



May 9, 2012

Honorable David Dreier
Chairman
Committee on Rules
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office (CBO) has reviewed the Sequester Replacement Reconciliation Act, as posted on the Web site of the House Committee on Rules (committee print 112-21). The two enclosed tables show estimates of the legislation's effects on direct spending and revenues for two alternative enactment dates. Table 1 provides estimates assuming enactment around October 1, 2012, while Table 2 provides estimates assuming enactment by July 1, 2012, as directed by the Chairman of the House Committee on the Budget.

The legislation posted by the Rules Committee combines and modifies two separate bills approved by the House Committee on the Budget on May 7. On May 8, 2012, CBO transmitted cost estimates for those two bills, as ordered reported by the Budget Committee:

- [Budget reconciliation provisions](#) recommended by six committees of the House of Representatives and packaged as a single bill by the Budget Committee, and
- [H.R. 4966, the Sequester Replacement Act of 2012](#).

The Rules Committee print modifies the reconciliation provisions by eliminating the Energy and Commerce Committee's version of provisions that would impose limits on medical malpractice litigation in state and federal courts. The version of medical liability legislation included in recommendations by the Judiciary Committee remains in committee print 112-21. The Judiciary version would achieve about \$18 billion less in budgetary savings over 10 years than the Energy and Commerce version.

In addition, the Rules Committee print alters the Oversight and Government Reform Committee's original recommendations related to retirement contributions by and for certain employees of the Postal Service. Under committee print 112-21, agency payments on behalf of some employees would continue at the current-law rate instead of falling as recommended by the Oversight and Government Reform Committee. Those changes reduce budgetary savings by less than \$250 million over the 2012-2022 period, relative to the estimate of the committee's recommendations. (The legislation also would increase retirement contributions paid by some Postal Service employees, and those provisions remain unchanged in the Rules Committee print.)

Assuming enactment around October 1, 2012, CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting the legislation in committee print 112-21 would yield net deficit reduction of \$237.8 billion over the 2012-2022 period. That figure reflects changes in direct spending and revenues from reconciliation provisions that would yield gross estimated budgetary savings of \$310.0 billion through 2022, partially offset by a cost of \$72.2 billion through 2022 for the sequester replacement provisions in title VII of the legislation. The gross savings for reconciliation are lower than CBO estimated on May 8 for the Budget Committee reconciliation package largely because that legislation included the Energy and Commerce version of medical liability reform, which would yield about \$18 billion in greater savings than the Judiciary version (as noted above).

Assuming enactment by July 1, 2012, CBO and JCT estimate that the legislation would yield net deficit reduction of \$242.8 billion over the 2012-2022 period. That figure reflects gross reconciliation savings (\$315.0 billion through 2022), partially offset by the cost of sequester replacement (\$72.2 billion through 2022).

The estimated sequester replacement cost of roughly \$72 billion over 10 years stem mostly from canceling the sequestration of existing balances for defense programs and advance appropriations for nondefense programs for 2013. However, that total could increase to as much as \$97 billion if additional discretionary appropriations are enacted for 2013.

Further, the legislation would specify a cap on total discretionary budget authority for 2013 that is \$19.1 billion lower than the total funding level of \$1,047 billion that could be provided under current law. However, because

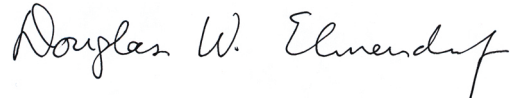
Honorable David Dreier

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any effect of that adjustment would be subject to future appropriation actions, there would be no impact on direct spending from that change in the cap on 2013 funding.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive style with a large, sweeping "D" and "E".

