



Update: Impact of Federal Budget Reductions on Virginia's Budget

*House Appropriations Committee Retreat
November 18, 2014*



Federal Budget Reductions

- Recent federal budget reductions center on three key pieces of legislation passed since 2011 in response to concerns about unsustainable growth in federal debt and the federal deficit
 - Budget Control Act of 2011 (August 2011)
 - American Taxpayer Relief Act of 2012 (January 2013)
 - Bipartisan Budget Act of 2013 (December 2013)

The Budget Control Act (BCA) of 2011

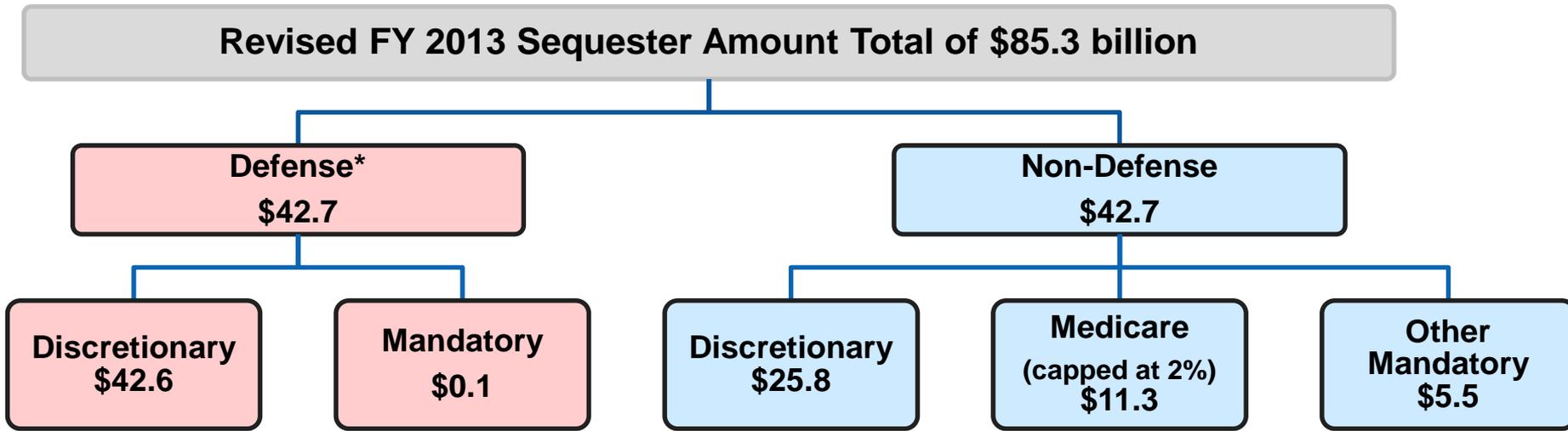
- Enacted August 2011, BCA deal increased debt ceiling by \$2.1 trillion in exchange for reductions to stem federal expenditure growth:
 - \$917 billion in discretionary spending (\$787 billion with interest savings) over ten years via spending caps
 - \$1.2 trillion (\$984 billion with interest savings) over nine years
- Created the Joint Committee on Deficit Reduction “Super Committee” to propose cuts to achieve \$1.2 trillion in deficit reduction between 2012 & 2021
- Provided an enforcement mechanism “sequestration” to force cuts in federal programs, if the Super Committee failed to act
 - Sequestration - automatic, across-the-board cancellation of budgetary resources
- Super Committee failed to act by January 15, 2012 triggering sequestration

Budget Control Act (BCA) of 2011- Background

- Cuts totaling \$1.2 trillion to begin in FFY 2013 and end in FFY 2021
 - Interest savings reduced the reductions to \$984 billion, about \$109 billion per year
 - Reductions to be imposed equally between defense and non-defense
- Exempted major programs from the sequestration process
 - Social Security, Medicaid, Children's Health Insurance, TANF, SNAP, and federal-aid highway and transit funding
 - While not exempt, Medicare was limited to 2% reductions
 - Defense reductions do not include war spending
- The cuts were to take effect January 1, 2013 for FFY 2013

American Taxpayer Relief Act (ATRA) of 2012

- Faced with continued uncertainty of how to address the pending ‘fiscal cliff’, expiration of Bush tax cuts, and the complexity of implementing sequestration, Congress enacted the American Taxpayer Relief Act of 2012 (January 2013)
 - Extended tax cuts to all except taxpayers in the top 1% bracket
 - Extended unemployment benefits
 - Delayed effective date of sequestration cuts by 2 months -- to March 1, 2013
 - Reduced cuts from \$109 billion to about \$85 billion for FFY 2013 only



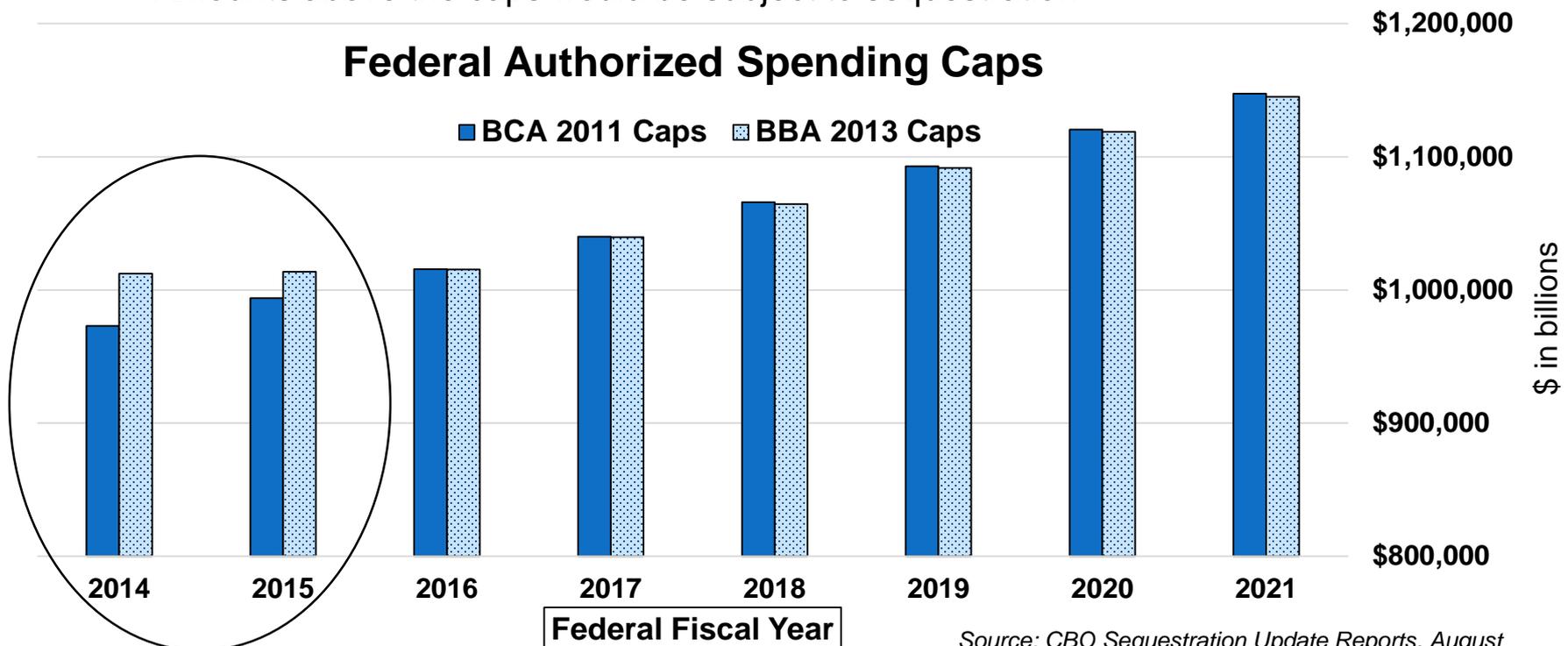
* Under the existing CR, the Defense budget was \$13.0 billion above the revised BCA cap of \$544 billion, total across-the-board cuts were estimated at \$55.7 billion or about 18% for FFY 2013

