MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

FROM: Jacob J. Lew

SUBJECT: Fiscal Year 2013 Budget Guidance

The President has defined our fiscal challenge as demonstrating that we can live within our means so that we can invest in job creation and economic growth now and in the long term. In April, he proposed a balanced framework for $4 trillion in deficit reduction that would put us on path to achieve fiscal sustainability by the middle of this decade. Over the summer, in negotiations with the Congress, the President pursued deficit reduction of this magnitude. Once it was clear a bipartisan agreement could not yet be reached, the President signed into law a down payment toward this goal: the Budget Control Act of 2011. This legislation set ceilings on total discretionary spending and a target of $2.4 trillion in total deficit reduction over the next decade.

In light of the tight limits on discretionary spending starting in 2012, your 2013 budget submission to OMB should provide options to support the President’s commitment to cut waste and reorder priorities to achieve deficit reduction while investing in those areas critical to job creation and economic growth. Unless your agency has been given explicit direction otherwise by OMB, your overall agency request for 2013 should be at least 5 percent below your 2011 enacted discretionary appropriation. As discussed at the recent Cabinet meetings, your 2013 budget submission should also identify additional discretionary funding reductions that would bring your request to a level that is at least 10 percent below your 2011 enacted discretionary appropriation.

By providing budgets pegged to these two scenarios, you will provide the President with the information to make the tough choices necessary to meet the hard spending targets in place and the needs of the Nation. These 5 and 10 percent reductions from the 2011 enacted level should not be achieved by proposing across-the-board reductions or reductions to mandatory spending in appropriations bills, reclassifications of existing discretionary spending to mandatory, or enactment of new user fees to offset existing spending. The latter types of proposals may be included in your package as separate proposals on their merits or for consideration as alternatives to other cuts proposed in the main request. You may also submit priority add-backs with your request.
At the same time as your submission shows lower spending overall, you should identify programs to "double down" on because they provide the best opportunity to enhance economic growth. Finding the savings to support these investments will be difficult, but it is possible if budgets cut or eliminate low-priority and ineffective programs while consolidating duplicative ones; improve program efficiency by driving down operational and administrative costs; and support fundamental program reforms that generate the best outcomes per dollar spent.

Consistent with these guidelines, I ask that your 2013 budget and management plans address the following mechanisms for efficiency increases:

- If relevant, identify priority investments related to economic growth which the Department proposes to expand or protect, stating the strongest possible case for the positive economic impact.

- Identify and include in the budget submission cost-saving efforts that will improve operational efficiency and improve the rate of return to taxpayers, including more program integration, reorganizations within and between agency components, and realignment of resources (such as information technology, facilities, and staff) to improve service delivery to the public.

- To drive long-term productivity increases, your 2013 budget and management plans should explain how your agency will acquire, analyze, evaluate, and use data to improve policy and operational decisions, and how you will reallocate and strengthen your analytic and evaluation capacity to set outcome-focused priorities, identify the most effective and cost-effective practices and programs, and speed their adoption.

- Finally, agency submissions should take into consideration areas of duplication or overlap identified by the Government Accountability Office, as well as others.

I expect this year’s budget formulation process to be a collaborative dialogue between OMB and agencies that emphasizes the best options for improving the Government’s effectiveness while lowering costs. OMB will strive to offer ideas and assistance to agencies where we can, and to facilitate problem-solving on issues that cross agencies. In addition, I invite agencies to recommend ways that OMB or other Government-wide processes or requirements can be modernized and improved to help your agency meet its objectives more cost-effectively.

I know this will be a difficult year, but it will also offer an opportunity to make the hard decisions to invest where we can get the most done and pare back in other areas.