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Louise Slaughter
Ranking Minority Member

Honorable Paul Ryan
Chairman, House Committee on the Budget

Honorable Chris Van Hollen
Ranking Member

Table 1. Estimate of the Effects on Direct Spending and Revenues for the Sequester Replacement Reconciliation Act of 2012, Committee Print 112-21, as posted on the Web site of the House Committee on Rules on May 7, 2012, assuming enactment around October 1, 2012

	By Fiscal Year, in Millions of Dollars												2012-	2012-
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2017	2022	
CHANGES IN DIRECT SPENDING ASSUMING ENACTMENT AROUND OCTOBER 1, 2012														
Title I - Agriculture														
Estimated Budget Authority	0	-5,638	-3,347	-3,104	-3,127	-3,091	-3,061	-3,063	-3,075	-3,093	-3,096	-18,307	-33,694	
Estimated Outlays	0	-5,633	-3,342	-3,104	-3,127	-3,091	-3,061	-3,063	-3,075	-3,093	-3,096	-18,297	-33,684	
Title II - Energy and Commerce														
Estimated Budget Authority	0	-13,990	-5,590	-5,390	-7,360	-4,540	-3,300	-3,450	-2,830	-2,900	-7,710	-36,870	-57,060	
Estimated Outlays	0	-2,770	-5,640	-9,150	-7,730	-4,070	-3,140	-3,290	-2,600	-2,850	-7,380	-29,360	-48,620	
Title III - Financial Services ^a														
Estimated Budget Authority	0	-3,283	-4,586	-4,907	-4,122	-3,680	-3,845	-3,864	-4,068	-4,254	-4,443	-20,578	-41,052	
Estimated Outlays	0	-3,207	-4,579	-4,905	-4,120	-3,678	-3,842	-3,861	-4,065	-4,251	-4,440	-20,489	-40,948	
Title IV - Judiciary														
Estimated Budget Authority	0	-100	-650	-2,250	-3,850	-4,850	-5,200	-5,500	-5,900	-6,300	-6,700	-11,700	-41,300	
Estimated Outlays	0	-100	-650	-2,250	-3,850	-4,850	-5,200	-5,500	-5,900	-6,300	-6,700	-11,700	-41,300	
Title V - Oversight and Government Reform														
Estimated Budget Authority	0	176	309	431	533	615	588	561	533	508	480	2,064	4,733	
Estimated Outlays	0	176	309	431	533	615	588	561	533	508	480	2,064	4,733	
Title VI - Ways and Means														
Estimated Budget Authority	0	-1,700	-3,561	-4,548	-5,635	-6,164	-6,512	-6,739	-6,904	-7,253	-7,483	-21,609	-56,501	
Estimated Outlays	0	-1,360	-3,527	-4,650	-5,652	-6,164	-6,512	-6,739	-6,904	-7,253	-7,483	-21,354	-56,246	
Title VII - Sequester Replacement ^b														
Estimated Budget Authority	0	75,000	0	0	0	0	0	0	0	0	0	75,000	75,000	
Estimated Outlays	0	36,111	21,478	11,906	2,186	546	0	0	0	0	0	72,227	72,227	
Interactions ^c														
Estimated Budget Authority	0	0	134	210	188	57	6	6	7	7	8	589	623	
Estimated Outlays	0	0	134	210	188	57	6	6	7	7	8	589	623	
TOTAL CHANGES IN DIRECT SPENDING														
Estimated Budget Authority	0	50,465	-17,291	-19,558	-23,373	-21,653	-21,324	-22,048	-22,237	-23,286	-28,945	-31,410	-149,250	
Estimated Outlays	0	23,217	4,183	-11,512	-21,573	-20,634	-21,161	-21,885	-22,004	-23,233	-28,612	-26,319	-143,215	
CHANGES IN REVENUES ASSUMING ENACTMENT AROUND OCTOBER 1, 2012 ^d														
Title II - Energy and Commerce														
	0	-30	-320	-1,440	-220	230	0	30	10	0	0	-1,780	-1,740	
Title III - Financial Services														
	0	-67	-248	-474	-715	-976	-1,207	-1,428	-1,644	-1,845	-1,981	-2,480	-10,585	
Title IV - Judiciary														
	0	8	83	324	578	882	985	1,026	1,082	1,145	1,210	1,875	7,323	
Title V - Oversight and Government Reform														
	0	2,426	4,505	6,625	8,633	10,514	10,671	10,849	11,009	11,212	11,350	32,704	87,794	
Title VI - Ways and Means														
	0	0	238	700	1,116	1,422	1,542	1,664	1,718	1,748	1,864	3,476	12,013	
Interactions ^c														
	0	0	-36	-87	-84	-44	-2	-2	-3	-3	-3	-252	-265	
TOTAL CHANGES IN REVENUES														
	0	2,337	4,222	5,648	9,307	12,028	11,989	12,139	12,172	12,257	12,440	33,543	94,540	

