congress to make sure that we avoid the sequester. His budget would do so.

Mr. PRICE. I appreciate you saying that. The President has a budget that he has put forward. Has anybody introduced that budget in the Congress?

Mr. WERFEL. I am not aware of the procedural issues within the Congress in terms of whether it has been introduced or not. We talked earlier in the hearing about particular amendments, but I am not aware of a particular vote that has occurred on the President's budget in full.

Mr. PRICE. But the fact of the matter is, on the President's budget, that nobody from his party has even introduced that budget?

Mr. WERFEL. Again, I am not aware of the congressional procedures on that.

Mr. PRICE. I understand that you also said that the President's position is that the Democrat alternative in the House most closely paralleled and mirrored his budget; is that correct?

Mr. WERFEL. It is my understanding that the Democrats in the House have a proposal that is closer, particularly in terms of the balance between spending cuts and revenue.

Mr. PRICE. And are you aware of the vote on that that occurred in the House?

Mr. WERFEL. I am not aware of the particular congressional procedures that occurred, no.

Mr. PRICE. That budget was brought to the House floor and lost by about 100 votes. So, as the chairman has said, it is time to move forward positively and together to make it so, on these cuts and the sequester, that both sides, the President agrees ought not occur and we agree ought not occur.

So what I am troubled by is, as the chairman mentioned early on, that we need to know the consequences. Everyone needs to know the consequences of the sequester so that we can plan. I was here early on and understand that you mentioned that the administration at "the appropriate time" will divulge what the consequences of the sequester are. When would the appropriate time be?

Mr. WERFEL. There are a couple of things within your question, if I can respond to them.

We have looked at some of the programmatic impacts of the sequester, and I have outlined some of those in some detail today.

There is a second question that revolves around the type of planning that would be necessary to implement or initiate the extraordinary circumstance of this type of sequester, and having decades of experience within OMB and having personal experience in these types of financial events we work to make sure that we are calibrating those planning activities as appropriate to make sure that we are planning at the right time and not planning prematurely.

Mr. PRICE. But is it your understanding that the President's budget cannot pass the House?

Mr. WERFEL. I can't opine on that. I am not an expert on the congressional element of that.

Mr. PRICE. The closest budget to it lost by nearly 100 votes. The Senate has refused to bring up a budget. Let me assure you, the President's budget is not going to pass the House of Representatives.

So let us move forward. Can we count on OMB to be able to give us the plan, the plan B, the working together option that allows us to move forward in a positive way so that these draconian cuts don't take place?

Mr. WERFEL. A couple of key points. The President has set up a proposal that would avoid the sequester. As I have mentioned, we need to roll up our sleeves.

Mr. PRICE. It has failed, sir.

Mr. WERFEL. I understand. We need to roll up our sleeves. Congress needs to put together a package that can pass both Houses and the President can sign.

Mr. PRICE. Unless we know what the administration believes are the consequences of the sequester, it is hard to get to that common ground; isn't it?

Mr. WERFEL. We can tell you, and I have done on several occasions during this hearing, some of the programmatic implications of the sequester.

If you want to talk about the logistics associated with planning for sequester, I am happy to do that. That is different than the pro-

grammatic implications. The logistics of planning to sequester involve technical issues surrounding budget execution, accounting, acquisition. Again, it is our expertise that leads us to the conclusion that, with 8 months to go before the sequester would take place, diverting resources now to tackle those accounting and technical budget execution questions is not the right decision. We have enough time to handle those issues in advance of the sequesters.

Mr. PRICE. I look forward to those meetings and would respectfully suggest that the American people expect us to come up with a plan. I hope that the administration is positively involved in that.

Mr. WERFEL. Our hope is that those meetings will not need to occur because we can avoid the sequester. But, if necessary, OMB will be ready.

Chairman RYAN. So the takeaway is you don't have a specific proposal, and you are not going to tell us how it is going to be affected. It is clear as mud to us. The purpose of this hearing was to try to get more clarity. I think we have even less now. The sooner you can provide us with clarity, the better off everybody is going to be.

Thank you very much. This hearing is adjourned.