Implementation of Sequestration

- Cuts applied to FFY 2013 funding in place on March 1, 2013
 - Timing varied by program
- Across-the-board percentage cuts to non-exempt programs:
 - -5.1% for nondefense programs
 - -7.8% for defense programs
- Cuts were required to be applied to each program, project, and activity (interpretation varied by agency)
- Final 2013 appropriation levels and existing agency flexibility mitigated or worsened effects of sequester in some instances
- Important to note ATB cuts were not uniform as ultimately implemented by agencies, resulting in uneven reductions when cuts trickled down to state agencies and programs

Bipartisan Budget Act of 2013

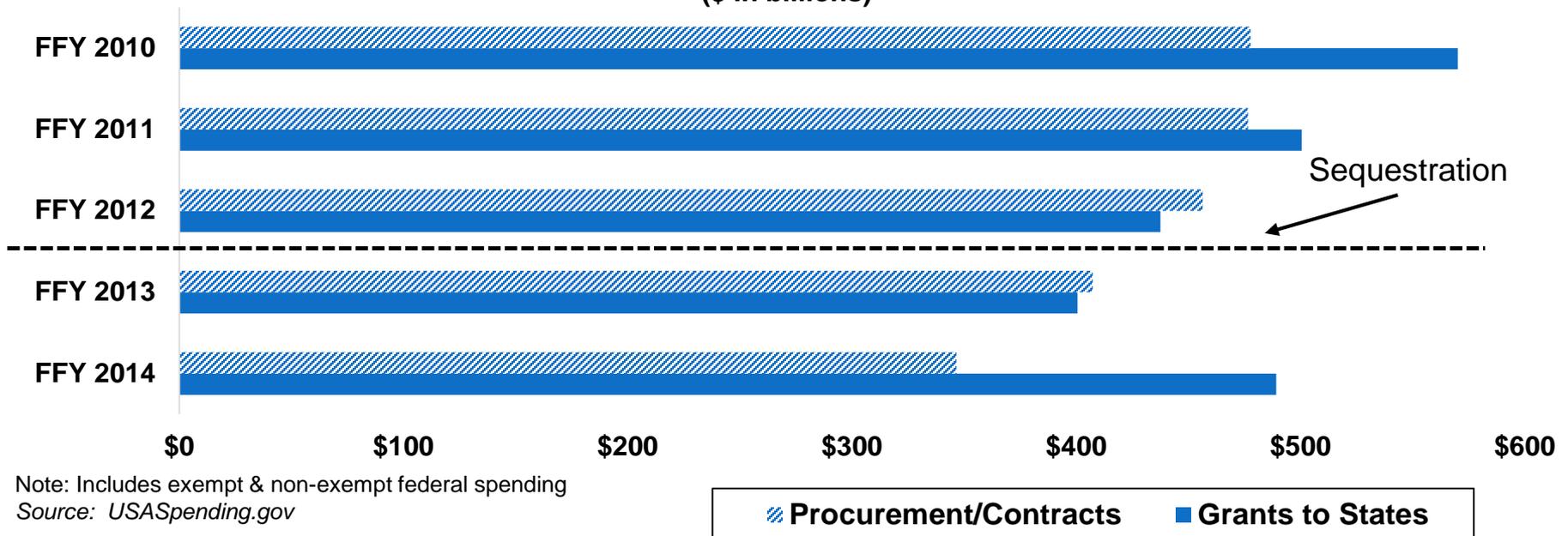
- Adopted in December 2013, the Bipartisan Budget Act of 2013 was, in part, a response to ongoing concerns about defense cuts and the “War on Terror”, as well as the mechanics of sequestration
 - Maintained the annual across-the-board sequestration of nonexempt mandatory programs and extended it from FFY 2021 to FFY 2023
 - Raised the spending caps for FFY 2014 and FFY 2015
 - Within limits of the caps, Congress would have budget flexibility
 - Amounts above the caps would be subject to sequestration



Impact of Federal Spending on States

- Federal spending impacts states in two distinct ways
 - Domestic side – aid to individuals or aid/grants to state and local governments
 - Many programs exempt from cuts – Medicaid, TANF, SNAP, federal-aid highway and transit funding
 - Defense side – usually classified as either uniform or non-uniform
 - States most impacted that have defense installations, defense related procurement/contracts or both
- Since FFY 2010, total federal spending on grants to states and contracts has declined by more than \$200 billion (20.2%)
- Despite overall decline in federal spending from FFY 2010, grants to states increased in FFY 2014 likely due to increased spending in exempt programs such as Medicaid