continued

Table 1. continued	By Fiscal Year, in Millions of Dollars												2012-	2012-
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2017	2022	
INCREASE OR DECREASE(-) IN THE DEFICIT ASSUMING ENACTMENT AROUND OCTOBER 1, 2012														
NET EFFECT ON DEFICITS	0	20,880	-40	-17,161	-30,880	-32,662	-33,150	-34,024	-34,177	-35,490	-41,052	-59,862	-237,755	
On-Budget	0	21,050	58	-17,323	-30,557	-31,919	-32,381	-33,265	-33,447	-34,775	-40,354	-58,692	-232,914	
Off-Budget ^c	0	-170	-97	163	-323	-743	-770	-759	-730	-715	-698	-1,170	-4,841	
Memorandum:														
Increased net income to the National Flood Insurance Program (Title III) ^f														
	0	0	-60	-150	-265	-405	-580	-775	-830	-890	-945	-880	-4,900	
Changes in direct spending if additional appropriations are provided for 2013 (Title VII) ^g														
Estimated Authorization Level	0	97,664	0	0	0	0	0	0	0	0	0	97,664	97,664	
Estimated Outlays	0	55,827	26,030	9,679	3,320	1,973	0	0	0	0	0	96,828	96,828	
Adjustment to cap on discretionary appropriations for 2013 (Title VII) ^h														
Estimated Authorization Level	0	-19,104	0	0	0	0	0	0	0	0	0	-19,104	-19,104	
Estimated Outlays	0	-11,061	-5,063	-1,738	-650	-420	0	0	0	0	0	-18,932	-18,932	

Sources: CBO and the staff of the Joint Committee on Taxation.

Note: Components may not sum to totals because of rounding.

- a. In addition, CBO estimates that implementing title III (Financial Services) would cost \$766 million over the 2012-2017 period, assuming appropriation of the necessary amounts. That estimate includes funding for the Bureau of Consumer Financial Protection, the Financial Stability Oversight Council, and for mapping and mitigation efforts under the National Flood Insurance Program.
- b. Assuming enactment prior to further appropriations being provided for 2013. The cost would stem mostly from canceling sequestration of existing balances for defense programs and advance appropriations for nondefense programs for 2013.
- c. There are interactions between the medical malpractice provisions in Title IV and the healthcare provisions in Titles II and VI.
- d. Negative numbers denote a reduction in revenues and positive numbers denote an increase in revenues.
- e. Title V includes off-budget direct spending; Titles II, IV, V, and VI include both on- and off-budget revenues.
- f. The proposed language would raise premiums for certain subsidized flood insurance policies, increasing net income to the National Flood Insurance Program by \$4.9 billion. However, because many policies would continue to be subsidized and the program would continue to face significant interest costs for borrowing over the past decade, CBO expects that additional receipts collected under this legislation would be spent to cover future program shortfalls, resulting in no net effect on the budget over the 2012-2022 period.
- g. If additional appropriations are enacted, the direct spending cost of canceling sequestration could rise up to about \$97 billion, as shown in the memorandum.
- h. The legislation would remove the separate limits on defense and nondefense discretionary budget authority for 2013 and would specify a cap on total discretionary budget authority that is \$19.1 billion lower than the total funding level of \$1,047 billion that could be provided under current law; however, because any effect of that adjustment would be subject to future appropriation actions, there would be no impact on direct spending from that change.

