



# Update: Sequestration – Where Are We Now?

*House Appropriations Committee Retreat  
November 15, 2016*



# Overview of Sequestration Legislation

- A number of pieces of federal legislation have been adopted/enacted between 2011 and 2015 to address continued concerns about unsustainable growth in federal spending and debt since FFY 2002
  - Huge growth in deficit spending between FY 2009 and FY 2013 as part of efforts to recover from the Great Recession
- Collectively, referred to as sequestration, the Acts amended the 'Balanced Budget and Emergency Deficit Control Act of 1985' which first imposed caps on discretionary budget authority to control spending
  - Budget Control Act of 2011 (PL 112-25, August 2011)
  - American Taxpayer Relief Act of 2012 (PL 112-240, January 2013)
  - Bipartisan Budget Act of 2013 (PL 113-67, December 2013)
  - Bipartisan Budget Act of 2015 (PL 114-74, November 2015)

# Budget Control Act (BCA) of 2011

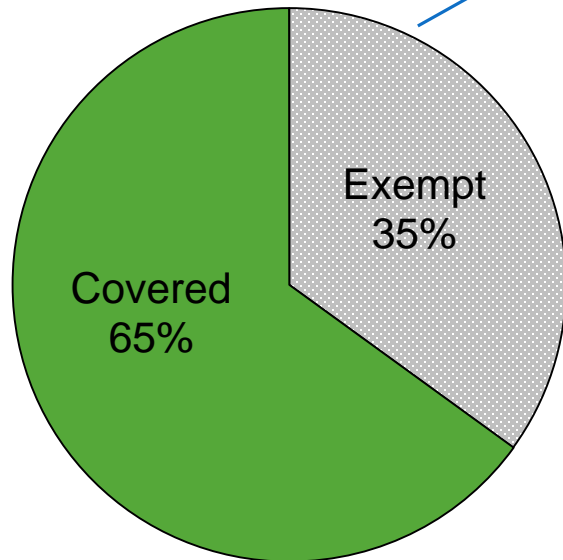
- Enacted August 2, 2011, the Budget Control Act (BCA) increased the federal debt ceiling by \$2.1 trillion in exchange for reductions to projected federal expenditure growth of roughly \$2.0 trillion over ten years
  - \$917 billion in capped discretionary spending (\$787 billion with interest savings) over ten years FFY 2012-2021
  - \$1.2 trillion (adjusted down to \$984 billion with interest savings)
- The legislation created a Joint Committee on Deficit Reduction “Super Committee” that was tasked with making recommendations for needed cuts to achieve the \$1.2 trillion in deficit reduction between 2012 & 2021
- Sequestration was established only as a “poison pill” to motivate the Super Committee to act, thus avoiding across-the-board (ATB) cuts to achieve the savings
- Ultimately, the Super Committee failed to act by the January 15, 2012 deadline, and consequently triggered the automatic ATB cuts

	Category	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Original BCA	Budget Control Act of 2011 – Initial Caps on Discretionary Spending (amounts are prior to any spending cut recommendations from the Super Committee established by the BCA)										
	Security	\$684	\$686	\$556.0	\$566.0	\$577.0	\$590.0	\$603.0	\$616.0	\$630.0	\$644.0
	Nonsecurity	<u>\$359</u>	<u>\$361</u>	<u>\$510.0</u>	<u>\$520.0</u>	<u>\$530.0</u>	<u>\$541.0</u>	<u>\$553.0</u>	<u>\$566.0</u>	<u>\$578.0</u>	<u>\$590.0</u>
	Total	\$1,043	\$1,047	\$1,066	\$1,086	\$1,107	\$1,131	\$1,156	\$1,182	\$1,208	\$1,234

# Budget Control Act (BCA) of 2011

- The initiated ATB cuts of \$1.2 trillion were to begin the next year during FFY 2013 and end in FFY 2021
  - The assumed interest savings reduced the cuts to about \$109.3 billion for each of the remaining nine years
  - Reductions were to be divided equally between defense and nondefense spending categories
    - About 92% of the cuts for defense and nondefense are from discretionary spending authority
    - Remaining 8% of cuts are taken from non-exempt mandatory spending authority
- A number of major – and high cost – programs were exempted from the sequestration process, including:
  - 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 did not include war related spending (i.e. overseas contingency operations)
- Because of the large number of exemptions, the remaining programs had to take larger cuts in order to come up with the amounts needed to meet the sequestration targets

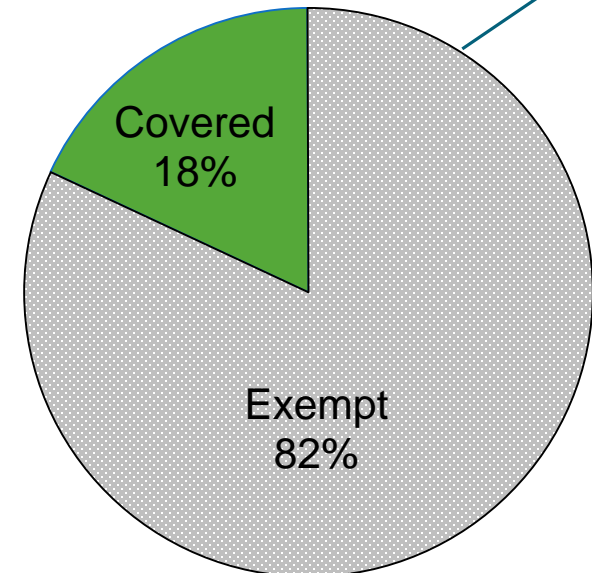
## On The Defense Side, One-Third of the Spending Is Exempt



### Major exemptions include:

- Military personnel salaries
- Overseas contingencies operations

## On the Nondefense Side, Most Programs Are Exempt... Which Means the Few Left Take Large Cuts

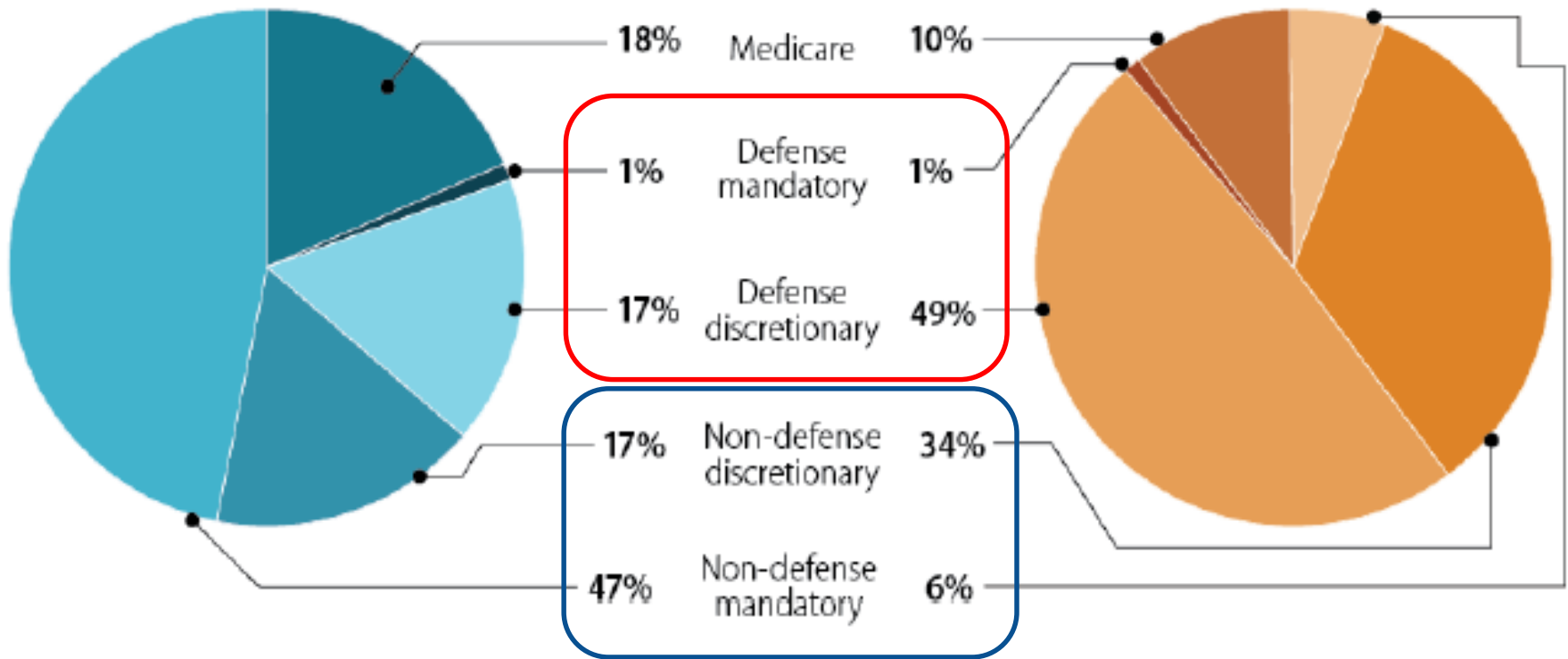


### Major exemptions include:

- Medicaid (vendor payments & administration)
- Children's Health Insurance Program
- Most child nutrition and SNAP programs
- Most child care, child support enforcement, foster care and adoption assistance programs
- Pell Grants
- Most Transportation Programs