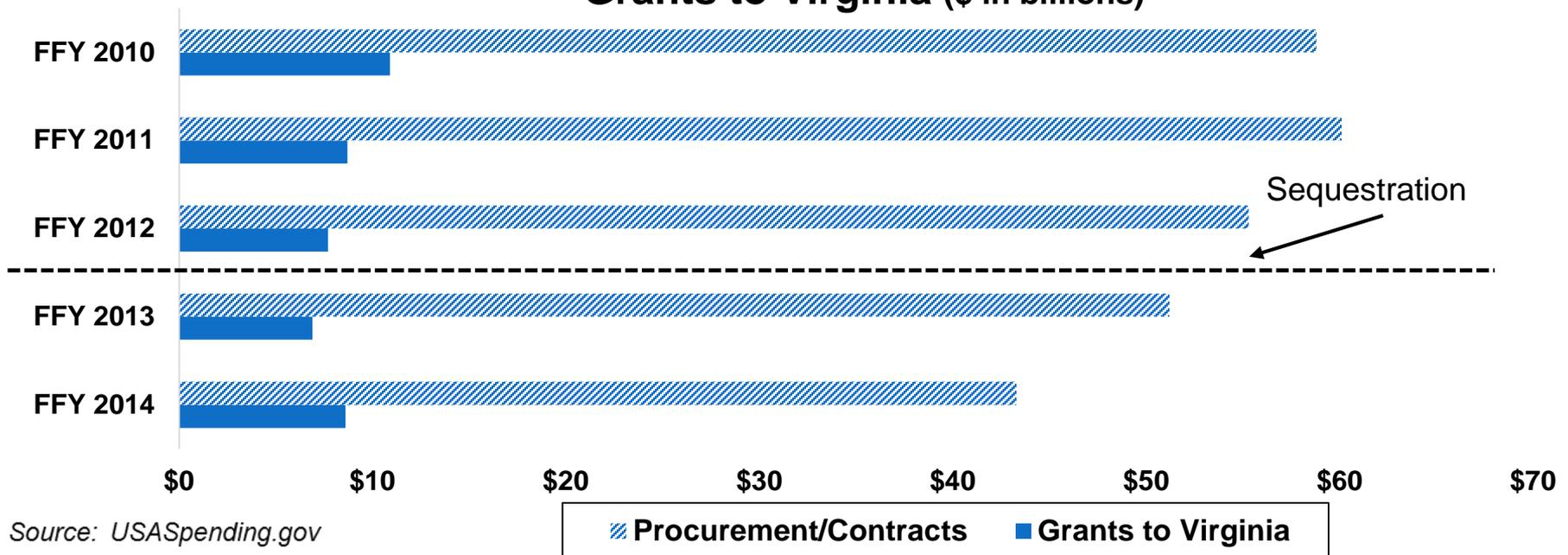
Federal Spending on Grants to States & Contracts (\$ in billions)



Impact of Federal Spending on Virginia

- Virginia ranks #1 among states in federal spending for contracts and procurement, thus federal reductions in this area impact us more significantly
- Virginia ranks #50 among states in per capita federal spending for grants to state and local governments (as tracked by Federal Funds Information for States)
- Since FFY 2010, total federal spending on procurement/contracts declined by \$15.5 billion (26.4%) while grants to Virginia have fallen by \$2.3 billion (21.1%)
- Increase in grants to Virginia governmental programs for FFY 2014 is attributable to additional federal funds for exempt programs such as Medicaid

Federal Spending on Procurement/Contracts & Grants to Virginia (\$ in billions)

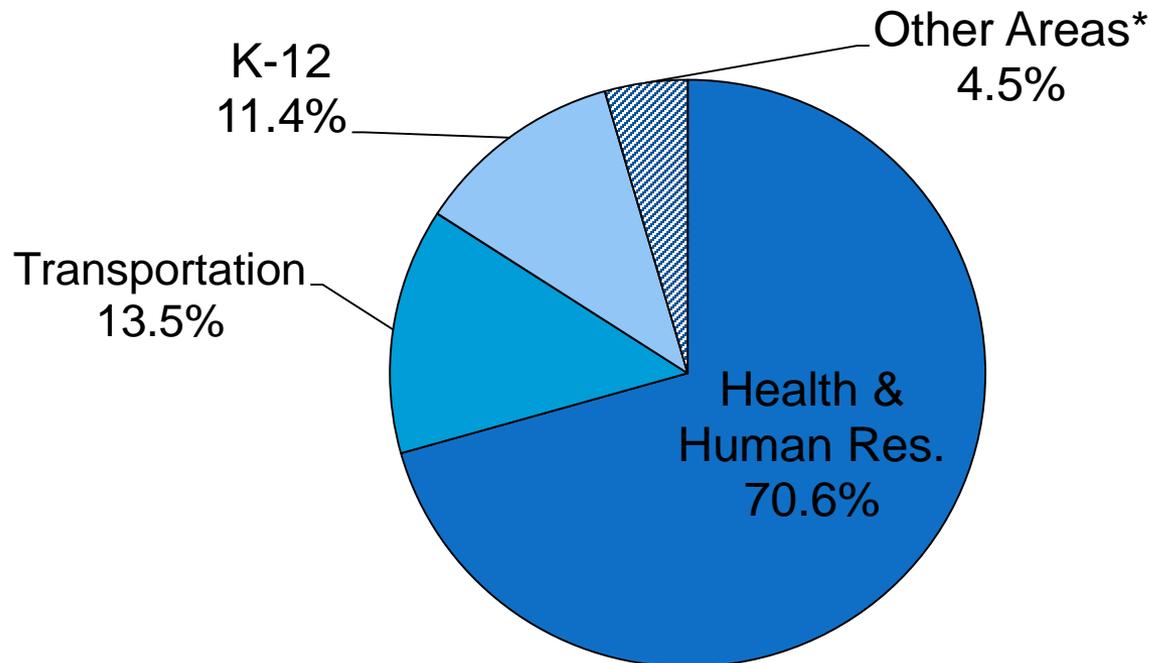


Direct Impacts of Federal Reductions on Virginia's Governmental Programs

Agency Reliance on Federal Funds

- Virginia received about \$8.0 billion in federal funds in FY 2014 (about 18% of the total operating budget)
- Largest recipients were Health and Human Resources, Transportation, and K-12
 - Federal-aid highway and transit funding are exempt from sequestration
 - Majority of federal funds for Health and Human Resources are also exempt

