

## ***Federal Deficit Reduction Efforts and Cities***

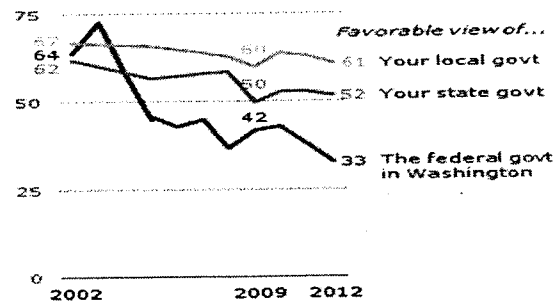
Metropolitan Washington  
Council of Governments  
October 2012

*Helping Cities Leaders Build Better Communities*

### **Today's Topics**

- The Looming Fiscal Crisis
- City Fiscal Conditions
- Efforts to Reduce the Federal Deficit
- City Position on Deficit Reduction Efforts
- Questions and Answers

**As Ratings of Federal Government Fall, State and Local Hold Steady**



PEW RESEARCH CENTER Apr. 4-15, 2012.



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**The Looming Fiscal Crisis**

- In 2010, federal spending was 24 percent of GDP, the highest level since WWII.
- In 2010, tax revenues were at 15 percent of GDP, the lowest level since 1950.
- The gap between spending and revenue – the budget deficit – was just under nine percent of GDP.
- Since 2001, the federal debt has risen from 33 percent of GDP to 62 percent of GDP in 2010.

Source: Report of the National Commission on Financial Responsibility and Reform, 2010;

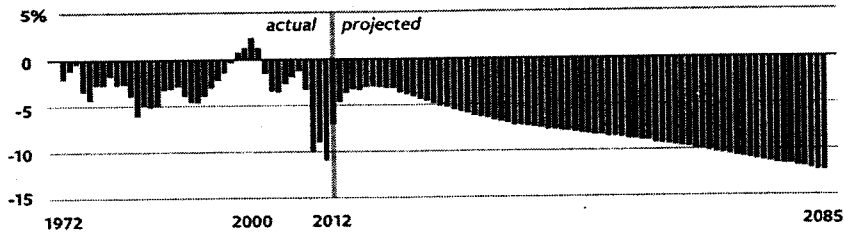


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## An Ever-Widening Budget Gap

### The Deficit Has Grown to Unsustainable Levels

Budget Surplus or Deficit as Percentage of GDP by Fiscal Year\*



Source: Congressional Budget Office Historical Budget Data (1972-99); Office of Management and Budget, Fiscal 2012 Budget (2000-85).

\*Projection includes expiration of Bush tax cuts.

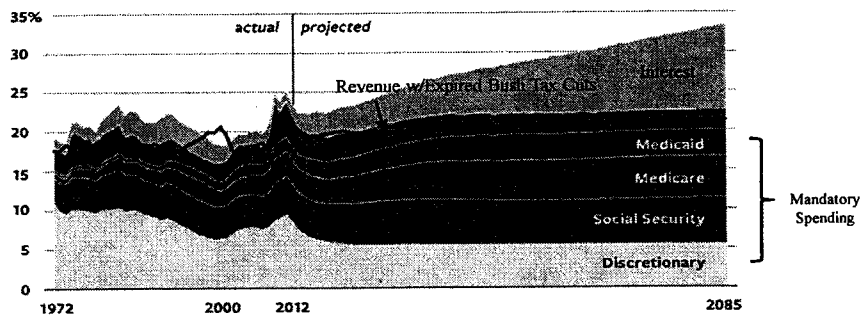


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## Why the Gap Has Widened

### Mandatory Spending Is Outpacing Revenues

Federal Revenue and Outlays as a Percentage of GDP by Fiscal Year



Source: Congressional Budget Office Historical Budget Data (1972-99); Office of Management and Budget, Fiscal 2012 Budget (2000-85).



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## City Fiscal Conditions

- For the sixth straight year city revenues continue to fall as financial pressures such as infrastructure, health care and pension costs combine with cuts in state and federal aid to weigh heavily on cities' bottom lines.
- Cities are making personnel cuts, delaying or canceling infrastructure projects and cutting local services.
- 2013 will continue to present challenges to city budgets due to stagnant housing markets, high unemployment, and looming federal budget cuts.

Source: 2012 NLC City Fiscal Conditions Report



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## Spending Cuts Have Hit Cities Already

Federal Program	FY 2010	FY 2012	Percent Change
Job Training	\$ 3.8 billion	\$ 2.6 billion	- 31.6%
Highways	\$ 41.8 billion	\$ 41.1 billion	- 1.70%
CDBG	\$ 4 billion	\$ 2.9 billion	- 27.5%
COPS	\$ 791 million	\$ 166 million	- 79.0%
Clean Water SRF	\$ 2.1 billion	\$ 1.5 billion	- 28.6%
Drinking Water SRF	\$ .4 billion	\$ 919 million	- 34.4%



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## Efforts to Reduce the Deficit

- Bowles-Simpson Plan (not adopted)
- Budget Control Act:
  - Super Committee (failed to reach agreement)
  - Automatic Spending Cuts (set to take effect January 2013)
- Ryan Budget Proposal
- President Obama's Budget Proposal



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## The Automatic Spending Cuts

### *Sequestration Arose From the Ashes*

If Congress by 2013 does not reduce the deficit by \$1.2 trillion through 2021, automatic spending cuts (sequestration) will kick in.

If Sequestration Is Enforced	
Defense	\$493.2B
Interest	\$216B

"I don't think either party likes what they see coming. I could easily imagine a bipartisan effort during the lame-duck session to dodge the first year of the sequester and come up with enough mandatory savings."

Douglas Holtz-Eakin, former director of the Congressional Budget Office

Source: National Journal, Mar 15, 2012, "Hard Promises," Nancy Cook; GAO Report, 2005; Center for Budget and Policy Priorities, 2011.



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## Automatic Spending Cuts Will Do Harm:

- Reduce the nation's GDP by \$215 billion;
- Decrease personal earnings of the workforce by \$109.4 billion;
- Cost the U.S. economy (and cities) 2.14 million jobs;
- Reduce GDP growth in 2013 by two – thirds; and
- Increase unemployment by as much as 1.5 percentage points raising the current national rate above 9 percent.

Source: The Economic Impact of the Budget Control Act of 2011 on DOD and Non-DOD Agencies, Stephen S. Fuller, Ph.D., Dwight Schar Faculty Chair and University Professor, Director, Center of Regional Analysis, George Mason University, Arlington, Virginia with Chmura Economics & Analytics Richmond, Virginia, July 2012



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## The City Position on Deficit Reduction


- Congress should stop the budget sequestration from going into effect; it is bad policy that will do more harm than good.
- Any deficit reduction plan should balance spending cuts with revenue enhancements.
- Spending cuts should not come from domestic discretionary programs alone - all options should be considered.
- The interest exemption on municipal bonds should be maintained – they are not a tax loophole.
- Any structural changes in programs should include a transition period for cities to come into compliance.



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