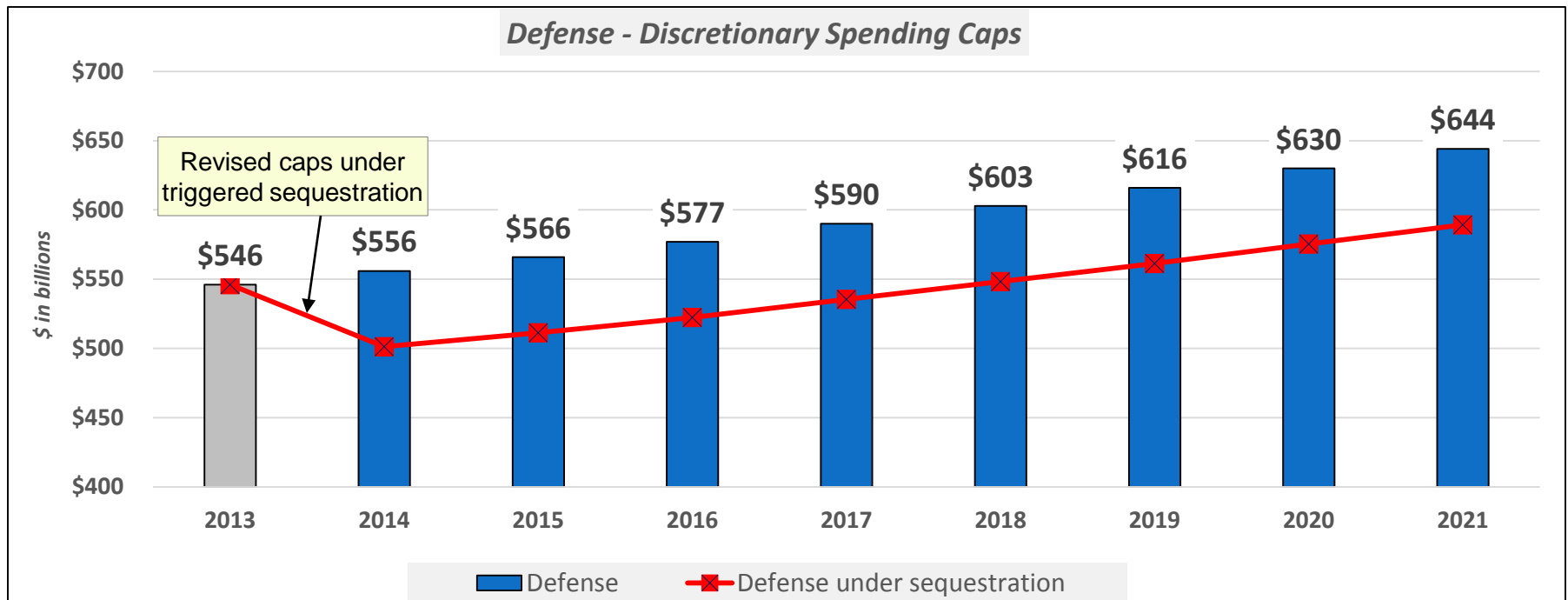
Projected Percentage of Budgetary Resources by Major Programmatic Area

Percentage of Annual Spending Reductions by Each Major Programmatic Area



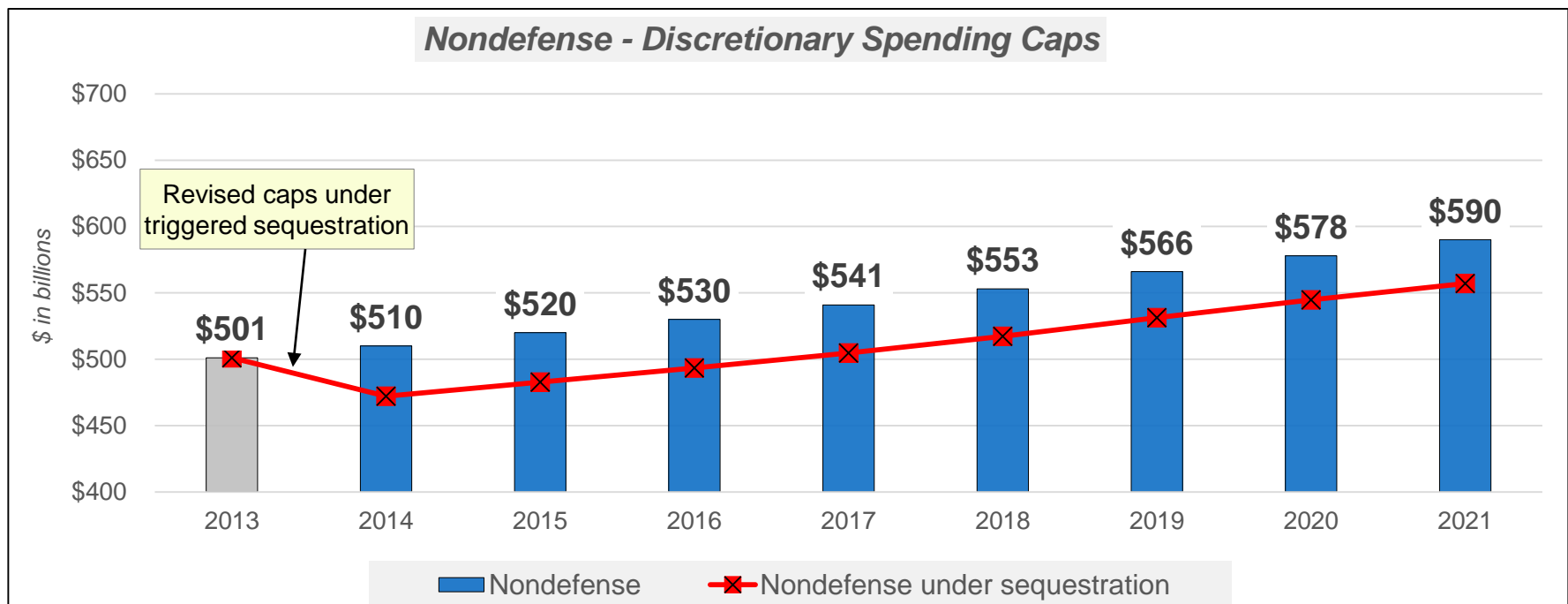
# BCA – Discretionary Budget Authority Caps – What Were They?

- The initial BCA set the total appropriation of new discretionary budget authority at \$1.047 trillion in FFY 2013 (defense \$546 billion and nondefense \$501 billion) and reached \$1.234 trillion by FFY 2021 (defense \$644 billion and nondefense \$590 billion) – overall increase of \$191 billion or about 18%
- Since the Committee didn't recommend any budget reductions, the triggered ATB revised the spending caps downward beginning in FFY 2014 in order to achieve the savings
- Defense spending caps were initially cut by approximately \$55.0 billion each year



# BCA – Discretionary Budget Authority Caps – What Were They?

- Likewise, on the nondefense spending side, the triggered ATB cuts were applied – which fluctuated in range from about \$38.0 billion early on to about \$33.0 billion in the later years during the sequestration period
- In total, all of the annual reductions to non-exempt mandatory and discretionary categories were to generate the required savings



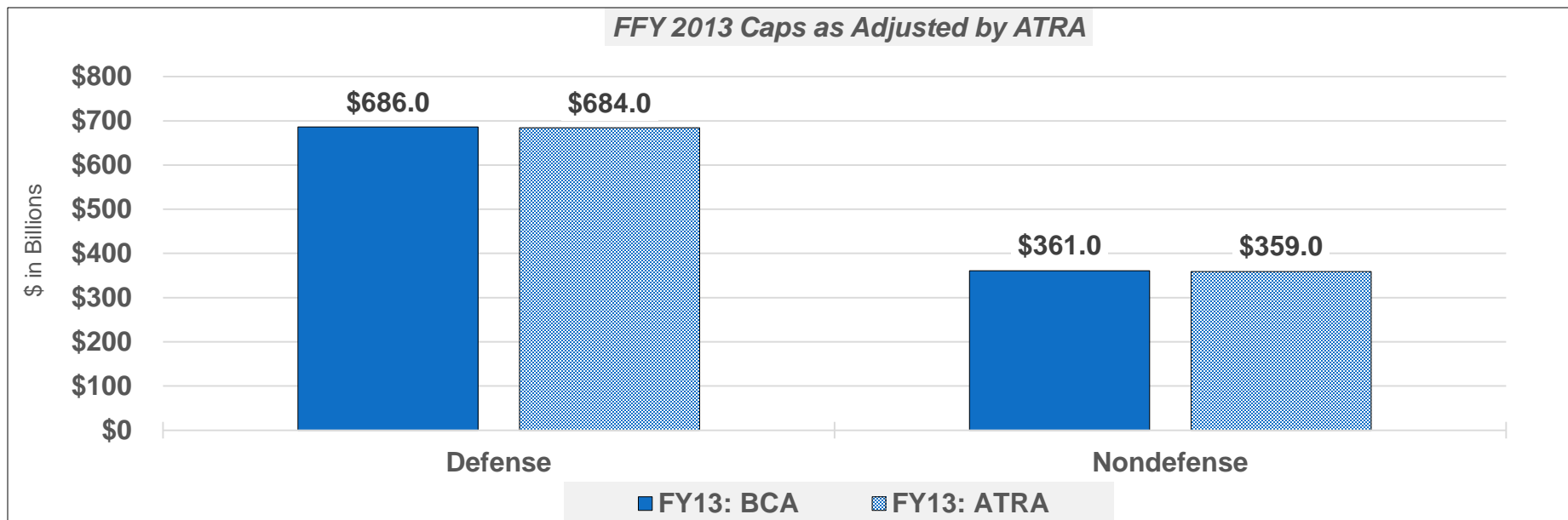


# Next Came - the American Taxpayer Relief Act of 2012

- Throughout the rest of 2012, Congress faced the growing uncertainty of how to address the fiscal cliff that had been created from the pending expiration of the Bush tax cuts and the complexity of implementing sequestration actions
  - The combined results could have led to the beginnings of a fiscal contraction in the economy – which no one wanted to have happen
- Due to those unknowns, in January 2013, Congress adopted the American Taxpayer Relief Act in hopes to mitigate some of the adverse impact of the fiscal cliff and the sequestration cuts
  - Delayed the effective start date of the sequestration cuts by 2 months to March 1, 2013
  - Also, extended tax cuts to all taxpayers except for those in the top 1% bracket and extended unemployment benefits by one year
  - The resulting 2-month time lag reduced the initial cuts from \$109 billion to about \$85 billion for FFY 2013 only – delaying the impacts for the first time
    - Cuts were estimated to be 7.8% for Defense programs and 5.1% for nondefense programs