Percentage of Federal Funds Received by Secretarial Area



**Excludes research and development funding*

Health and Human Resources

Impact of Federal Budget Cuts on Health & Human Resources

- Almost 87% of federal funds in Health and Human Resources are exempt from sequestration due to entitlement nature
 - Medicaid, Children's Health Insurance, TANF, and SNAP (food stamps), foster care and adoption assistance, mandatory child care assistance, child support enforcement, vaccines for children, and summer food programs for children and adults
- While these comprise some of the largest programs in HHR, compared to other states, Virginia ranks lower in federal spending on many of these on a per capita basis
 - Higher ability to pay in program funding formulas results in lower federal dollars, as well as stricter eligibility criteria for some programs
- 2011 analysis of the impact of sequestration on HHR agencies estimated a potential reduction of \$62.6 million based on cuts of about 8.8%
- To date, BCA reductions and sequestration have had a minimal impact on HHR programs
 - Most programs exempt from cuts
 - Some programs were reduced early in process
 - Overall, spending on the larger non-exempt grant programs has been flat

Department of Social Services

- Receives \$797.7 million in federal funds (43% of DSS budget), about 3/4 of that is exempt from sequestration
- Agency had an increase of 3.5% between FFY 13 and FFY 14 for grants subject to sequestration

Federal Programs (\$ in millions)	FFY 2011 Award	FFY 2012 Award		FFY 2013 Award	FFY 2014 Award	Change FFY 13- FFY 14
Low Income Home Energy Assistance Program (LIHEAP)	\$107.2	\$80.5	Sequestration	\$79.0	\$82.1	\$3.1
At-risk Child Day Care	\$42.0	\$43.4		\$41.5	\$45.0	\$3.5
Soc. Svs. Block Grant	\$43.4	\$43.8		\$41.7	\$40.9	(\$0.8)
Child Welfare Services	\$13.0	\$12.3		\$11.6	\$11.8	\$0.2
Community Services Block Grant	\$10.8	\$10.8		\$10.1	\$10.6	\$0.5
Total	\$216.4	\$190.8		\$183.9	\$190.4	\$6.5

Note: LIHEAP funding is typically aligned with winter fuel prices. FFY 2009-2011 funding was higher than the winter fuel price index. Subsequently, funding was significantly reduced to return LIHEAP funding to historic levels received prior to energy price spikes. Lower winter fuel costs in FFY15 may result in additional program funding reductions.

Department of Health

- Federal funds account for about \$348 million, almost 56% of the agency's budget of which 81% would be subject to sequestration
- Agency had a minimal increase of \$200,000 for grants subject to sequestration between FFY 13 and FFY 14

Federal Programs (\$ in millions)	FFY 2011 Award	FFY 2012 Award		FFY 2013 Award	FFY 2014 Award	Change FFY 13 - FFY 14
WIC Nutrition & Food Svs.	\$106.7	\$105.8	<i>Sequestration</i>	\$103.2	\$103.1	(\$0.1)
Ryan White Act HIV/AIDS	\$28.0	\$27.6		\$26.4	\$27.4	\$1.0
Bioterrorism and Hospital Preparedness Program	\$26.6	\$22.8		\$23.7	\$22.3	(\$1.4)
Drinking Water Loan Fund & Water Supply Supervision	\$16.0	\$15.2		\$14.3	\$14.7	\$0.4
Maternal & Child Health Services Block Grant	\$12.3	\$12.2		\$11.7	\$12.0	\$0.3
Total	\$189.6	\$183.6		\$179.3	\$179.5	\$0.2

Behavioral Health & Developmental Services

- Federal funds account for \$68 million (22%) of agency's budget - none exempt from sequestration
 - Majority of these funds flow to local community services boards for services
- Overall agency had an increase of 4.3% for grants subject to sequestration between FFY 13 and FFY 14

Federal Programs (\$ in millions)	FFY 2011 Award	FFY 2012 Award	Sequestration	FFY 2013 Award	FFY 2014 Award	Change FFY 13 -FFY 14
Sub. Abuse Block Grant	\$42.9	\$42.8		\$40.5	\$42.2	\$1.7
Mental Health Block Grant	\$10.0	\$10.9		\$10.3	\$10.8	\$0.5
Part C Early Intervention Services	\$10.3	\$10.4		\$10.0	\$10.4	\$0.4
Total	\$63.2	\$64.1		\$60.8	\$63.4	\$2.6

Department for Aging & Rehabilitative Services

- Federal funds account for about \$141 million or 72% of the agency's budget
 - Exempt amounts account for roughly 30% of the federal funds and are used to determine eligibility for Social Security and Supplemental Security Income (SSI) disability payments
- Overall agency had an increase of 3.1% for grants subject to sequestration between FFY 13 and FFY 14

Federal Programs (\$ in millions)	FFY 2011 Award	FFY 2012 Award	Sequestration	FFY 2013 Award	FFY 2014 Award	Change FFY 13 - FFY 14
Vocational Rehabilitation	\$63.8	\$62.4		\$62.4	\$62.4	\$0.0
Older Americans Act Services	\$31.8	\$32.4		\$29.2	\$31.7	\$2.5
Other Grants	\$3.8	\$5.0		\$5.0	\$5.5	\$0.5
Total	\$99.4	\$99.8		\$96.6	\$99.6	\$3.0

Public Education

Public Education – Cuts Would Not Be Evenly Distributed Across State

- Federal revenues tied to public education are considered discretionary spending and, as such, not exempt from sequestration reductions
 - Federal K-12 dollars predominately pass thru the DOE for administrative handling and then flows to localities
 - There is no mandate for the state to backfill any BBA reductions to K12 federally funded programs
- Looking back to FY 2011, Virginia - like other states - was initially preparing and bracing for the 8.8% in across-the-board reductions
- However, after the Bipartisan Budget Act delayed the cuts by two months, effectively lowering the cuts to 5.1% for non-defense spending, the state was in line to see a smaller funding reduction
- Now, based on the numbers reported for FY 2014, collectively all federal programs have had a net decrease of \$61.4 million (-5.8% compared to the prior year)
 - Reductions were not realized in an across-the-board way, but were noted in a wide range of reductions for some programs while a few programs' funding continued to increase

Federal Spending in Public Education

- Typically, federal grant program funding is based on a specific need factor, for example:
 - Funding for programs and services under special education grants are based on the number of special education students, not total student membership within a division
 - Likewise for programs based on income eligibility, such as Title I or Head Start, a number of federal programs are allocated based on the number of students eligible for free lunch
 - Divisions, with a student membership having a high percentage of the particular factor used for a given grant, will consequently have a larger impact from the BBA reductions
- In addition, grants are awarded and distributed on either a statewide application basis or just to certain divisions that meet eligibility criteria and apply for funding

Major Programs Allocated on a Statewide Basis to All School Divisions

- These six programs, distributed to all school divisions, make up about 81.4% of the \$991.1 million in net federal revenues reported in FY 2014
 - Collectively, the \$41.2 million in net reductions equate to a 4.9% decrease
 - \$48.1 million reductions are offset by marginal net increases of \$6.9 million

