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# Understanding **Sequestration** and Its Impact on Local Governments & Regions

Presented by:

**The National Association of Regional Councils**

**Updated October 2, 2012**

# Use of Materials

Since 2011, NARC has been providing information on the national debt, budget cuts and related issues, and we will continue to do so. Please use this information to educate local elected and appointed Board members, staff, stakeholders and citizens involved in the regional planning process.

This information is not the opinion of the NARC Board, its members or staff, but rather readily available data compiled from various public sources.



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# Overview

- Background on Sequestration
- Basics of Sequestration
- Sequestration Numbers
- Effects of Sequestration
  - Bi-Partisan Policy Center Jobs Estimates
  - Aerospace Industries Association Impact Report
- Administration & Congressional Activity
- Preventing Sequestration
- Association Activity
- Contact NARC



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# The Background

## Why Sequestration?

- ✓ National debt sparked discussion
  - \$15.882T (as of July 18, 2012)
  - increased by over \$500 billion each year since FY03
  - \$15.003T Total GDP at the end of June 2011
  - Congressional Budget Office (CBO) called for “...large and rapid policy changes to put the nation on a sustainable fiscal course.”
  
- ✓ Established Congressional Debt Super Committee
  - Charged with determining how to make reductions
  - No agreement = automatic sequestration
  
- ✓ Reign in government spending and reduce national debt



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# Sequestration 101

## WHAT?

Automatic, across-the-board cuts on federal domestic and defense discretionary and mandatory funds starting 1/2/13

## HOW?

Created under the Budget Control Act (BCA), the debt limit deal passed by Congress in August 2011

## TOTAL?

\$1.2 trillion to be cut evenly over 2013-2021 (\$109B/year)

## EXEMPTION EXAMPLES?

Transportation Trust Funds

Social Security

CHIP

Medicaid/Medicare (2% cap)

Veterans Programs

Food Stamps (SNAP)

Federal Retirement Benefits

Child Nutrition

Some tax credits

Military Pay

Pell Grants



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# Sequestration Numbers

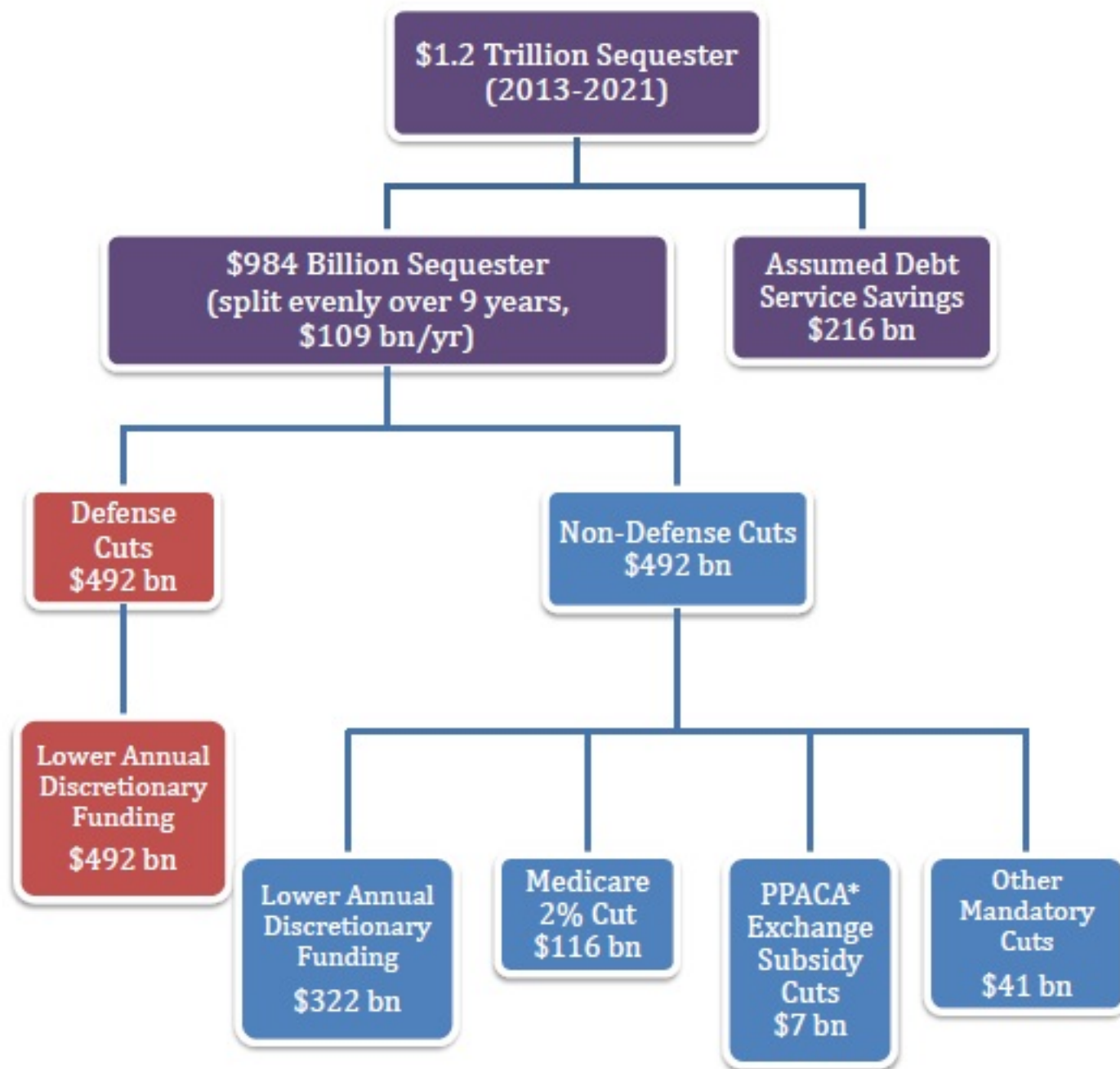
- \$54.7B/yr in defense AND \$54.7B/yr non-defense cuts from 2013-2021
- 2013: \$38.6B across all discretionary programs
  - Estimated cuts range between 7.8% and 10%
  - Bipartisan Policy Center estimates nearly every domestic program would face a 12% cut
- 2014+: Appropriations Committee determines cuts
- Cuts mostly from discretionary spending (~70%)
- ~13% of cuts from mandatory spending