Table 2. Estimate of the Effects on Direct Spending and Revenues for the Sequester Replacement Reconciliation Act of 2012, Committee Print 112-21, as posted on the Web site of the House Committee on Rules on May 7, 2012, assuming enactment by July 1, 2012, as directed by the Chairman of the House Committee on the Budget

	By Fiscal Year, in Millions of Dollars												2012-	2012-
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2017	2022	
CHANGES IN DIRECT SPENDING ASSUMING ENACTMENT BY JULY 1, 2012														
Title I - Agriculture														
Estimated Budget Authority	-720	-7,064	-3,347	-3,104	-3,127	-3,091	-3,061	-3,063	-3,075	-3,093	-3,096	-20,453	-35,840	
Estimated Outlays	-720	-7,059	-3,342	-3,104	-3,127	-3,091	-3,061	-3,063	-3,075	-3,093	-3,096	-20,443	-35,830	
Title II - Energy and Commerce														
Estimated Budget Authority	-12,440	-3,670	-5,590	-5,390	-7,360	-4,540	-3,300	-3,450	-2,830	-2,900	-7,710	-38,990	-59,180	
Estimated Outlays	-410	-3,370	-6,280	-9,450	-7,830	-4,130	-3,140	-3,290	-2,600	-2,850	-7,380	-31,470	-50,730	
Title III - Financial Services ^a														
Estimated Budget Authority	-585	-3,994	-4,381	-4,826	-4,108	-3,765	-3,857	-3,869	-4,073	-4,258	-4,444	-21,659	-42,160	
Estimated Outlays	-585	-3,918	-4,374	-4,824	-4,106	-3,763	-3,854	-3,866	-4,070	-4,255	-4,441	-21,570	-42,056	
Title IV - Judiciary														
Estimated Budget Authority	0	-100	-650	-2,250	-3,850	-4,850	-5,200	-5,500	-5,900	-6,300	-6,700	-11,700	-41,300	
Estimated Outlays	0	-100	-650	-2,250	-3,850	-4,850	-5,200	-5,500	-5,900	-6,300	-6,700	-11,700	-41,300	
Title V - Oversight and Government Reform														
Estimated Budget Authority	0	176	309	431	533	615	588	561	533	508	480	2,064	4,733	
Estimated Outlays	0	176	309	431	533	615	588	561	533	508	480	2,064	4,733	
Title VI - Ways and Means														
Estimated Budget Authority	0	-1,700	-3,561	-4,548	-5,635	-6,164	-6,512	-6,739	-6,904	-7,253	-7,483	-21,609	-56,501	
Estimated Outlays	0	-1,360	-3,527	-4,650	-5,652	-6,164	-6,512	-6,739	-6,904	-7,253	-7,483	-21,354	-56,246	
Title VII - Sequester Replacement ^b														
Estimated Budget Authority	0	75,000	0	0	0	0	0	0	0	0	0	75,000	75,000	
Estimated Outlays	0	36,111	21,478	11,906	2,186	546	0	0	0	0	0	72,227	72,227	
Interactions ^c														
Estimated Budget Authority	0	0	134	210	188	57	6	6	7	7	8	589	623	
Estimated Outlays	0	0	134	210	188	57	6	6	7	7	8	589	623	
TOTAL CHANGES IN DIRECT SPENDING														
Estimated Budget Authority	-13,745	58,648	-17,086	-19,477	-23,359	-21,738	-21,336	-22,053	-22,242	-23,290	-28,946	-36,757	-154,624	
Estimated Outlays	-1,715	20,480	3,748	-11,731	-21,659	-20,779	-21,173	-21,890	-22,009	-23,237	-28,613	-31,656	-148,579	
CHANGES IN REVENUES ASSUMING ENACTMENT BY JULY 1, 2012 ^d														
Title II - Energy and Commerce	0	-30	-320	-1,440	-220	230	0	30	10	0	0	-1,780	-1,740	
Title III - Financial Services	-15	-102	-298	-524	-760	-1,011	-1,247	-1,463	-1,674	-1,860	-1,996	-2,710	-10,950	
Title IV - Judiciary	0	8	83	324	578	882	985	1,026	1,082	1,145	1,210	1,875	7,323	
Title V - Oversight and Government Reform	0	2,426	4,505	6,625	8,633	10,514	10,671	10,849	11,009	11,212	11,350	32,704	87,794	
Title VI - Ways and Means	0	0	238	700	1,116	1,422	1,542	1,664	1,718	1,748	1,864	3,476	12,013	
Interactions ^c	0	0	-36	-87	-84	-44	-2	-2	-3	-3	-3	-252	-265	
TOTAL CHANGES IN REVENUES														
	-15	2,302	4,172	5,598	9,262	11,993	11,949	12,104	12,142	12,242	12,425	33,313	94,175	