Summary of Largest Federal Programs (\$ in millions)	FY11 Total Grant Awards Spent	FY12 Total Grant Award Spent		FY13 Total Grant Award Spent	FY14 Total Grant Award Spent	\$ Change from FY13 to FY14	% Change from FY13 to FY14
Special Education – IDEA	\$202.7	\$256.1	Sequestration	\$261.5	\$252.7	(\$8.8)	-3.4%
Title I, Part A – Basic School Improvements	\$211.3	\$258.4		\$250.4	\$217.8	(\$32.6)	-13.0%
Improving Teacher Quality – Title II, Part A	\$46.9	\$44.3		\$44.3	\$38.4	(\$5.9)	-13.3%
Voc. Ed. Basic (Carl Perkins)	\$18.2	\$18.2		\$17.5	\$16.7	(\$0.8)	-4.6%
National Lunch Program	\$190.4	\$204.3		\$210.2	\$215.2	\$5.0	2.4%
School Breakfast	\$55.0	\$62.8		\$63.6	\$65.5	\$1.9	3.0%
Total	\$724.5	\$844.1		\$847.5	\$806.3	(\$41.2)	-4.9%

(totals in table exclude ARRA funding)

Programs Allocated to Selected Divisions

- These five federal programs are awarded to just certain divisions and account for about 9.9% of the remaining federal dollars Virginia received for public education
- In total, these programs realized a net decrease of \$17.5 million from FY 2013 to FY 2014, which total about a 15% reduction

Summary of Largest Federal Programs (\$ in millions)	# of Div.	FY11 Total Grant Awards Spent	FY12 Total Grant Award Spent		FY13 Total Grant Award Spent	FY14 Total Grant Award Spent	\$ Change from FY13 to FY14	% Change from FY13 to FY14
Impact Aid*	26	\$47.9	\$44.6	Sequestration	\$50.6	\$36.9	(\$13.7)	-27.1%
21 st Century Learning Centers	44	\$16.5	\$20.0		\$15.3	\$12.2	(\$3.1)	-20.3%
Head Start*	21	\$24.4	\$27.4		\$27.6	\$25.0	(\$2.6)	-9.4%
Adult Literacy	32	\$9.4	\$10.0		\$10.8	\$11.6	\$0.8	7.4%
Language Acquisition	81	\$11.2	\$10.9		\$11.1	\$12.2	\$1.1	9.9%
Total		\$109.4	\$112.9		\$115.4	\$97.9	(\$17.5)	-15.2%

*Grant awards are given directly to localities and excluded in the Direct Aid federal revenue allocations in the Appropriations Act

(totals in table exclude ARRA funding)

Impact Aid Significantly Affected by Federal Reductions

- Impact Aid is tied to defense spending and administered by the Department of Defense – and susceptible to larger cuts
- DOD funding for Impact Aid has realized two rounds of BCA cuts
 - First reduction took place in FY 2012 and was reflected in the decreased funding received by school divisions, \$3.3 million or about 7.0%
 - Second round of sequestration cuts was reflected by the loss of \$13.7 million (27.1%) in the decreased funding from FY 2013 to FY 2014

School Division (\$ in millions)	FY 2011 Total Grant Awards Spent	FY 2012 Total Grant Awards Spent	Sequestration	FY 2013 Total Grant Awards Spent	FY 2014 Total Grant Awards Spent	Difference in Funding from FY13 to FY14	
						\$ Change	% Change
Virginia Beach	\$11.5	\$9.4		\$17.1	\$8.1	(\$9.0)	-52.62%
Fairfax County	\$4.5	\$3.9		\$3.7	\$2.5	(\$1.2)	-31.79%
Norfolk	\$4.1	\$6.4		\$4.2	\$3.5	(\$0.7)	-17.61%
Chesapeake	\$3.8	\$3.3		\$3.4	\$2.8	(\$0.6)	-18.83%
Prince George	\$3.9	\$4.0		\$4.6	\$4.1	(\$0.5)	-12.35%
York	\$8.4	\$8.2		\$9.2	\$8.7	(\$0.5)	-4.76%
Newport News	\$4.6	\$3.9		\$3.1	\$2.7	(\$0.4)	-12.98%
Stafford	\$1.5	\$1.3		\$1.2	\$0.9	(\$0.3)	-24.38%
Prince William	\$1.2	\$1.1		\$1.1	\$0.9	(\$0.2)	-17.78%
Hampton	\$1.9	\$0.8		\$0.7	\$0.5	(\$0.2)	-24.70%
Others	\$2.6	\$2.3		\$2.2	\$2.1	(\$0.1)	-4.40%
Total	\$47.9	\$44.6		\$50.6	\$36.9	(\$13.7)	-27.14%

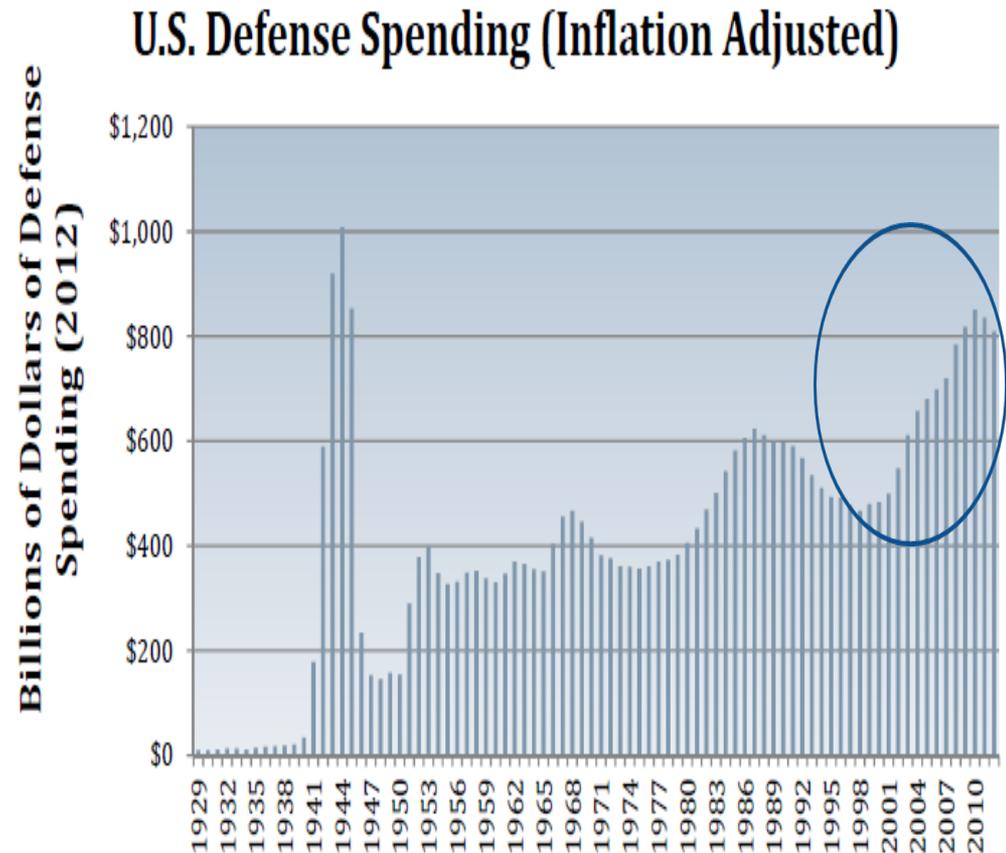
So Far – K12 Has Been Impacted But Is There More To Come?