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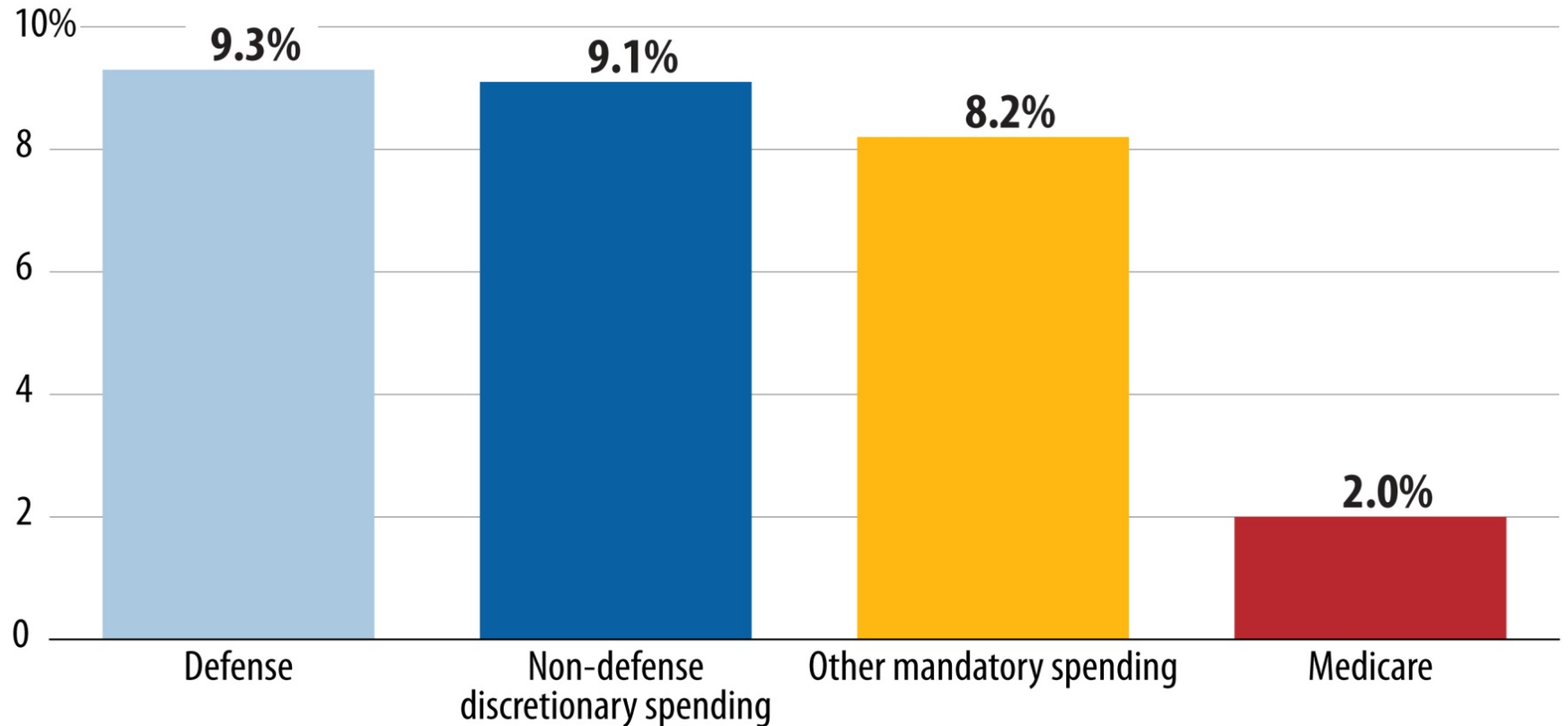
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# Breaking Down the Sequester