continued

Table 2. continued	By Fiscal Year, in Millions of Dollars											2012-	2012-
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2017	2022
INCREASE OR DECREASE(-) IN THE DEFICIT ASSUMING ENACTMENT BY JULY 1, 2012													
NET EFFECT ON DEFICITS	-1,700	18,178	-425	-17,330	-30,921	-32,772	-33,122	-33,994	-34,152	-35,479	-41,038	-64,969	-242,754
On-Budget	-1,700	18,348	-327	-17,492	-30,598	-32,029	-32,353	-33,235	-33,422	-34,764	-40,340	-63,799	-237,913
Off-Budget ^e	0	-170	-97	163	-323	-743	-770	-759	-730	-715	-698	-1,170	-4,841
Memorandum:													
Increased net income to the National Flood Insurance Program (Title III) ^f													
	0	0	-60	-150	-265	-405	-580	-775	-830	-890	-945	-880	-4,900
Changes in direct spending if additional appropriations are provided for 2013 (Title VII) ^g													
Estimated Authorization Level	0	97,664	0	0	0	0	0	0	0	0	0	97,664	97,664
Estimated Outlays	0	55,827	26,030	9,679	3,320	1,973	0	0	0	0	0	96,828	96,828
Adjustment to cap on discretionary appropriations for 2013 (Title VII) ^h													
Estimated Authorization Level	0	-19,104	0	0	0	0	0	0	0	0	0	-19,104	-19,104
Estimated Outlays	0	-11,061	-5,063	-1,738	-650	-420	0	0	0	0	0	-18,932	-18,932

Sources: CBO and the staff of the Joint Committee on Taxation.

Note: Components may not sum to totals because of rounding.

- a. In addition, CBO estimates that implementing title III (Financial Services) would cost \$766 million over the 2012-2017 period, assuming appropriation of the necessary amounts. That estimate includes funding for the Bureau of Consumer Financial Protection, the Financial Stability Oversight Council, and for mapping and mitigation efforts under the National Flood Insurance Program.
- b. Assuming enactment prior to further appropriations being provided for 2013. The cost would stem mostly from canceling sequestration of existing balances for defense programs and advance appropriations for nondefense programs for 2013.
- c. There are interactions between the medical malpractice provisions in Title IV and the healthcare provisions in Titles II and VI.
- d. Negative numbers denote a reduction in revenues and positive numbers denote an increase in revenues.
- e. Title V includes off-budget direct spending; Titles II, IV, V, and VI include both on- and off-budget revenues.
- f. The proposed language would raise premiums for certain subsidized flood insurance policies, increasing net income to the National Flood Insurance Program by \$4.9 billion. However, because many policies would continue to be subsidized and the program would continue to face significant interest costs for borrowing over the past decade, CBO expects that additional receipts collected under this legislation would be spent to cover future program shortfalls, resulting in no net effect on the budget over the 2012-2022 period.
- g. If additional appropriations are enacted, the direct spending cost of canceling sequestration could rise up to about \$97 billion, as shown in the memorandum.
- h. The legislation would remove the separate limits on defense and nondefense discretionary budget authority for 2013 and would specify a cap on total discretionary budget authority that is \$19.1 billion lower than the total funding level of \$1,047 billion that could be provided under current law; however, because any effect of that adjustment would be subject to future appropriation actions, there would be no impact on direct spending from that change.