FY 2013 Appropriations Update: Sequester and Revisiting the Continuing Resolution

Lewis-Burke Associates LLC – March 4, 2013

In the absence of agreement on a long-term deficit reduction plan, on March 1st, President Obama signed an order directing federal agencies to reduce spending subject to sequestration under the Budget Control Act of 2011. The Office of Management and Budget (OMB) estimates that to achieve the necessary $85 billion in savings, sequestration would require a reduction of approximately 5.0 percent in non-defense discretionary spending and 7.8 percent in non-exempt defense discretionary spending. Additional reductions will be taken in certain mandatory programs specified in the law.

As federal agencies prepare to implement the sequester, the Congress is turning its attention to the Continuing Resolution (CR), which is currently funding the entire federal government through March 27. There is general agreement between Congress and the White House and between Democrats and Republicans that there should be no government shutdown. It also appears likely that there will be no attempt to try to overturn the sequester in the final appropriations bill.

So what is likely to happen?

Due to the significant uncertainty, many federal agencies restrained spending to hedge their bets in the uncertain budgetary situation. Many agencies have implemented the traditional CR formula using the lowest of the FY 2012 enacted level, the President’s FY 2013 budget request, the House appropriations level, or the Senate appropriations level. Agencies have also retained some percentage of funding under the CR in anticipation of a possible sequester. Because of these actions, the impact of the sequester will vary by agency depending on the types of programs it funds. For federal research agencies, the first priority is likely to be funding existing grants and grantees.

Until Congress completes action on the FY 2013 appropriations bill, research agencies are likely to delay announcing new funding opportunities. Both the House and Senate Appropriations Committees are working on the CR. The House Committee expects to fund defense-related bills and to continue the CR level for other federal agencies. The Senate Committee may offer an omnibus appropriations bill to complete action on all 12 bills as significant progress on such a bill was made late last year.

Once agencies have a full-year budget to implement their programs, there could be a flurry of funding solicitations released with relatively short times for submitting applications in order to obligate funding this fiscal year, which ends September 30.

In the meantime, each federal agency will be refining its plan to implement the sequester. Congress and the White House will work to agree on final FY 2013 appropriations, which will be
subject to the sequester. The next opportunity to restart negotiations between the White House and Congress on a long-term deficit reduction plan, which may or may not revisit the sequester, will be during consideration of the budget resolution for FY 2014 and discussions on raising the ceiling on the debt limit, which expires on May 19.