## Cuts Required in 2013 by Sequestration

Percent cuts in non-exempt programs



Source: CBPP calculations from Congressional Budget Office data.



# What are the Effects?

- Pressure on states and locals to maintain assets
- How do to more with less - **Regionalism important**
- Potential dramatic blows to economy and jobs
  - ✓ Employers with more than 100 employees will have to send layoff notices at least 60 days before event – warnings will need to be sent November 2
  - ✓ Have \$500B in contracts – reduced/cancelled \$50B
  - ✓ Reduction of federal personnel
- Political stress to address impacts
  - ✓ *Great concern about defense programs and impact on the economy*
- **Office of Management & Budget (OMB) will determine how 2013 sequester will be implemented**
- Two reports – Bi-Partisan Policy Center & AIA
- CBO economy estimates & recession

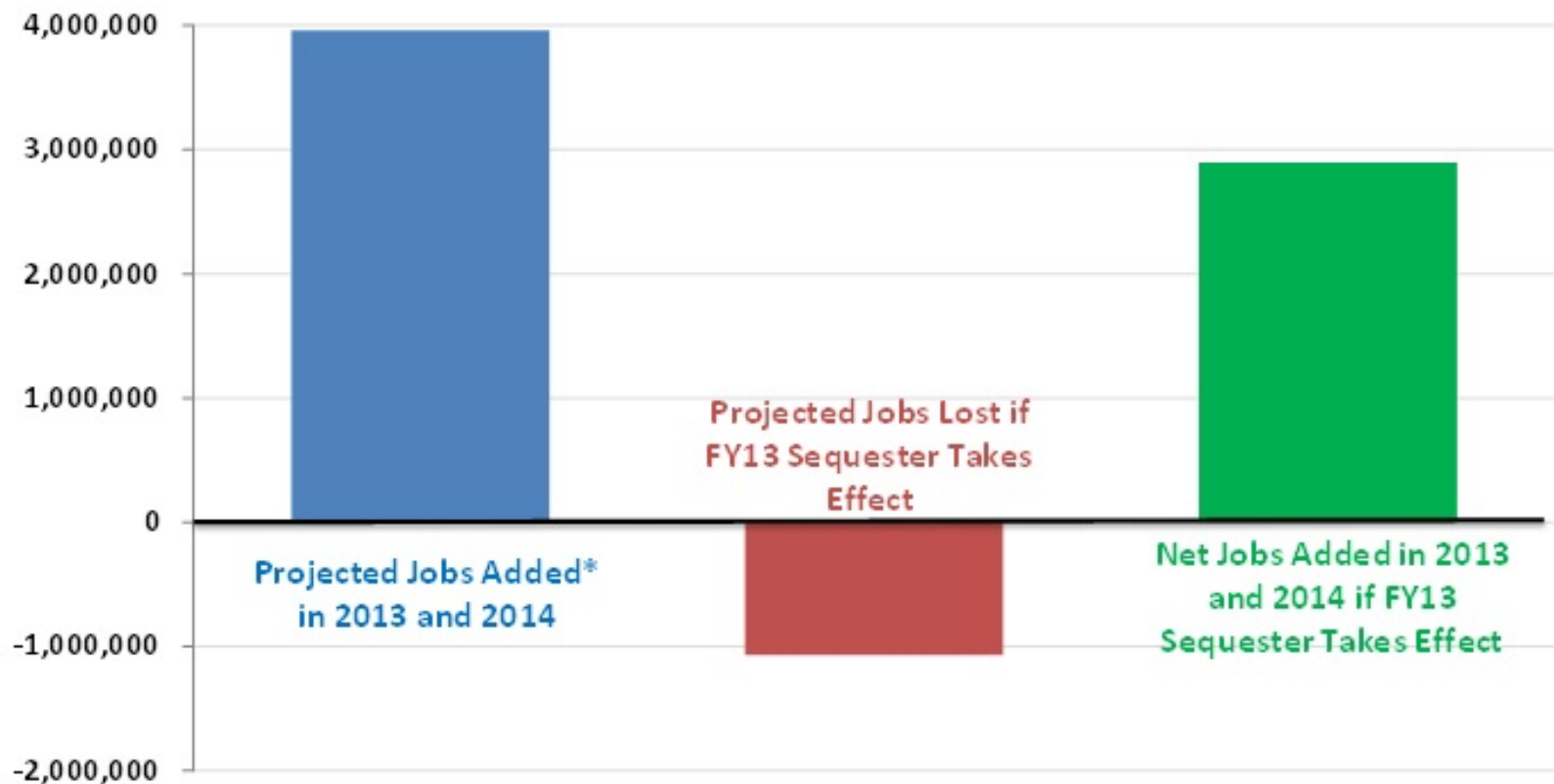


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# Bi-Partisan Policy Center Job Estimates

THE SEQUESTER WOULD COST THE ECONOMY OVER 1 MILLION JOBS IN 2013 & 2014



\*The projection for jobs added averages the first five months of job growth in 2012 – 165,000 jobs/month – and assumes that level of growth continues through the end of 2014.

Sources: BPC calculations based on Bureau of Labor Statistics data and Congressional Budget Office projections and economic multipliers.



# AIA Impact Report

*Aerospace Industries Association 7/10*  
sequestration report:

- ✓ Examines defense and non-defense impacts
- ✓ Most severe impact in 2013
- ✓ Reduce the nation's GDP by \$215 billion in 2013
- ✓ Decrease personal earnings of the workforce by \$109.4 billion
- ✓ Cost the economy 2.14 million jobs
- ✓ Bring unemployment rate to over 9%



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# AIA Report continued

## Most vulnerable states (half of all job losses):

*\*\*Pg 9-10 of report details losses for all 50 states*

<b>States</b>	<b>DOD Job Loss</b>	<b>Non-DOD Job Loss</b>	<b>TOTAL Job Loss</b>
CA	135,209	90,255	225,464
VA	136,191	71,380	207,571
TX	98,979	60,494	159,473
DC	15,169	112,238	127,407
MD	39,395	75,400	114,795
FL	41,905	37,554	79,459
PA	39,941	38,513	78,454