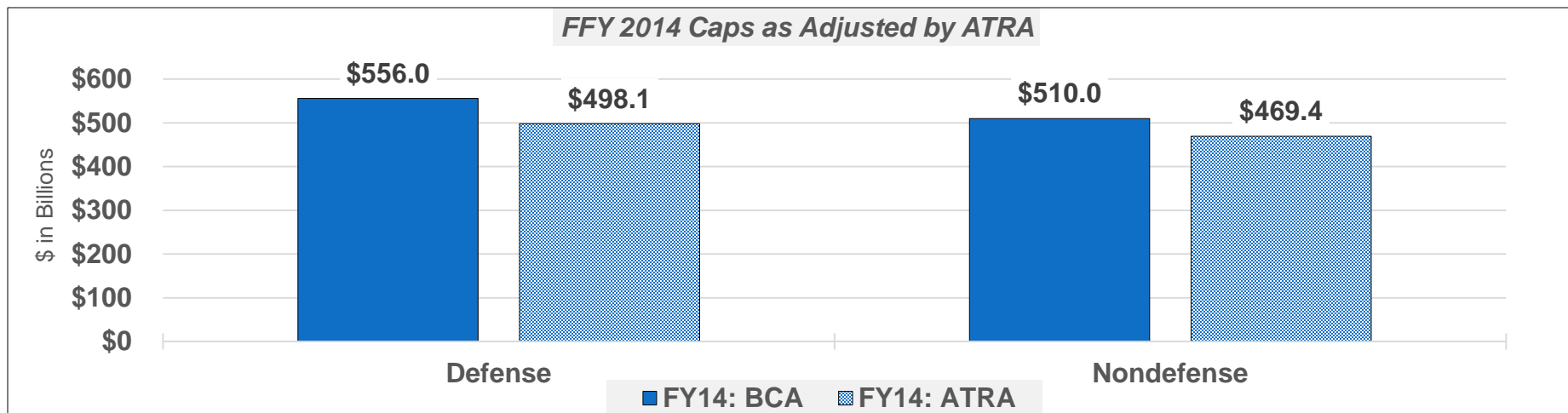
# American Taxpayer Relief Act (ATRA)

- In order to offset some of the costs associated with those mitigating actions, the ATRA decreased the original BCA discretionary spending caps for defense and nondefense by \$2.0 billion each in FFY 2013
- Although there were reductions to the caps that year, Congress added a total of \$152.6 billion that was earmarked for allowable extra expenditures under the original BCA language and as a result, may have masked the effect of the triggered cuts because overall federal spending authority increased
  - Overseas contingency operations(OCO), emergency requirements, disaster relief, and program integrity: \$117.5 billion in defense and \$35.1 billion in nondefense



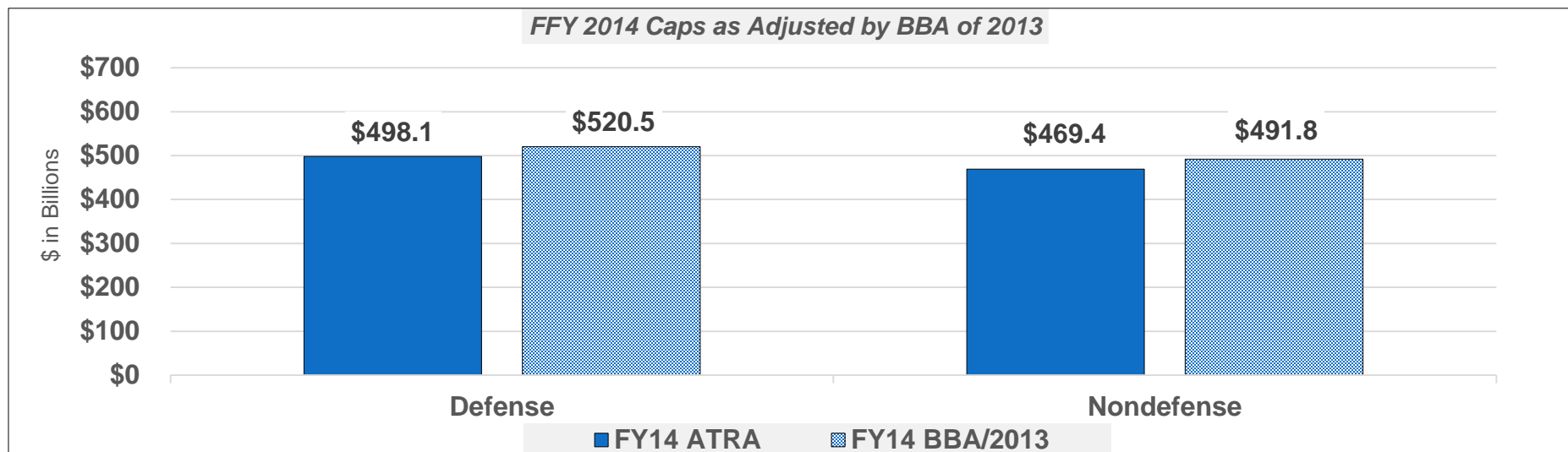
# American Taxpayer Relief Act (ATRA)

- For the upcoming fiscal year 2014, to help offset some of the costs associated with the extensions given for the tax breaks and unemployment benefits, the ATRA reduced the two caps set under the original BCA by \$4.0 billion each
- ATRA also revised the on-going ATB cuts slightly downward to \$53.9 billion and \$36.6 billion to defense and nondefense respectively
- Between FFY 2013 and FFY 2014, the pots of money for defense and nondefense were reclassified – some nondefense spending was moved over into the defense side
- In total spending for FFY 2014:
  - Defense decreased from \$556 billion to \$498.1 billion
  - Nondefense decreased from \$510 billion to \$469.4 billion



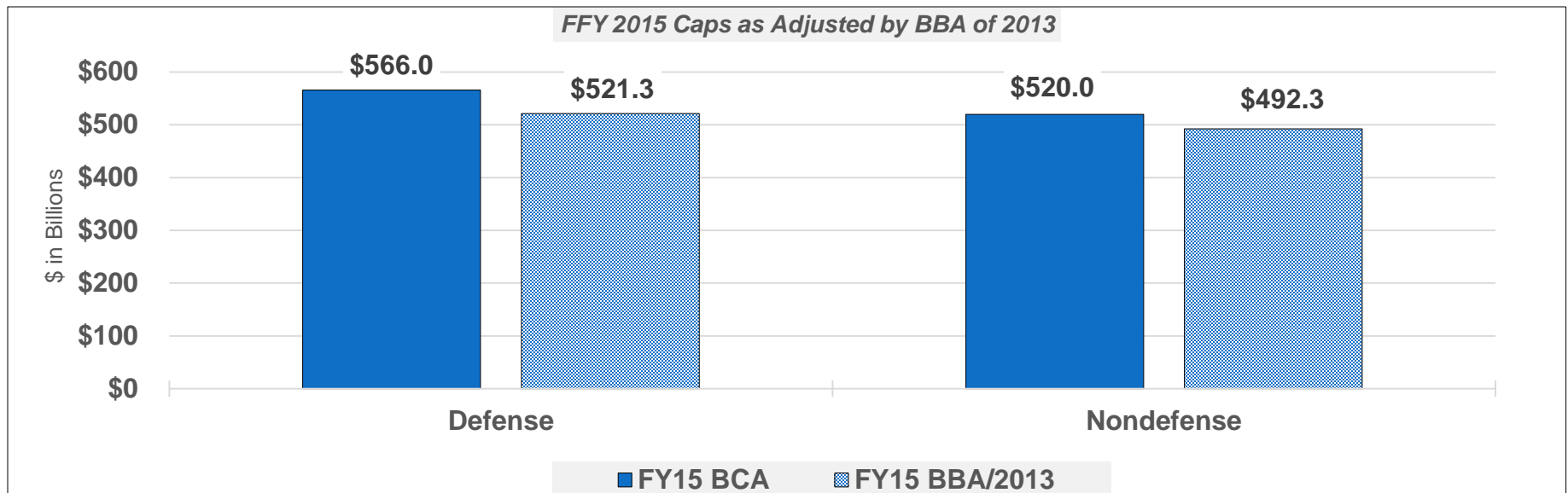
# Third Came - the Bipartisan Budget Act of 2013

- In December 2013, Congress passed the first Bipartisan Budget Act:
  - Raised the discretionary spending caps generated under the ATRA for defense and nondefense each by \$22.4 billion for that current fiscal year 2014
    - Within limits of the caps, Congress would have budget flexibility
  - To help offset some of the costs of increasing the caps, the legislation extended the reach of sequestration by two years for mandatory spending -- to FFY 2023, and by doing so, kicked the initial intent of lower the national deficit down the road
- Once again, as allowed under the BCA legislation, Congress added \$98.9 billion for that current fiscal year for similar allowable expenditure add-ons
  - OCO, emergency requirements, disaster relief, and program integrity: \$85.8 billion in defense and \$13.1 billion in nondefense
  - The add-ons helped to suppress the effects of the sequestration cuts for that year