[Additional submission of Chairman Ryan follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 25, 2012

The Honorable Paul Ryan
Chairman
Committee on the Budget
U.S. House of Representatives
207 Cannon House Office Building
Washington, DC 20515

Dear Chairman Ryan:

Thank you for your letter dated April 26, 2012, regarding the Office of Management and Budget's (OMB) testimony to the House Budget Committee's hearing entitled, "Replacing the Sequester." The Budget Control Act of 2011 (BCA; Public Law 112-25) amended the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) to put into place an automatic process of across-the-board cuts, known as a sequester, to take effect if the Joint Select Committee on Deficit Reduction, also established by the BCA, failed to propose (and Congress failed to enact) a bill including at least $1.2 trillion in deficit reduction. Your letter requested information about OMB's preparation for implementing this sequester should it take effect on January 2, 2013.

The President has made clear that Congress should act to avoid such a sequester. If allowed to occur, the sequester would be highly destructive to national security and domestic priorities, as well as core government functions. To avoid this, the President submitted a Budget that includes a comprehensive and balanced set of deficit reduction proposals. Two hundred and sixty-nine members of the House of Representatives – from both sides of the aisle – voted for the BCA, agreeing to make tough decisions to reduce the deficit, but later Congress failed to pass the required deficit reduction. Instead of looking for ways to mitigate the effects of the sequester, the Administration believes that Congress should redouble its efforts to reduce the deficit by at least the amount prescribed in the BCA; do so in a bipartisan, balanced, and fiscally responsible manner; and thus allow us to avoid the sequester.

In your letter, you asked if the accounts of the Department of Veterans Affairs (VA) would be reduced under current law if the sequester occurred on January 2, 2013. On April 23, 2012, we responded to a letter from the Government Accountability Office (GAO) regarding the effect of sequestration on programs administered by VA. Our letter concluded that all programs administered by VA, including Veterans' Medical Care, are exempt from sequestration. As the letter to GAO further stated, "…we do not address other potential sequester questions under BBEDCA, the PAYGO Act, and the BCA, including the application to VA programs of the 'Federal Administrative Expenses' sequester provision at Section 256(h) of BBEDCA." More than seven months remain before the sequester would take effect, giving Congress ample time to act to avoid it. The Administration urges Congress to act on bipartisan, balanced deficit reduction legislation to avoid the sequester rather than plan how sequestration would be implemented if Congress fails to act and the sequester takes effect on January 2, 2013.

Your letter also requested information on whether funds designated by Congress for Overseas Contingency Operations (OCO) are subject to sequester. Funds designated by Congress for OCO are subject to sequester, provided that those funds are not otherwise exempt. Section 251A(7) of BBEDCA, as added by the BCA, states that OMB shall calculate a sequestration "to reduce each account within the security category or non-security category…." OCO is funded from such accounts and is thus subject to sequester, absent an express statutory exemption. BBEDCA does not provide any special exemption for spending on OCO, meaning that those funds are generally subject to sequester.

While OCO funds would be sequestered under the BCA, the Act does include a special provision for these funds. If Congress provides funds designated for OCO in appropriations legislation, and the President subsequently so designates the same funds, the discretionary caps imposed by the BCA are adjusted upward by the amount of those funds (Section 251(b)(2)(A) of BBEDCA). In other words, OCO spending is subject to sequester, but it will not cause a sequester.

The BCA also provides that the President may exercise special authority under Section 255(f) of BBEDCA to exempt any military personnel account from a sequester, subject to a further reduction of other accounts within sub-functional category 051 pursuant to Section 251(a)(3). To the extent that a portion of OCO funding is in a military personnel account and the President exempts that account from sequestration, that portion of OCO funding would be exempt, but the reduction would be reallocated to other defense accounts.

Your letter requests a listing of each budget account organized by its classification as exempt from a sequester, non-exempt, or subject to a special rule in the event of a sequestration that would result from the Joint Committee's failure. OMB currently does not maintain such a list. If Congress fails to act to avoid the sequester then, at the appropriate time, OMB will work with executive departments and agencies on this classification of programs.

Finally, if necessary, the Administration will be ready to implement a sequester; however, now is the time to focus on enacting the balanced framework proposed in the President's Budget. OMB has considerable institutional experience and expertise in dealing with extenuating circumstances resulting from congressional inaction. OMB will provide guidance to agencies at the appropriate time and will be ready to implement the sequester if necessary.

I urge the Congress to enact bipartisan balanced deficit reduction legislation that the President can sign into law and avoid the sequestration scheduled to take place on January 2, 2013. Balanced deficit reduction, rather than sequestration, is the way to put the Nation on the path to fiscal stability and protect our national security.

Sincerely,

Jeffrey D. Zients
Acting Director

[Whereupon, at 11:49 a.m., the committee was adjourned.]

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