NY	28,809	41,201	70,010
MA	41,469	19,028	60,497
GA	27,609	26,903	54,512



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# CBO Estimates



In May, CBO estimated that if the automatic spending cuts (sequestration) are allowed to remain in place and if the Bush tax cuts are allowed to expire on December 31, as scheduled, the U.S. economy could be pushed into **recession** early next year.



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# Recent Activity - Administration

- President's FY13 Budget sought to substitute a mix of spending reductions and budgetary savings for sequestration
- President not asking agencies to do 2013 budget contingency plans as he is anticipating Congress to act
- Federal agencies are already beginning to delay contract awards and other procurement actions in preparation of the cuts
- White House Office of Management & Budget (OMB) has been meeting with agencies to determine which budget accounts and programs will be exempt from the cuts



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# Recent Activity - Administration

- At the end of September, OMB ordered federal agencies to plan for FY13 spending as if sequestration is not a factor, stating, “Agencies should continue normal spending and operations.”
- If Congress doesn’t address sequestration in the lame duck, in January OMB will enact steps to make the \$109 billion in FY13 cuts
- Administration sent Congress a report on how sequestration will affect specific programs



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# White House Report

- Released September 14 by the White House OMB
- Details anticipated impacts of sequestration across more than 1,200 federal accounts for 2013
- “...sequestration would be deeply destructive to national security, domestic investments, and core government functions.”
- Provides a high-level overview of preliminary numbers but does not get into too many program specifics, and is still subject to revision. Please note that the numbers provided in the report and summarized on the next slide are not finalized or exactly what will occur come January 2, 2013. There are still several factors that need to be addressed.