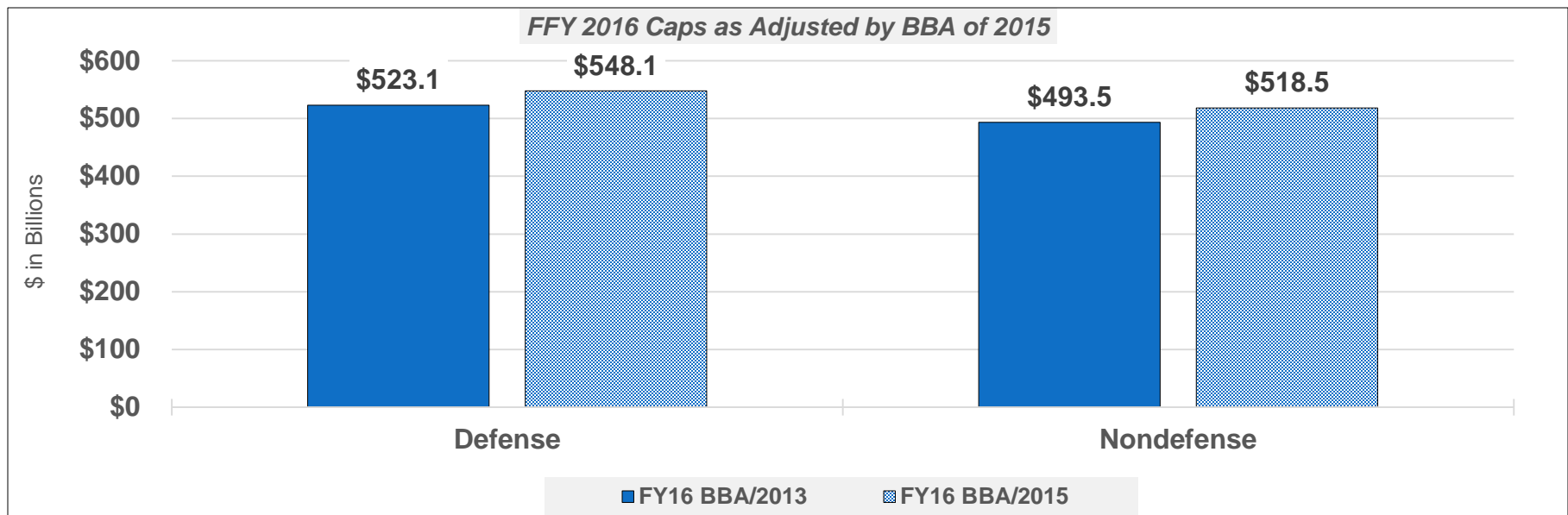
# Bipartisan Budget Act of 2013

- For FFY 2015, the BBA raised the discretionary spending caps established in the original BCA by \$9.2 billion for both defense and nondefense
- The increased caps helped lessen the on-going ATB cuts that had been revised by the BBA to \$53.9 billion in defense and \$36.9 billion in nondefense
- But, before the fiscal year ended, Congress took action to provide funding for allowable expenditures of \$64.6 billion for defense and \$55.6 billion for nondefense
- FFY 2015 revised total spending without the add-ons:
  - Defense decreased from \$556 billion to 521.3 billion
  - Nondefense decreased from \$520 billion to \$492.3 billion



# Most Recent: the Bipartisan Budget Act of 2015

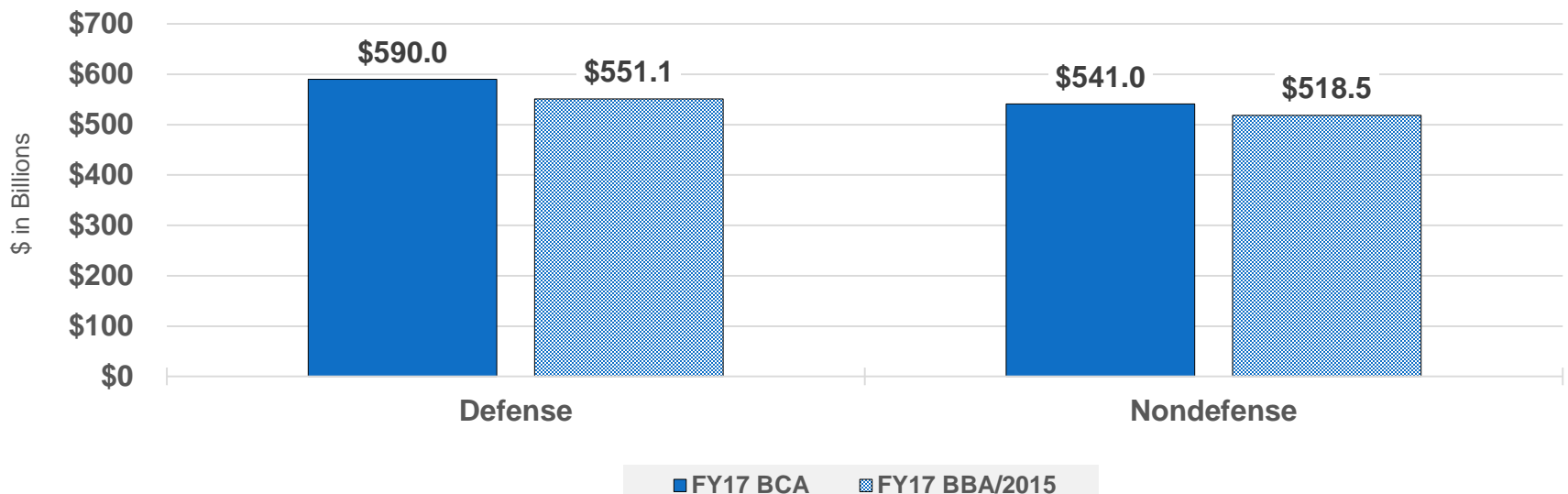
- Two years later, the second Bipartisan Budget Act was enacted in late fall of 2015, and like its predecessor from 2013, it increased the spending caps for that current fiscal year and further postponed the intended reductions from sequestration
  - The 2016 caps for defense and nondefense discretionary that had been set in the BBA of 2013 were each increased by \$25 billion
  - For the third time, Congress included additional spending for allowable add-ons: totaled \$58.8 billion in defense and \$24.3 billion in nondefense
  - In order to pay for the increase in the caps, sequestration's timeline was extended by another two years to FFY 2025



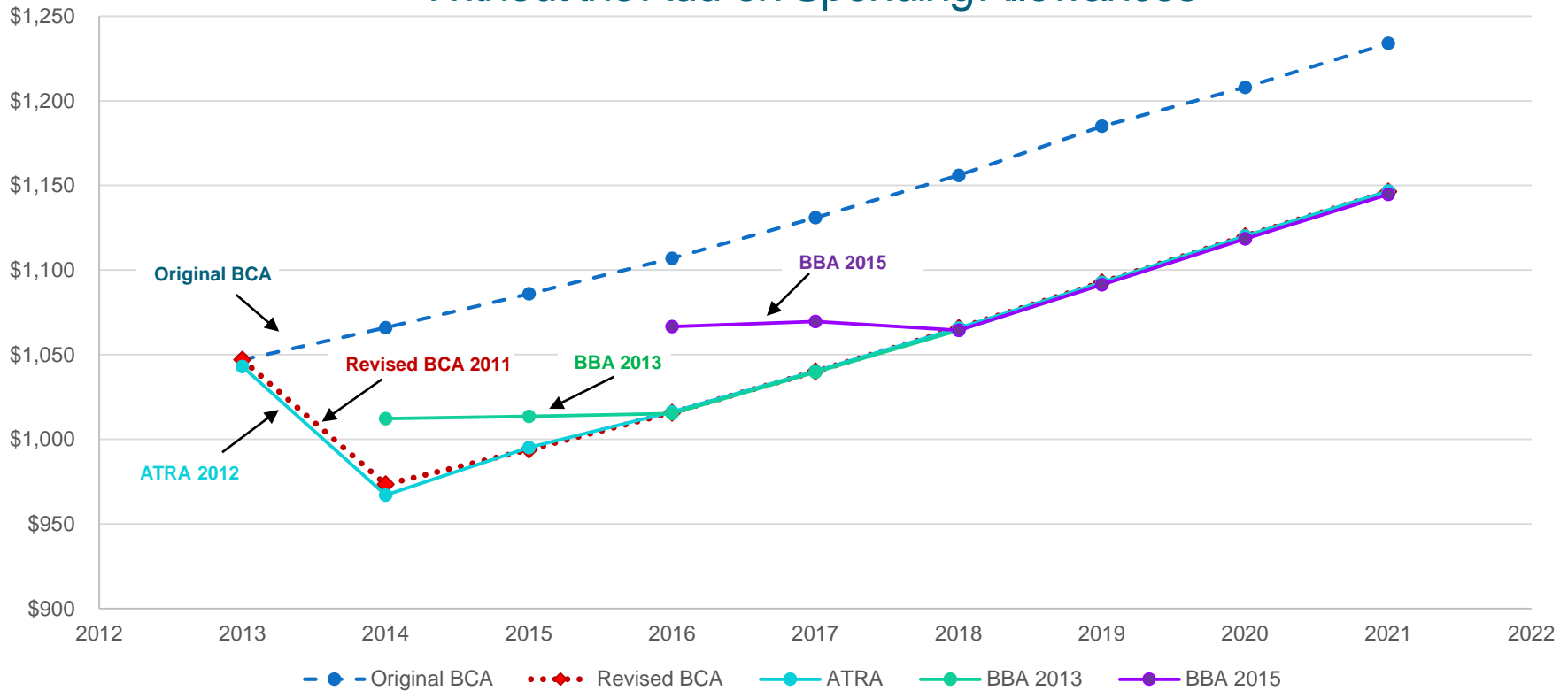
# Bipartisan Budget Act of 2015

- BBA of 2015 also increased the FFY 2017 discretionary spending caps that had been set under the original BCA for defense and nondefense - each by \$15.0 billion
- The increased caps helped temper the revised on-going ATB cuts to the defense and nondefense categories of \$53.9 billion and \$37.5 billion respectively
- In total spending for FFY 2017:
  - Defense decreased from \$590 billion to \$551 billion
  - Nondefense decreased from \$541 billion to \$519 billion
- The legislation also:
  - Suspended the federal debt limit until March 15, 2017
  - Provided some financial relief from the projected increase in Medicare Part B premiums
  - Extended the solvency of the Social Security Disability Insurance Trust Fund

