



## Information Letter Series

### Sequestration of USDA Expenditures in Fiscal Year 2015

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#### What Has Happened?

The dairy industry was largely taken by surprise when the Farm Service Agency announced that the first benefit payments for MPP-Dairy would be subject to a sequestration, or reduction, of 7.3%. This short paper reminds us of the origin of the across-the-board sequestration that took effect on 1 October 2014.

#### MPP-Dairy Benefit Payment

On 13 April 2015, USDA formally announced that dairy farm operations that signed up for \$8 per cwt coverage under the new Margin Protection Program for Dairy Producers (MPP-Dairy) would qualify for a small benefit payment for the January/February 2015 benefit period. The Actual Dairy Producer Margin (ADPM) for that period equals \$7.99554 per cwt. As an example, a farm business that contracted for coverage on 4 million pounds per year, the benefit payment of \$0.00446 per cwt. would generate a total benefit of \$29.73. However, the requirement for sequestration reduces the total benefit payment to \$27.56. The difference is essentially retained by the U.S. Treasury and represents a budget savings. In point of contrast, the premium and administrative fee for this level of coverage was \$19,573 for the year. Premiums vary by the amount of milk covered and the level of margin chosen.

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## **The Origin of Sequestration**

The Budget Control Act of 2011 was crafted at a time when the U.S. Congress was struggling to find a plan that would reduce the ongoing budget deficit and attendant national debt but couldn't agree on a combination of revenue enhancements and expenditure reductions that would achieve that basic goal. It established a bipartisan Joint Select Committee on Deficit Reduction to try to come up with a plan to which the House and Senate could agree, but it stipulated that if the Joint Committee could not come to agreement, with supportive votes from the two Chambers, then the process of sequestration would be used to make across-the-board cuts to the amounts of money that the Executive Branch could spend. Separate cuts were defined for defense and homeland security program, certain food assistance and welfare programs (Social Security, Medicaid, Supplemental Nutrition Assistance Program and others), and the rest of the government spending. The cuts were required for nine years from 2013 to 2021.

The Select Committee was unable to come up with a plan so the sequestration provisions automatically went into effect. The first sequestration began on 1 March 2013. During 2013, Congressman Paul Ryan and Senator Patty Murray worked on a plan to forestall sequestration in the coming years and successfully negotiated what would become the Bipartisan Budget Act of 2013. Passed in December 2013, this legislation lightened the sequestration caps for fiscal years 2014 and 2015 but extended the imposition of sequestration into 2022 and 2023.

## **The Current Situation**

The temporary relaxation of the sequestration caps and the fact that federal agencies were able to build the next round of sequestration into their budget planning processes, pushed sequestration far enough into the background that only serious budget policy wonks remembered it was still in play. Thus, the announcement by USDA that the first MPP-Dairy benefit payments would be subject to sequestration reductions took virtually everyone in the dairy industry by surprise. The specific amount of 7.3% is an across the board number that was calculated, according to the law, by the President's Office of Management and Budget and is designed to hit the hard expenditure targets specified under the Budget Control Act of 2011. Although many who looked at the regulation probably did not notice it, FSA included very clear language in its MPP-Dairy regulations stating that benefit payments would be subject to sequestration reductions.

As it did in 2013, it is certainly possible that Congress could at any point once again craft new legislation to alter or even repeal the sequestration requirements of the amended Budget Control Act of 2011, but until it does so those across-the-board requirements to cut federal expenditures will remain in effect until 2023. Each year, OMB will calculate a specific percentage reduction that will apply to all expenditures, in the three basic categories listed above.