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# White House Report continued

## Overall Reductions

- 9.4% in defense discretionary funding (\$54.67B)
- 8.2% in domestic discretionary spending (\$38B)
- 2% reduction in Medicare

	Subject to sequester	Sequester amount	Percentage cut
Defense discretionary	\$580.073	\$54.599	9.4%
Defense mandatory	\$0.679	\$0.068	10.0%
Nondefense discretionary	\$463.465	\$38.021	8.2%
Medicare	\$554.265	\$11.085	2.0%
Indian and community health	\$1.344	\$0.027	2.0%
Other mandatory	\$71.958	\$5.443	7.6%

SOURCE: Office of Management and Budget

NOTE: Numbers in billions

- Visit [www.NARC.org](http://www.NARC.org) for a summary of the report and programs/agencies core to regions and local governments.



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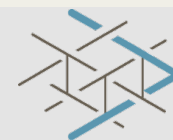
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# White House Report continued

## Post-Sequestration Funding (Figures in Millions of dollars)

	2012 Funding	After Sequestration		2012 Funding	After Sequestration
<b>● Agriculture and Rural Development</b>			<b>● Health</b>		
Rental Assistance Program	905	831	Prevention & Public Health Fund	1,000	934
Rural Community Facilities	29	27	Substance Abuse & Mental Health	3,640	3,073
Rural Housing Assistance Grants	33	30	<b>● Homeland Security</b>		
Distance Learning, Telemedicine & Broadband	37	34	FEMA State & Local Programs	2,247	2,074
Rural Water & Waste Disposal	503	462	Disaster Relief	7,077	6,497
Rural Business Program	75	69	Flood Hazard Mapping	98	90
Extension Activities	525	486	Emergency Food & Shelter	120	10
Community and Economic Development			<b>● Human Services</b>		
Community Development Fund	3,408	3,129	SSBG	1,785	1,649
Section 8 Housing	18,914	17,384	Aging Services	1,471	1,350
HOME Investment Partnership Program	1,000	918	LIHEAP	3,472	3,187
Homeless Assistance Grants	1,901	1,745	Child Care (non-entitlement)	2,278	2,091
Economic Development Assistance	420	386	Children & Family Services	9,908	9,096
<b>● Education and Training</b>			<b>● Justice and Public Safety</b>		
Training and Employment Services	3,203	2,941	State & Local Law Enforcement Assistance	1,119	1,027
Elementary & Secondary Education (Title I)	15,742	14,451	Juvenile Justice Programs	254	233
Special Education	12,640	11,604	Community Policing	162	149
Adult & Vocational Education	1,737	1,595	<b>● Telecommunications</b>		
DOL Veterans' Employment & Training	273	269	NTIA State & Local Implementation Grants	69	64
<b>● Energy, Environment and Public Lands</b>			<b>● Transportation</b>		
PILT	398	368	Essential Air Service & Rural Airports	50	46
EPA State and Tribal Grants	3,568	3,475	Federal Aid Highways – mandatory	40,185	40,129
Hazardous Substance Superfund	1,459	1,340			
Energy Efficiency & Renewable Energy	2,086	1,938			

Chart courtesy of NACo



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# Recent Activity - Congress

## House

- Budget Resolution: substitute spending reductions and budgetary savings for sequestration
- Passed HR 5652 to avoid sequestration and replace \$100B in automatic spending cuts with more than \$310B over 10 years from mandatory spending
- Passed HR 5872 that requires the White House to provide a detailed description of the plans for implementing the 2013 spending cuts at federal agencies
- HR 6365 – a symbolic bill – requiring the President to office an alternative to sequester's cuts

## Senate

- Bipartisan effort requesting 15 defense companies detail anticipated impacts of sequestration
- Passed an amendment to the Farm Bill requiring detailed sequestration reports from federal agencies

## Joint Efforts

Republican leaders sent a letter to President Obama on July 13 calling on him to seek “common-sense savings” to replace the sequester



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# Can this be avoided?