FFY 2017 Caps as Adjusted by BBA of 2015



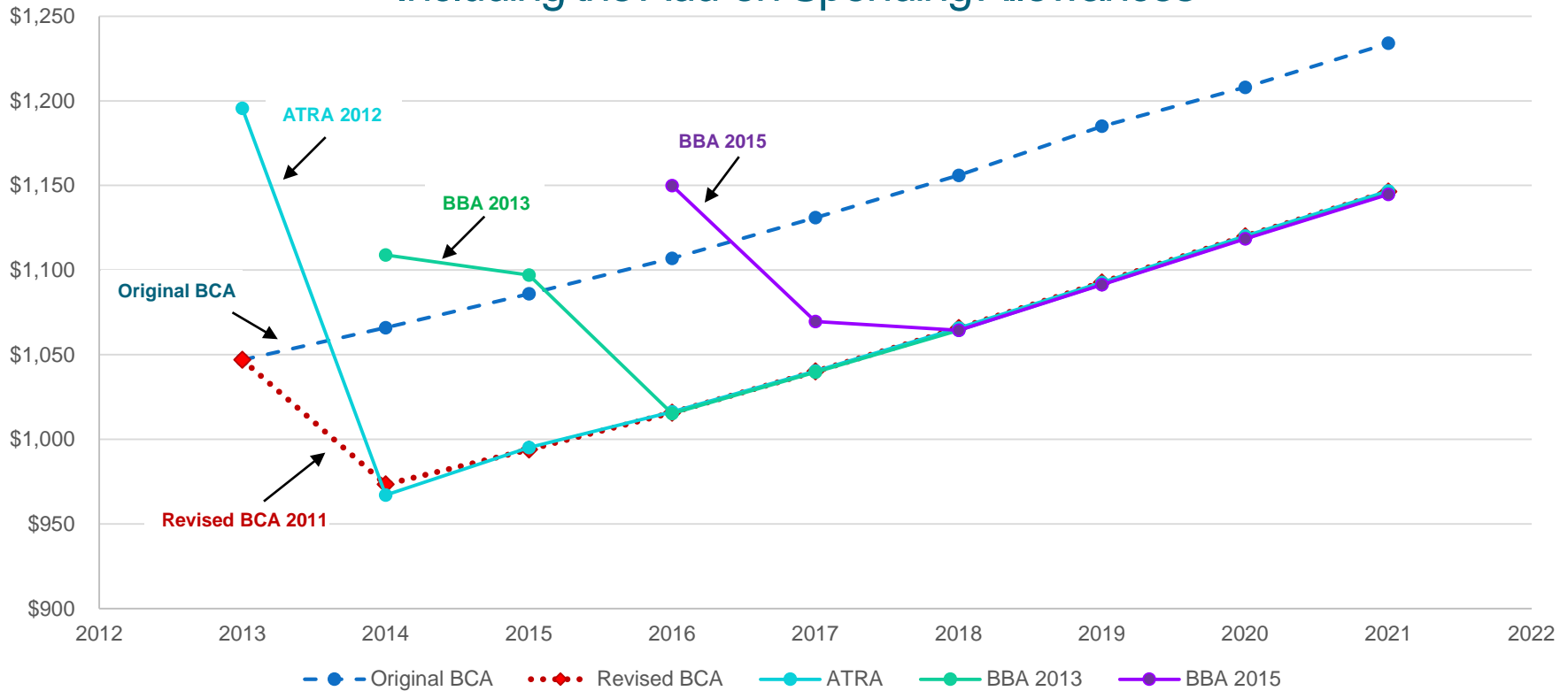
## Caps Based on Changes from the BCA, ATRA , BBA/2013 & BBA/2015 Without the Add-on Spending Allowances



Legislation	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022-2025...
<b>Original BCA</b>	\$1,047	\$1,066	\$1,086	\$1,107	\$1,131	\$1,156	\$1,182	\$1,208	\$1,234	???
<b>Revised BCA</b>	\$1,047	\$973	\$994	\$1,016	\$1,040	\$1,066	\$1,093	\$1,120	\$1,146	???
<b>ATRA</b>	\$1,043	\$967	\$995	\$1,016	\$1,040	\$1,066	\$1,093	\$1,120	\$1,147	???
<b>BBA 2013</b>		\$1,012	\$1,013	\$1,016	\$1,040	\$1,064	\$1,091	\$1,119	\$1,145	???
<b>BBA 2015</b>				\$1,066	\$1,070	\$1,065	\$1,091	\$1,118	\$1,145	???



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<b>ATRA</b>	\$1,196	\$967	\$995	\$1,016	\$1,040	\$1,066	\$1,093	\$1,120	\$1,147	???
<b>BBA 2013</b>		\$1,109	\$1,097	\$1,016	\$1,040	\$1,064	\$1,091	\$1,119	\$1,145	???
<b>BBA 2015</b>				\$1,150	\$1,070	\$1,065	\$1,091	\$1,118	\$1,145	???

# Net Impact of the Sequestration - Related Legislation

- Since the enactment of the BCA back in 2011, Congress has passed a bill just about every year that ended up delaying and lessening the original cuts and impact to the spending caps that were first established
- This means the caps have remained moving targets, and spending reductions have been less severe than initially expected in some areas
- Between the continuing revisions to the caps, along with spending flexibility provided to individual agencies, trying to determine the actual financial impact of the sequestration cuts is challenging at best
- By delaying the needed cuts, the current caps for fiscal years 2017 through 2021 may result in even lower caps than initially planned in the revised BCA of 2011
- The BBA of 2015 is set to expire at the close of the current federal fiscal year, but with the new President and Congress, it is difficult to predict what may happen to the remaining years under the sequestration legislation
- Final note on legislative action -- as it stands now for FFY 2017, (which began October 1) Congress has yet to pass an actual budget, and the current Continuing Resolution (CR) is set to expire next month on December 9th – so until then we'll have to wait and see what may develop

# Application of Sequestration

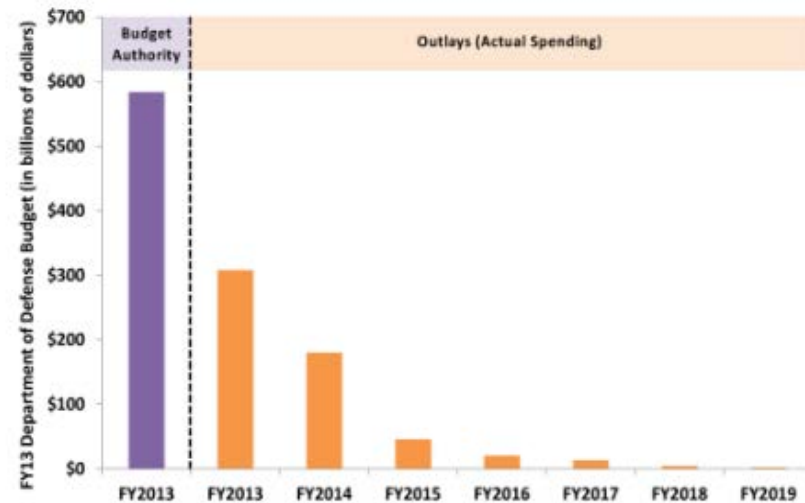
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Have federal caps impacted key spending category areas across the Nation and Virginia?

# The Long Reach of Sequestration – Budget Authority vs. Outlays

- Due to the nature of the federal budget process, the actual financial impact of any sequestration reductions may not necessarily be realized in the same fiscal year, which makes it difficult to track down and attribute to any related adverse economic impact to states
  - Sequestration cuts are based on and applied to federal *Budget Authority (BA)* amounts
  - However, it's the reported federal *Outlays*, which are the actual amounts spent in a given fiscal year, that are realized in the economy
- The example charts illustrate the difference between an awarded Budget Authority and then its subsequent financial Outlay – any sequester decrease could be spread out over these multiple years

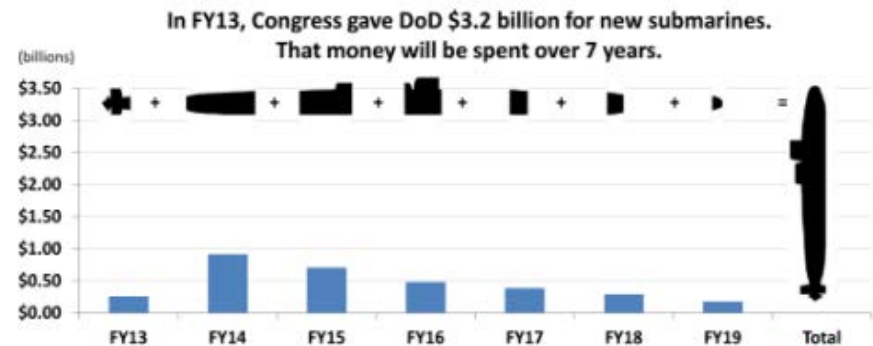
THE FY13 DEFENSE BUDGET WILL BE SPENT OVER MANY YEARS



Sources: Department of Defense; Bipartisan Policy Center calculations

THE TIME LAPSE BETWEEN GETTING AND SPENDING MONEY

- Each year, Congress appropriates money to the Department of Defense (DoD) with authorization to spend it according to a specified budget. This is known as *budget authority (BA)*, and is how the sequester cuts are measured.
- But DoD does not spend all this money in that same year. Actual spending is known as *outlays*.
- Weapons systems are effectively bought on installment.

