

**PRESENTATION TO THE
EASTERN LEGISLATIVE FISCAL
OFFICERS ASSOCIATION**

**MICHAEL BIRD
NATIONAL CONFERENCE OF STATE
LEGISLATURES
September 12, 2012**



“SEQUESTRATION AND THE FISCAL CLIFF”

Sequester Process: What We Know

\$984 billion in cuts required over FYs 2013-2021

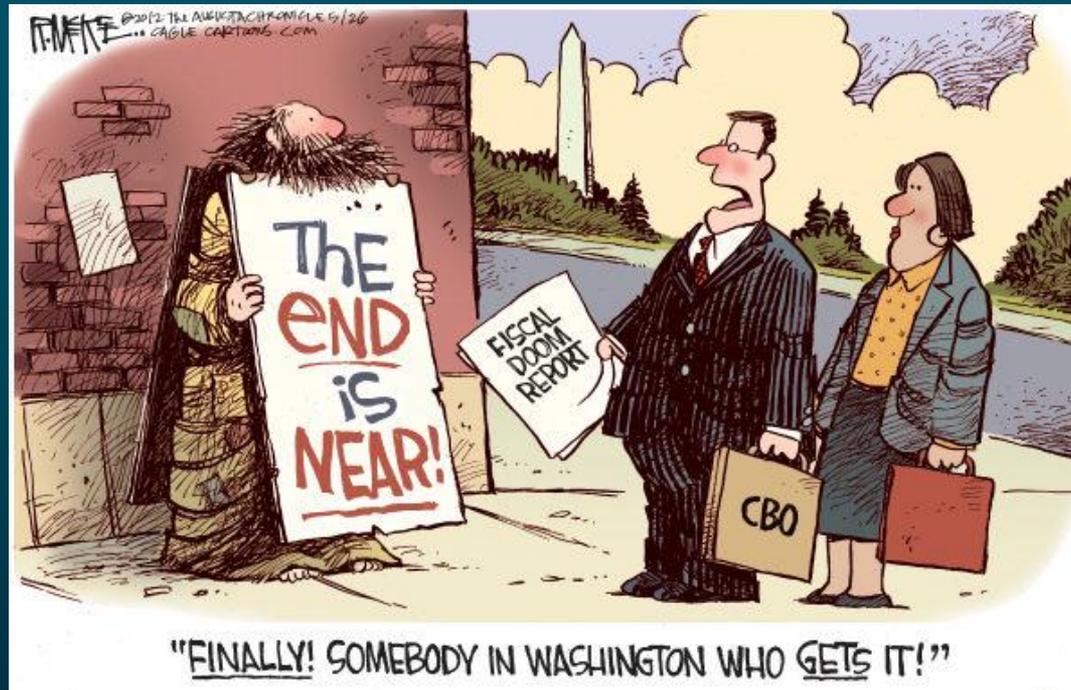
Roughly \$109 billion per year, half from defense and half from nondefense

Many mandatory and a few discretionary programs are exempt

ATB cuts in FY 2013, different process for FY 2014+



BCA “DEFICIT SAVINGS”



***August, 2011, deal increases debt ceiling by \$2.1 trillion in exchange for the below:*

“Pot” 1: \$917 billion in discretionary spending (\$787 billion without interest savings) over ten years via spending caps