- In total federal award dollars reported, the divisions did see reductions from sequestration – although the cuts have not been evenly realized
- Also, keep in mind that sequestration was implemented on March 1, 2013, and any cuts may have been offset by some growth in programs and subsequent funding
 - There were only four months left in Virginia's fiscal year
 - Federal grants typically have a 27-month window for spending
- Adding to the delay in the implementation of cuts, USDOE Deputy Secretary Miller exercised the flexibility given to federal agencies and notified state Superintendents in July 2012, that education reductions would be postponed and taken from allocated funds starting in July 2013, for school year 2013-2014
- After the school divisions report their FY 2015 federal revenues to VDOE next year, we may see additional cuts, but based on what we have seen from the FY 2014 numbers, it's difficult to know which programs might be impacted

Effect of Sequestration on Military Spending and Virginia's Economy

Defense Spending Has Significantly Grown

- Defense spending was included in budget reduction legislation, in part, due to its growing impact on the federal budget, especially during the “War on Terror”
- Defense spending increased by about 60 percent between 2000 and 2009, when expenditures were in excess of \$800 billion
- Given the magnitude of DOD spending, reductions in defense spending are extremely complex, involving base discretionary budgets, overseas contingency operations, and spending limits



Source: Bureau of Economic Analysis, HRPDC

Impact of Defense Spending on Virginia

Defense Spending's Importance to Virginia

- Defense spending is big business in Virginia
 - Virginia is home to 44 major military installations and the Pentagon, 107,889 active duty military personnel, the port of record for 63 ships, including five aircraft carriers, and eight National Guard facilities
 - Newport News Shipbuilding provides jobs to roughly 21,000 employees
 - Defense contracting supported nearly 249,000 total jobs in 2008
- JLARC reported all federal spending in 2010 was about 20% of Virginia's economy, equaling \$136 billion of Virginia's \$700 billion GSP
 - Military spending represented 44 percent of all federal spending in Virginia

Category of Federal Spending	Amount Spent in 2010 (millions \$)	% of Total	
Military Contracts and Personnel	\$59,700	44%	} 91% of Total
Contracts for Services and Goods, Non-Military	\$17,960	13%	
Social Security	\$17,477	13%	
Federal Employees	\$14,324	11%	
Health Care	\$13,893	10%	
Income Assistance	\$5,657	4%	
Education	\$3,046	2%	
Transportation	\$1,587	1%	
Other	\$2,167	2%	
Total	\$135,811		

- JLARC also reported that federal spending reductions affect state tax revenues – 18% to 30% of general fund revenue comes from salaries and wages tied to federal spending

Defense Procurement Critical to Virginia Economy

- Defense spending grew more than 276 percent from FFY 2000 to 2011
 - Represented the use of contractors to perform previously governmental functions and “War on Terror”
- Procurement is responsible for much of Northern Virginia and Hampton Roads’ private-sector employment
- Virginia’s total share of DOD procurement fell by nearly 50% from its 2011 peak

	Federal Fiscal Year	DOD Procurement	Virginia Procurement Amount	Virginia % Increase
	2000	\$135.7	\$15.0	
	2001	\$148.0	\$21.2	41.45%
	2002	\$173.5	\$21.0	-1.05%
	2003	\$215.6	\$23.9	13.83%
	2004	\$234.1	\$27.9	16.48%
	2005	\$273.9	\$40.1	43.97%
	2006	\$304.4	\$43.6	8.79%
	2007	\$337.8	\$47.4	8.70%
	2008	\$402.3	\$56.1	18.23%
	2009	\$378.2	\$54.6	-2.66%
	2010	\$373.5	\$55.5	1.61%
<i>Budget Cuts</i>	2011	\$380.7	\$56.5	1.89%
<i>Phase I</i>	2012	\$367.2	\$51.8	-8.41%
<i>Phase II</i>	2013	\$313.9	\$44.9	-13.22%
	2014	\$226.0	\$33.4	-25.65%

Source: USASpending.gov

Dashed line represents the first phase of budget cuts in FFY 2012. Solid line represents when sequestration began in FFY 2013.