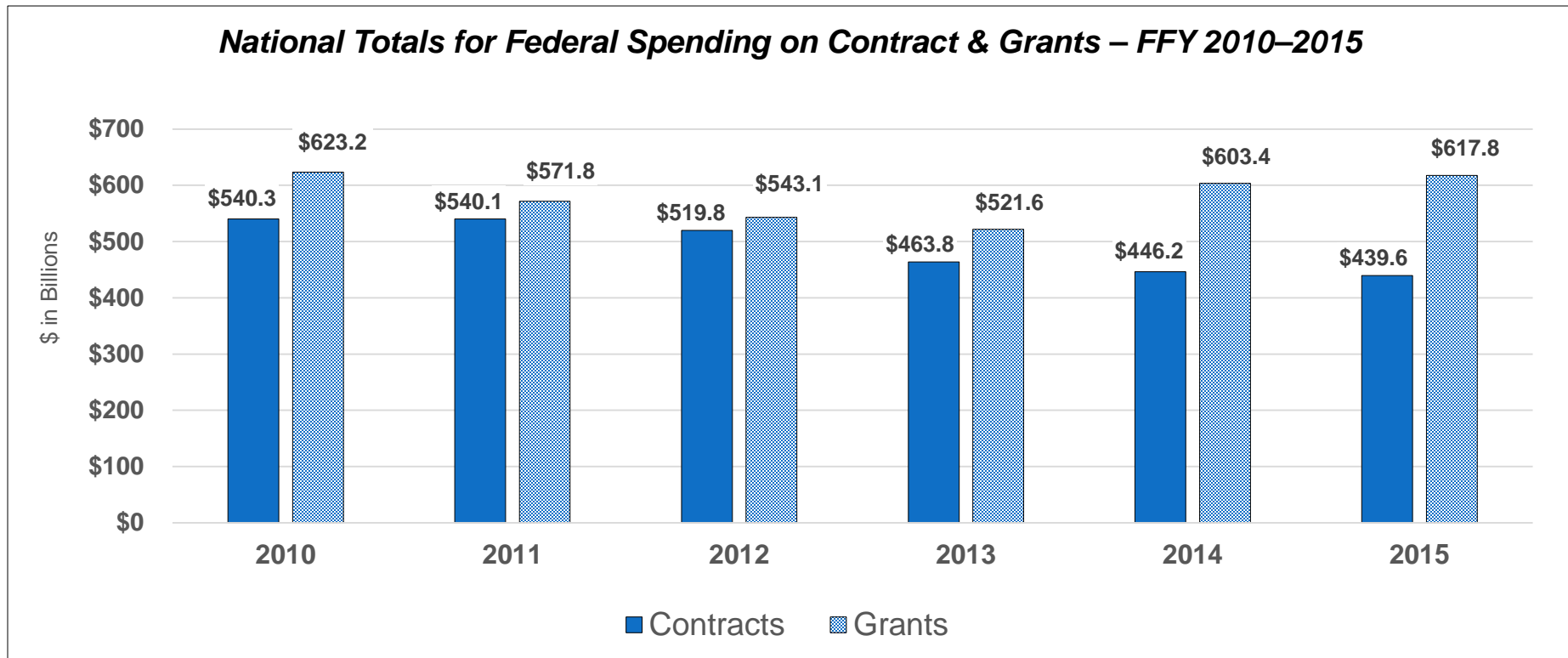


# Federal Spending – Impact to Nation and Virginia

- Two major categories of federal spending, Contracts and Grants, tend to impact states through two ways
  - Contracts / procurement of services – typically tied to various defense related spending, such as Homeland security and IT-related procurement
    - States most impacted that have defense installations, defense related procurement/contracts or some combination of both
    - Virginia continues to ranks #1 among states in federal spending for contracts and procurement, thus federal reductions in this area impact us more significantly
  - Grants – aid to individuals or aid/grants to state and local governments
    - Many federal grant programs have been exempted from cuts – such as Medicaid, TANF, SNAP, federal-aid highway and transit funding
    - Virginia remains at the bottom and ranks #52 among the states, DC & Puerto Rico in per capita federal spending for grants to state and local governments
      - For FFY 2015, the latest available data from Federal Funds Information for States, showed that Virginia received \$1,074, while the collective average was \$1,827 and the highest (DC) received \$4,623

# Impact of Congressional Actions - National Level

- According to USASpending.gov, total federal outlays Contracts and Grants to states have collectively declined by \$106.1 billion, or (9.1%) from FFY 2010 to FFY 2015
  - Total Contracts have decreased by \$100.7 billion, for a (18.6)% loss in funding
  - Totals Grants have also decreased, but by a much lesser amount, (\$5.4) billion, or (0.9)%

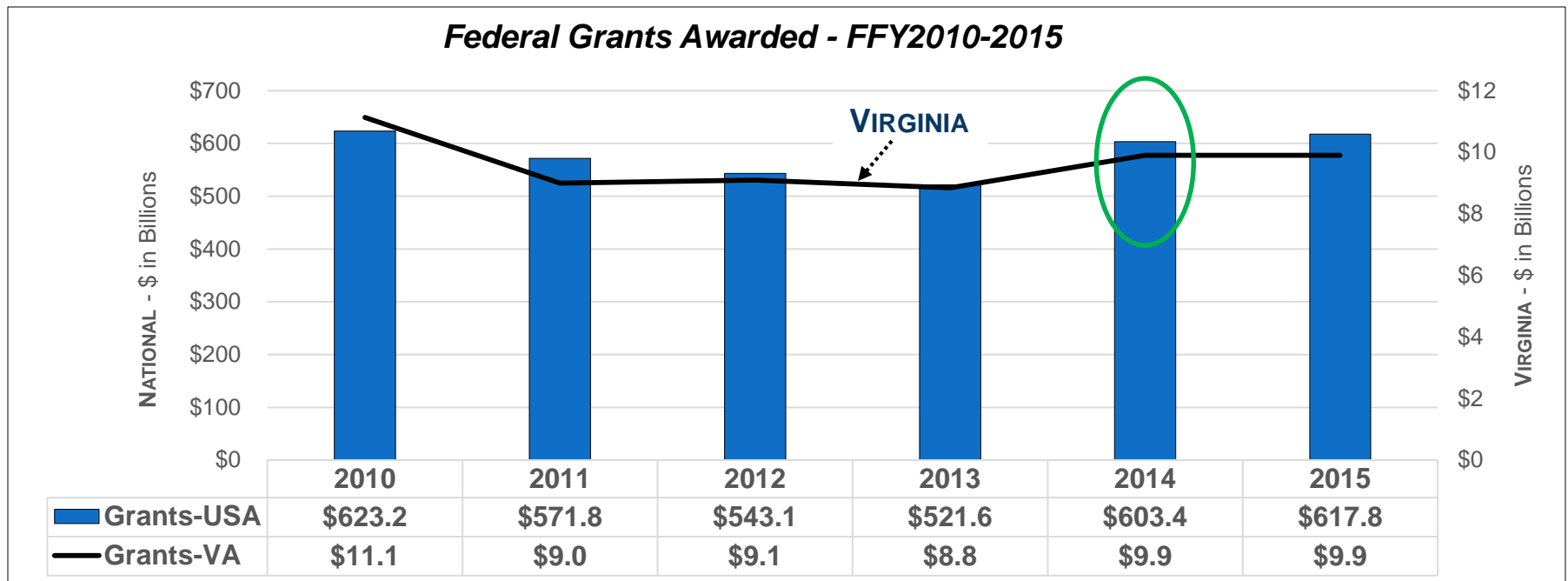


# Direct Impacts of Federal Revenues on Virginia's Budget and Governmental Programs

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# Federal Grants Awarded - FFY 2010-2015

- In keeping with the downward trend for federal spending on Grants, Virginia's recipients have realized a decline of \$1.2 billion, or (11.0)%, comparing FFY 2010 to FFY 2015 totals
  - Virginia has experienced a range of funding swings up through the last reported total for FFY 2015
- Like Contracts, at the state level, our relative portion of the national total has gotten smaller and decreased from 1.79% to 1.60%