## Technically, YES

- Congress must pass legislation that undoes the legal requirement in the BCA and President Obama would need to sign before January 2, 2013
- The Executive Branch has no authority or ability to redistribute or reverse the cuts

***Moody's Investors Service warned it would lower the federal govt's top, triple-A credit rating if negotiations do not produce a plan to stabilize and reduce the national debt***



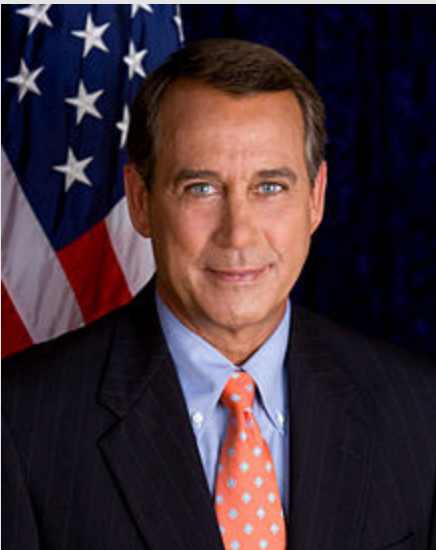
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“I predict that there will not be a sequester one way or the other. I just think it’s not going to happen. The sequester will not happen, but the earlier we avoid it happening or make it clear that it’s not going to happen, the better.”

- *U.S. Senator Carl Levin (D-MI)*



“I’m not confident at all. Listen, the House has done its job on both the sequester and on the looming tax hikes that’ll cost our economy some 700,000 jobs. The Senate at some point has to act. And on both of these, where’s the president? Where’s the leadership? Absent without leave.”

-U.S. Speaker of the House John Boehner (R-OH)

# Association Activity

## US Conference of Mayors

- Sent a letter to Congressional leadership signed by 160 mayors around the country detailing the negative impacts sequestration will have on local budgets.
- Urges a bipartisan and balanced approach to deficit reduction through spending cuts with additional revenue from sources that still facilitates economic growth.
- Concerned with deep reductions in non-defense discretionary spending – **1/3 directed to state and local programs**
  - ✓ 36% to education
  - ✓ 28% to housing and community development
  - ✓ 18% to health and the environment
  - ✓ 10% to workforce
  - ✓ 5% to public safety and disaster response
- Focus on impact to metro areas – infrastructure, education and public safety



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# Association Activity continued

## National League of Cities

- Opposes draconian cuts and instead is calling on Congress to take action to prevent the cuts from taking effect
- Will continue to urge Congress and the President to avoid the automatic budget cuts and adopt a non-partisan plan to reduce the deficit and balance needed reductions in spending with revenue enhancement



"It's irresponsible, it's bad policy, and we deserve better from our federal government."

NLC President Ted Ellis, Mayor, Bluffton, IN



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# Association Activity continued

## National Association of Counties

- Identified as one of the top issues facing counties
- Advocates the following positions:
  - ✓ Congress cannot solve the budget deficit by only cutting domestic, non-military discretionary programs
  - ✓ Federal assistance to state and local governments will help mitigate further layoffs
  - ✓ Federal investment in state and local infrastructure produces private sector jobs
  - ✓ Deficit reduction should not be accomplished by:
    - shifting costs to counties (e.g. cuts to Medicaid)
    - imposing unfunded mandates
    - pre-empting county programs or taxing authority
- NACo supports maintaining federal financial assistance for county programs at the 2010 fiscal year levels.



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# Association Activity continued

## National Association of Regional Councils

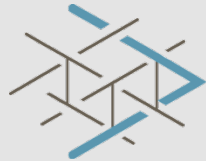
- Providing members with regular updates and information – [www.NARC.org](http://www.NARC.org) or eRegions weekly e-newsletter
  - ✓ Educational PowerPoint
  - ✓ Summaries of legislation/pertinent reports
  - ✓ Draft letter for personalization
- Regionalism increasingly important in times of fiscal restraint
- Urging members to contact Congressional delegation about potential impacts on key regional and local programs
- Closely in line with NACo's advocacy positions
  - ✓ Supports local governments and their associations



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# Contact NARC for more information or assistance



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**Fred Abousleman**  
Executive Director  
[fred@narc.org](mailto:fred@narc.org)  
202.986.1032, x216

**Shannon Baxevanis**  
Deputy Director  
[shannon@narc.org](mailto:shannon@narc.org)  
202.986.1032, x217