Impact of Defense-Related Cuts on Virginia's Economy

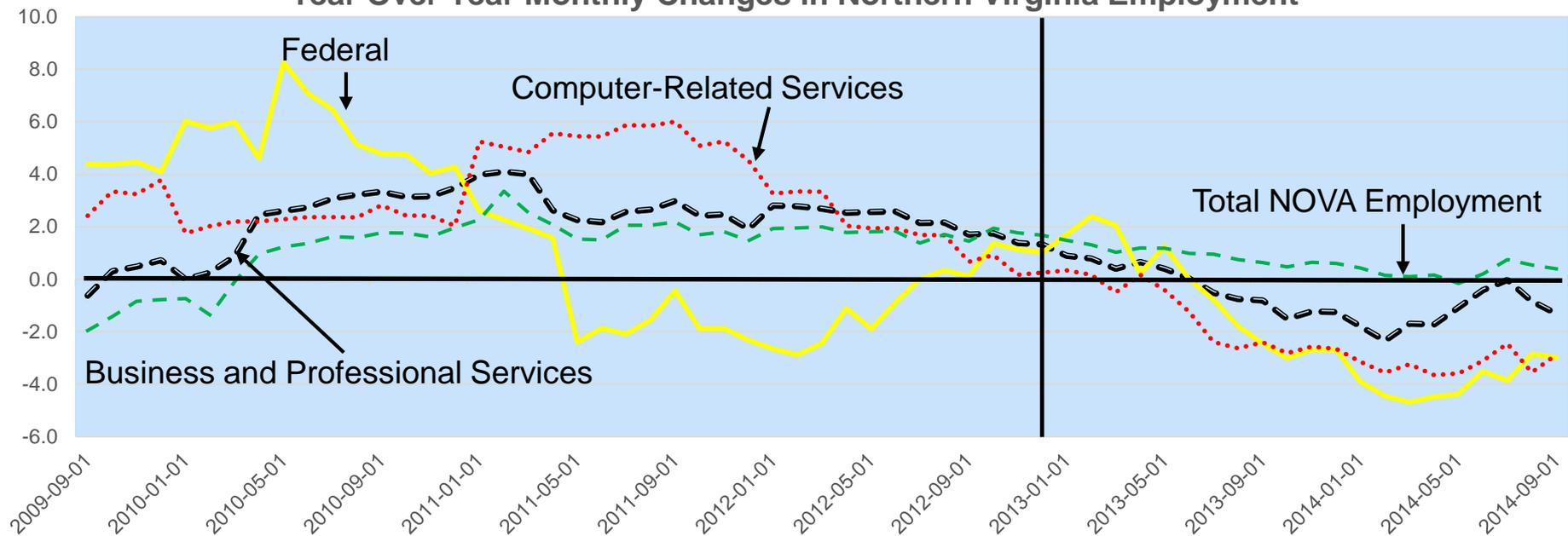
- In 2013, GMU's Fuller estimated that over 10 years, 12.4 percent of all job losses associated with defense reductions and federal employees job losses would occur in Virginia
 - Based on the spending reductions, Fuller projected Virginia would lose 102,525 jobs, resulting in income losses of \$4.4 billion over 10 years
- Fuller also reported DOD procurement was down 21.8 percent between 2011 and 2013 – a loss of \$9.8 billion
- Two regions in Virginia are disproportionately impacted by defense related spending cuts – Northern Virginia and Hampton Roads
 - Regional economists estimate 35% of Northern Virginia's economy and 42% of Hampton Roads' economy is dependent on defense spending

Impact of Reduced Procurement on Jobs in Northern Virginia and Hampton Roads

Impact of Federal Budget Cuts on Northern Virginia Employment

- Depicted below is the percentage change in the number of federal employees, business and professional services, computer-related services, and total employment over time
- Northern Virginia has lost 20,000 federal and private-sector defense related jobs in the last 12 months
 - Professional and Business Services, Computer-Related Services, and federal jobs are among the highest paid jobs in Northern Virginia (average \$145,410 per job)

Year Over Year Monthly Changes in Northern Virginia Employment

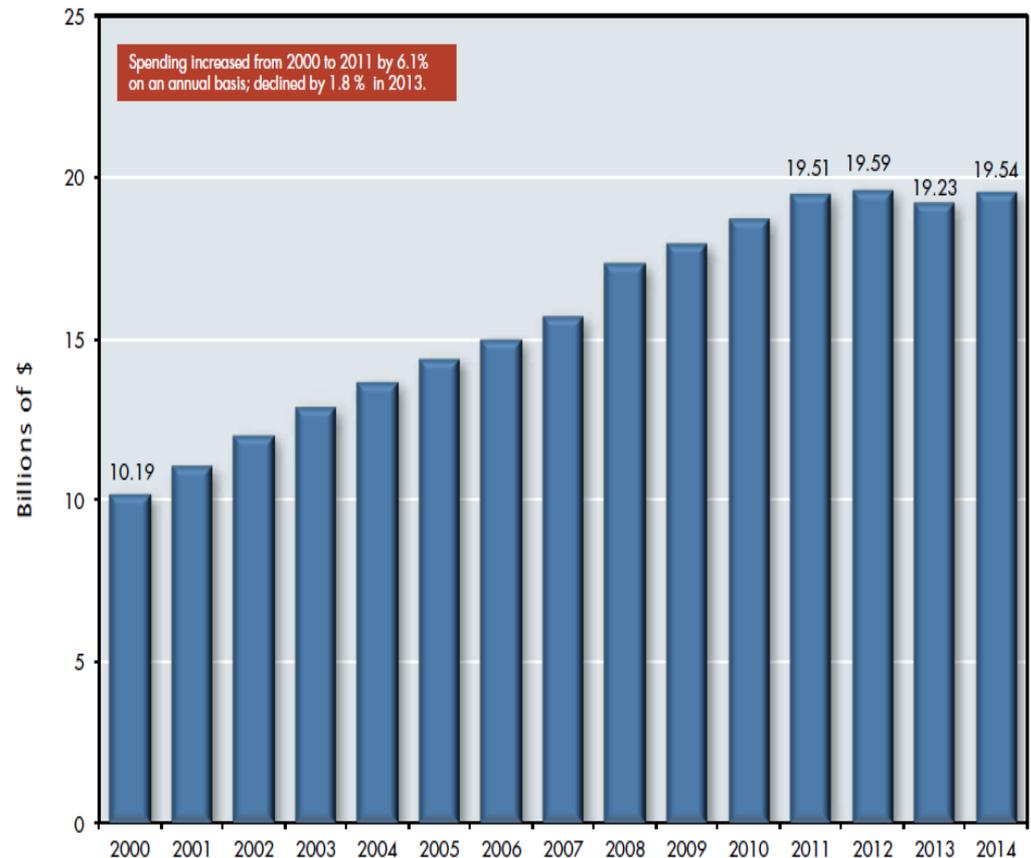


Impact of Defense Cuts on Hampton Roads

- Defense spending in Hampton Roads differs from Northern Virginia
 - Larger number of uniformed personnel and military installations
 - Manufacturing is a larger percentage of total procurement in Hampton Roads -- aircraft carriers and submarines
- Consequently, one would expect to see a delayed impact from reductions compared to Northern Virginia
- Changes in how the Pentagon allocates resources or changes in long-term hardware manufacturing contracts could have significant impacts going forward

GRAPH 2

ESTIMATED DIRECT DOD SPENDING IN HAMPTON ROADS, 2000-2014



Sources: U.S. Department of Defense and the Old Dominion University Economic Forecasting Project. *Includes federal civilian and military personnel and procurement spending.