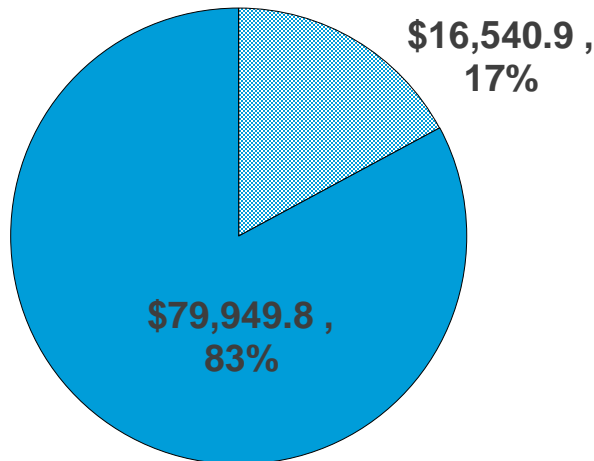




# Virginia's Budget Reliance on Federal Funds

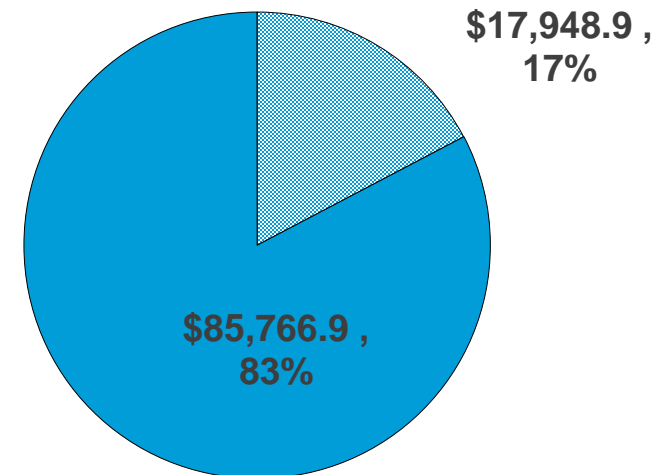
- Comparing Virginia's latest two adopted budgets, federal revenue totals have increased by \$1.4 billion, from \$16.5 billion in the FY 2015-FY2016 biennium to \$17.9 billion in the current biennium – which is an 8.5% increase
  - Totaled about 17.1% and 17.3% respectively, of the total operating budget
  - Amounts have been adjusted to reflect the Transportation Trust Fund, by about \$1.8 billion for Chapter 732 and \$2.2 billion for Chapter 780

**Chapter 732 - FY15 & FY16**  
(\$ in millions)



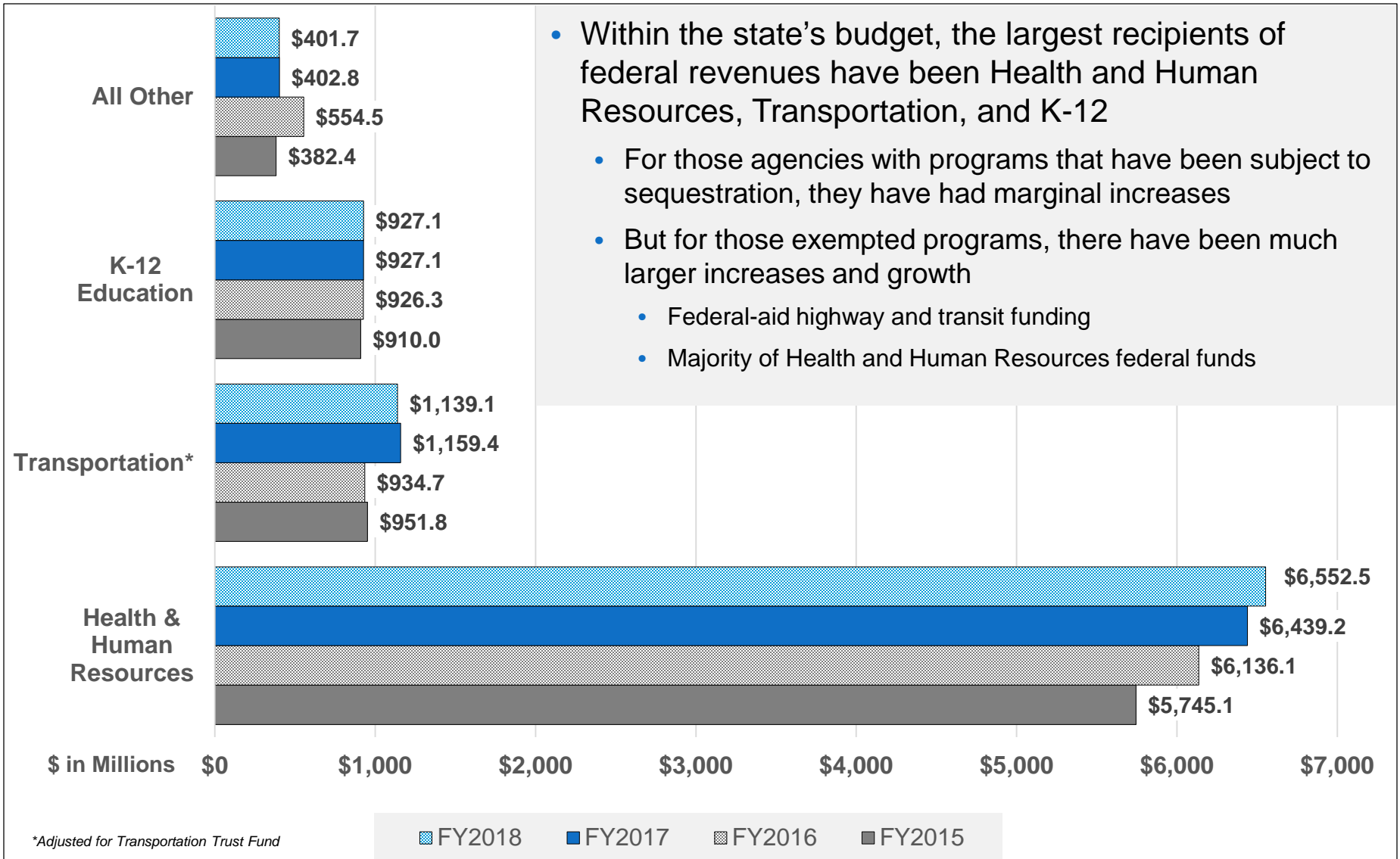
■ Federal Trust Revenue  
■ All Other Revenue Sources

**Chapter 780 - FY17 & FY18**  
(\$ in millions)



■ Federal Trust Revenue  
■ All Other Revenue Sources

# Secretarial Areas with Largest Federal Revenue Amounts Budgeted



# Indirect Impacts of Federal Budget Reduction Actions on Virginia's Economy

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# Background: Role of Federal Spending in Virginia

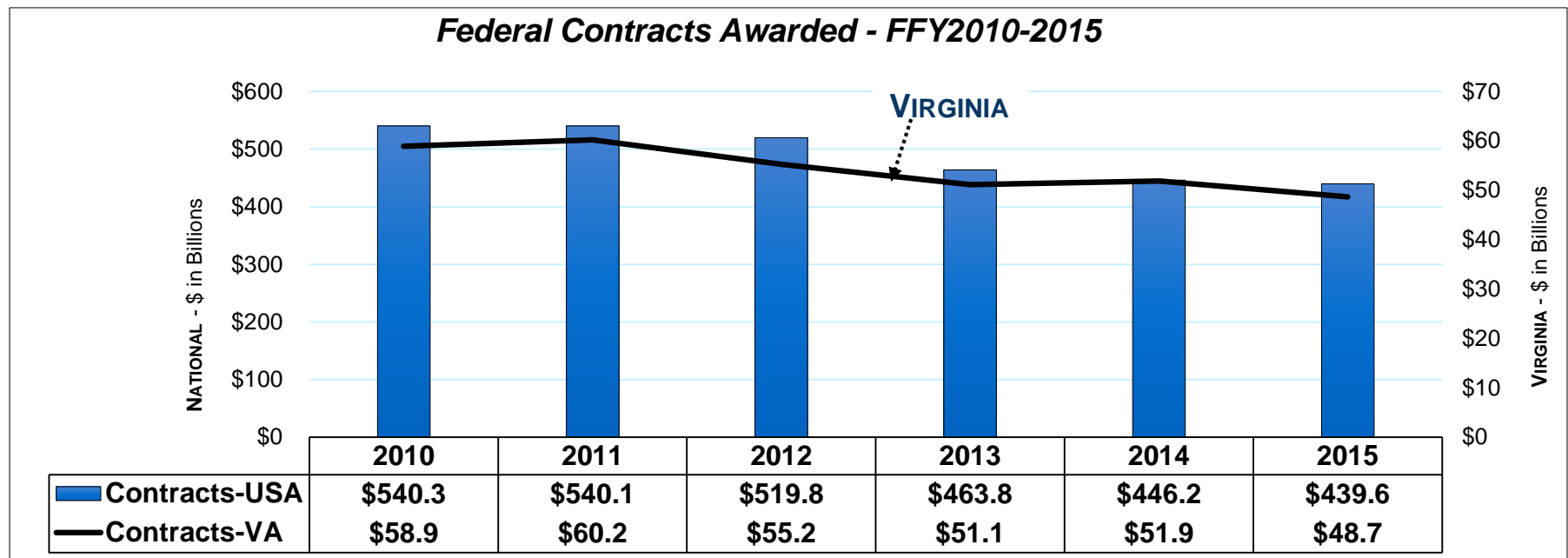
- While impact of cuts in federal grants that support Virginia's budget may not be insurmountable, as the largest recipient of procurement spending, Virginia faces greater potential negative effects in the form of reduced tax revenues resulting from cuts in procurement contracts
- About \$1.00 of every \$8.50 federal procurement dollars spent nationally is spent in Virginia
  - In aggregate, and for each of the past five years, Virginia ranked first in the nation in the amount of federal procurement monies it received since 2010
- From 2010-2014 the U.S government spent more than \$295 billion purchasing goods and services from the private sector in Virginia. Averaged annually, this comes to more than \$59 billion per year
  - This equates to \$7,214 annually on a per capita basis
  - Statewide, these amounts are split roughly 70% on defense, and 30% on non-defense contract awards