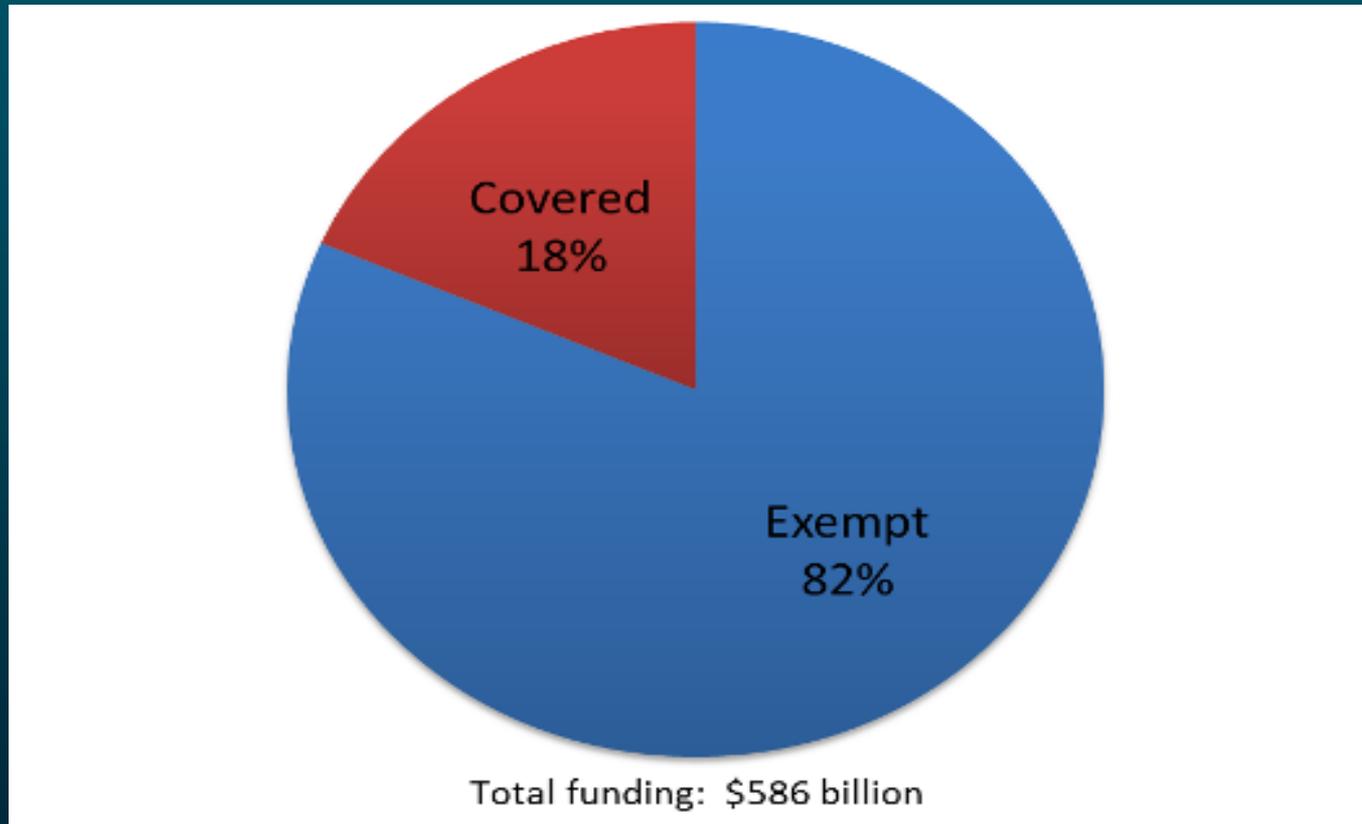
Long-Term Outlook - BCA Pot 1

- No better than level funding over next decade
- Inflation adjustments out
- Demographic adjustments out
- Some programs will be decimated
- Defense vs. State-Federal grants
- "Shark Tank"

BCA (continued)

- “Pot 2” 2: \$1.2 trillion (\$984 billion without interest savings) over nine years.
 - ❑ \$492 billion in non-defense discretionary/mandatory spending.
 - ❑ With non-exempt mandatory programs omitted, the reduction to non-defense discretionary programs would be \$44 billion per year.
 - ❑ \$492 billion in defense discretionary spending.

What We Can Say About a Sequester- "Pot Two" (non-defense)



FFY 12 domestic discretionary and
mandatory spending that goes to
states



SELECTION OF PROGRAMS EXEMPT FROM SEQUESTRATION

Most Transportation Programs

Medicaid (vendor payments and administration)

Pell Grants

Children's Health Insurance Program

Most child nutrition and Food Stamp programs

Most child care, child support enforcement, foster care and adoption assistance programs

Abandoned Mine Reclamation Fund

Programs Not Exempt from Sequestration

Education (elementary, secondary, vocational, higher)