Limited Growth in Military Salaries - Impact on Hampton Roads Economy

- DOD's military and civilian employees account for \$246 billion, or roughly 50% of the agency's FFY 2015 budget request
- While personnel pay won't be cut, DOD is likely to adopt provisions to slow growth in military compensation costs
 - Military pay and allowances increased 95 percent between FFY 2001 and 2011, but only increased 1.4 percent between FFY 2011 and 2012
 - Civilian employee pay actually declined between FFY 2011 and 2012
- DOD has proposed 1% salary increases in FFY 2015 and 2016, lower basic housing allowances, and increased health care costs to bend its employee cost curve

Estimated Average Compensation (Wages, Salaries, and Fringe Benefits) for Military and Federal Civilian Government Employees in Hampton Roads					
	FFY 2001 Earnings	FFY 2011 Earnings	FFY 2012 Earnings	Percent increase 2001 to 2011	Percent increase 2011 to 2012
Military	\$47,077	\$92,054	\$93,346	95.5%	1.4%
Federal Civilian Government Employees	\$63,631	\$98,296	\$98,166	54.5%	-0.1%

Impact of Defense Procurement Cuts on Hampton Roads

DOD Procurement Awards: 16 Months Before and After Sequestration in March 2013 (in 2013 dollars)

	Regional Share of Awards	Pre-Sequestration Procurement (millions)	Post-Sequestration Procurement (millions)	Percentage Change
*Newport News	37.0%	\$2,886	\$5,862	103.1%
Norfolk	24.5%	\$2,918	\$2,869	-1.7%
Virginia Beach	19.6%	\$2,415	\$2,232	-7.6%
Portsmouth	5.5%	\$675	\$635	-6.0%
York	4.7%	\$560	\$543	-3.1%
Hampton	3.3%	\$421	\$366	-13.0%
Chesapeake	2.9%	\$341	\$343	0.6%
Suffolk	1.9%	\$258	\$202	-21.7%
All other areas	1.9%	\$59	\$53	-11.3%
Subtotal		\$7,652	\$7,246	-5.30%
Total (with NN)		\$10,539	\$13,109	24.4%

*Note: Spending in Newport News reflects refueling and overhaul of the aircraft carrier Abraham Lincoln, the construction of the John F. Kennedy, and completion of the SSN John Warner.

Source: Dr. Gilbert Yochum, JABE Presentation, October 15, 2014

Uncertainty in Department of Defense Spending

Future of National Defense Spending

- DOD is requesting an FFY 2015 base budget of \$495.6 billion, which is in line with the Bipartisan Budget Act's limits
- Number of current and future spending requests have been made exceeding the BBA's spending limits
 - The president wants \$26 billion in readiness funding, Congress has requested \$36 billion in unfunded priorities it wants, and DOD wants \$115 billion between FFY 2016 and 2019
 - DOD's request is dependent on authority to spend more than the BBA's limits

Incremental DOD Proposed Spending Above BBA Caps (\$ in billions)					
Category	FY 2016	FY 2017	FY 2018	FY 2019	Total
Military Personnel	\$0.5	\$0.7	\$0.8	\$0.8	\$2.7
Operations and Maintenance	\$12.1	\$11.3	\$9.4	\$7.4	\$40.1
Procurement	\$16.7	\$13.3	\$10.6	\$7.7	\$48.3
Research, Dev., Testing & Evaluation	\$3.8	\$4.4	\$4.7	\$5.0	\$17.9
Military Construction	\$2.0	\$1.6	\$1.1	\$0.9	\$5.7
Family Housing	\$0.2	\$0.1	\$0.1	\$0.1	\$0.5
Total	\$35.3	\$31.4	\$26.6	\$21.9	\$115.2

Future of Defense Spending in Virginia

- If DOD does not receive authority to exceed the BBA's spending limits, it projects a procurement reduction of \$48.3 billion, much of which would have been used for aircraft, warships, and other spending that could affect Virginia
- Virginia receives about 14.6% of DOD procurement awards, so a \$48.3 billion reduction in procurement would equate to loss of \$7.1 billion
- Some examples of items that may impact Virginia:
 - Eliminating the overhaul and refueling of the USS George Washington – the carrier and its air wing would be retired (\$2.6 billion)
 - Eliminating procurement of two Virginia-class attack submarines (\$6.3 billion)
 - Reducing readiness funding by \$16 billion, including \$9 billion in aircraft, ship, ground vehicle, and depot maintenance
 - Reducing the Army, National Guard, and reservist force even further than the currently proposed pre-WWII levels in the 2015 defense budget proposal
 - Represents a total reduction in active duty strength from 561,437 soldiers in 2011 to 420,000 soldiers by 2019
- We don't know how the new Congress will respond to DOD's request to exceed the spending caps

Other Factors Influencing Defense Spending in Virginia

- Military command and control decisions are discretionary management actions implemented by the military's uniformed and civilian leaders. These actions can affect Virginia's economy
- The Chief of Naval Operations proposes reassigning one of the five aircraft carriers currently stationed at the Norfolk Naval Base to San Diego to address potential conflicts in Southeast Asia and Middle East
 - The Hampton Roads PDC believes such a move would likely involve an entire carrier strike group, removing 8,900 naval personnel from the area and eliminating 16,400 jobs and related ship repair work
- The U.S. Army began reducing its active duty personnel in 2011, estimated to total 110,000 soldiers between 2011 and 2015
 - Virginia has already seen its active duty military drop from 125,418 to 107,889
- 14 ships from Norfolk Naval Base have already been reassigned to other areas
 - Includes loss of 3,000 personnel and 5,528 related jobs
- The Air Force eliminated 742 jobs from Langley due to a management headquarters review
 - Langley's job eliminations constituted 21.5 percent of the total 3,459 jobs eliminated
 - Exceeded those for any other base, including Air Force headquarters

Base Realignment and Closure Affects on Virginia

- The Department of Defense's 2015 proposed budget proposes another BRAC in 2017, but it is uncertain whether Congress will approve another round of BRAC
 - Congress has not permitted another BRAC round since 2005
 - However, the Secretary has stated that if BRAC is rejected, the Defense Department will use all every tool at its disposal to reduce infrastructure
 - Army estimates 18 percent of its U.S. real property is excess – how much of that real property is located in Virginia is unknown at present because DOD has not released any plans about base closures
 - There may be some authority for DOD to close smaller facilities without BRAC
- If another round of BRAC is approved, the Hampton Roads Planning District Commission reports its current analysis does not indicate any of the region's bases should be under significant threat
 - However, if the Navy transfers a carrier strike group, including its 65-75 associated aircraft, to the West Coast, the Hampton Roads PDC thought it possible Oceana's utilization rate might drop enough for it to again be a BRAC candidate
- Again, how the new Congress will address BRAC is uncertain

House Appropriations Committee Retreat November 18, 2014