Employment and Training

Energy

Environment

Agriculture/Natural Resources

Justice

Housing/Community Development

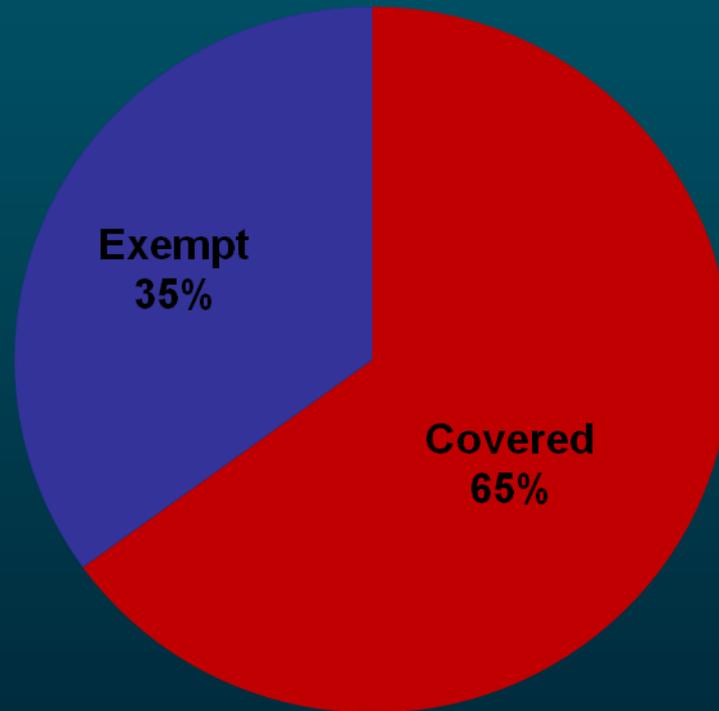
Social Services (non-mandatory programs)

Health (non-Medicaid/CHIP programs)

National Forests/Mineral Leasing

Defense

What We Can Say About a Sequester- “Pot Two” (defense)



Total Funding: \$530
billion in FY 2012

Sequester: What We Don't Know

What is the ATB percentage cut?

- CBO estimates 7.8% for nondefense discretionary and mandatory, 10% for defense
- Exact percentage won't be known until January 2013

Sequester: What We Don't Know

How will individual programs be affected?

- Percentage reduction applied to FY 2013 funding (or CR level)
- OMB has authority to apply exemptions and special rules
- Examples (Medicare, UI, health care reform, trust funds)



What We Can Guess About a Sequester

Potential Impact of FY 2013 Sequester on Selected Discretionary Grant Programs

	FY 2010	FY 2011	FY 2012	FY 2013
Total Funding	\$189.8	\$181.0	\$176.1	\$160.2
Annual Change		-\$8.8	-\$4.9	-\$15.8
Annual Percent Change		-4.6%	-2.7%	-9.0%
Cumulative Change		-\$8.8	-\$13.7	-\$29.6
Cumulative Percent Change (compared to FY 2010)		-4.6%	-7.2%	-15.6%



Sequester: What We Don't Know

How much discretion do agencies have in implementing sequester?

- Virtually none.
- Some influence over timing (recent ED guidance)

Will Congress and the president modify the BCA?

- Various proposals, no agreement (explicit legislation required)
- Congress did approve legislation requiring OMB to provide sequester details (HR. 5872)



FISCAL CLIFF



THE LOOMING 'CRASH' OF '12/'13

- September Appropriations Deadline/CR
- November Elections
- December 2001, 2003, 2010 Tax Cuts
- December Tax Extenders
- December Payroll Tax, UI, Medicare
- December Reauthorizations
- January Sequestration
- February Debt Ceiling
- March End of Continuing Resolution

Overall Fiscal Impact - Cost of renewal (in billions)

	2013	2013-2014	2013-2022
2001/03/10 Cuts	\$110	\$340	\$2,800
AMT Patches	\$125	\$225	\$1,700
Jobs Measures	\$115	\$150	\$150
Medicare Fixes	\$10	\$30	\$270
Sequestration	\$65	\$160	\$980
Tax Extenders	\$30	\$60	\$455
Health Reform	\$25	\$40	\$335
Total	\$500	\$1,000	\$8,100

Source: Committee for a Responsible Federal Budget

SOURCES

- Slides 3,7, 11-14: Federal Funds Information for the States
- Slide 15: Committee for a Responsible Federal Budget

FOR MORE INFORMATION

- Michael Bird, 202 624 8686;
michael.bird@ncsl.org
- Jeff Hurley, 202 624 7753;
jeff.hurley@ncsl.org