# Background: Role of Federal Spending in Virginia

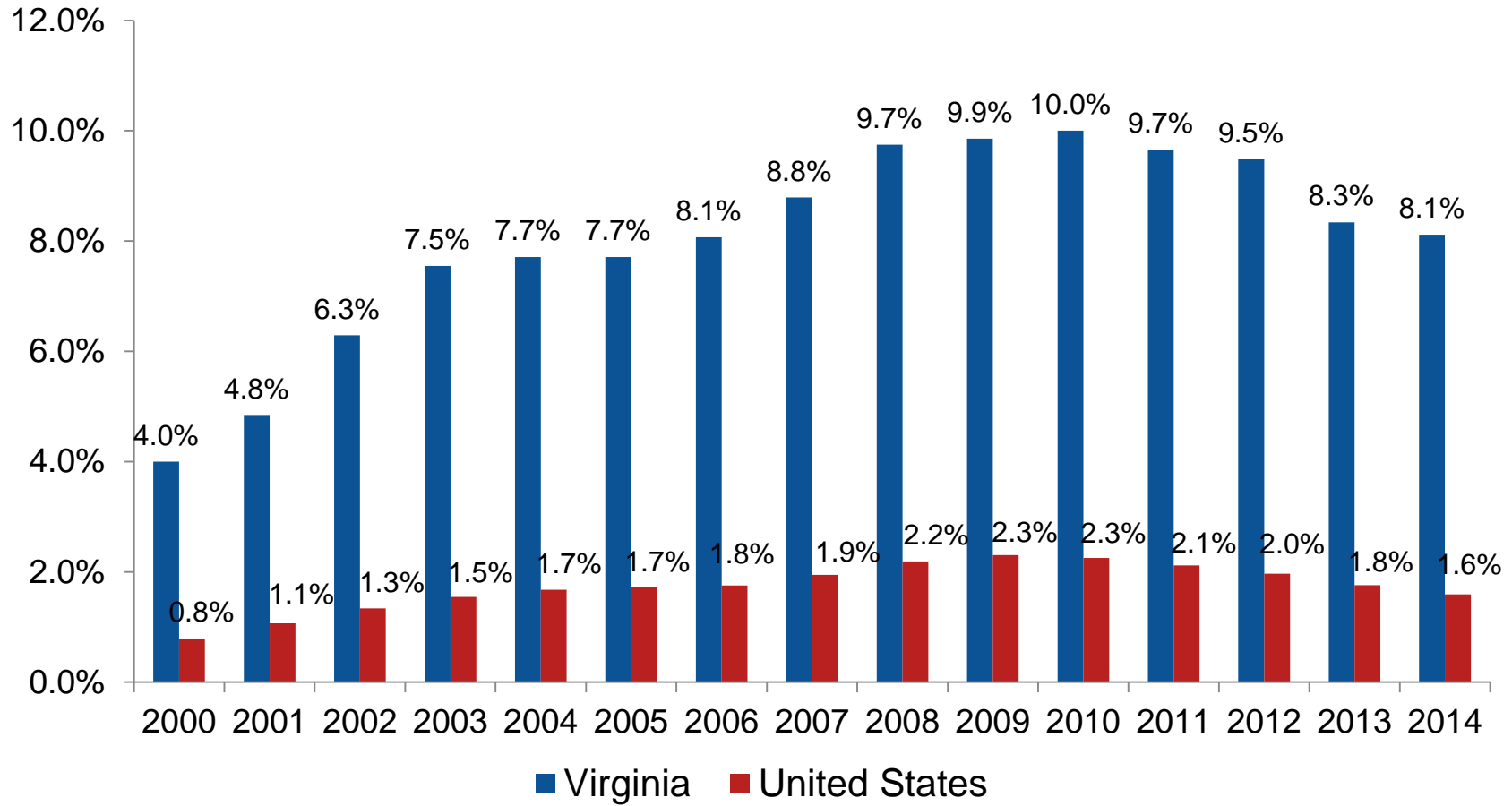
- Federal procurement spending is concentrated in Virginia's two largest regions
- Of the \$295 billion spent in Virginia between 2010 and 2014, 92% of the total went to Northern Virginia and Hampton Roads
  - Northern Virginia received 75 cents of every procurement dollar
  - Hampton Roads accounted for 18 cents of each dollar
- A 5% cut in non-grant federal spending would – even from its current lowered base – would remove \$297 per capita from our economy
  - An equal percentage cut to government grants would amount to only \$60 per capita

# Federal Contracts Awarded - FFY 2010-2015

- Nationally, total federal Contracts awarded have consistently declined from FFY 2010 through FFY 2015
- Similarly, Virginia saw an 8% decrease in its federal contracts in FFY 2012 and an additional decline of 11% in FY 2013. Since that time the reduction has been less steep
- Cumulatively, Virginia's total federal contract dollars have fallen almost 20%, although our share of total spending has actually increased marginally from 10.9% to 11.1%



# DoD Contract Spending as a Percentage of GDP: Virginia and the United States FY 2000-2014



Source: Chmura Economics & Analytics and the Bureau of Economic Analysis



**CHMURA**  
Economics & Analytics

# Breadth of Federal Defense Spending in Virginia

- By all measures, Virginia is heavily dependent on federal defense spending
- 70% of all Virginia's procurement dollars are DoD-related
- Like overall federal spending, it is centered in Northern Virginia and Hampton Roads
  - 69 cents of every dollar spent in NoVa
  - 24 cents of every dollar spent in Hampton Roads

Spending Category	Virginia's Rank
Dollars spent by DoD in State	1
Percent of total defense spending in state	1
DoD spending per resident	2
DoD spending as share of state GDP	1
Number of defense personnel (military and civilian)	2
Payroll for defense personnel	1
Dollar value of DoD contract awards obligated	1



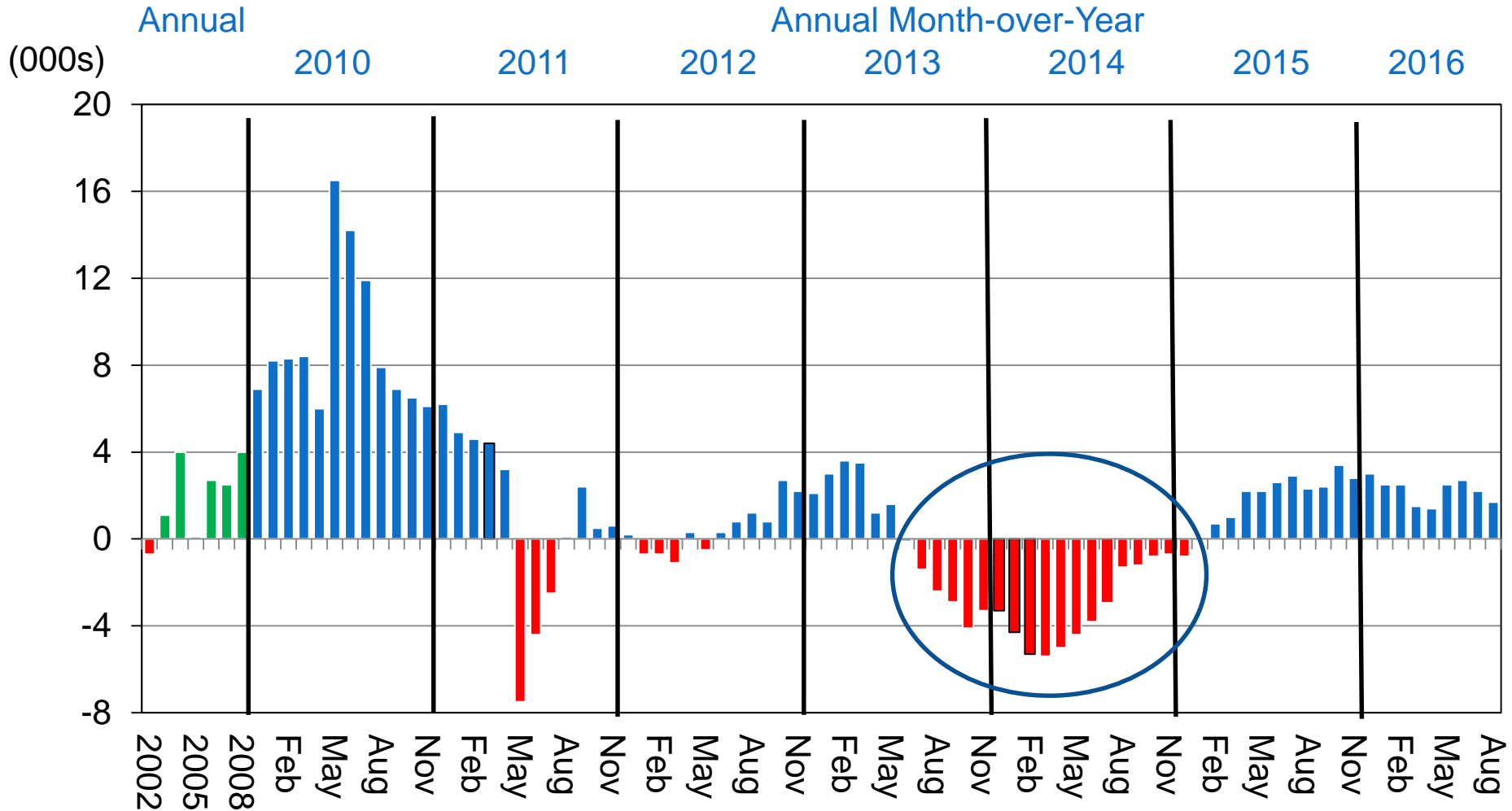
# What Were the Initial Estimates of BCA's Effects on Virginia's Economy?

- The Virginia Economic Development Partnership commissioned an economic analysis of the potential impacts of federal cuts which was released on October 10, 2012
  - It broke down the impacts of federal budget reductions by region, industry and job classification
- At the time, it reported a “worst case” scenario where the BCA could result in discretionary payroll and procurement spending reductions of \$11.7 billion in Virginia during FFY 12 and FFY 13
  - This reduction would have exceeded the total federal grant funding provided to support state programs last year by almost \$3.0 billion
- When multiplier effects created by the reduced purchases from suppliers and decreased household spending were taken into consideration it was projected to result in a 2-year reduction in spending of \$22.7 billion in Virginia

# What Were the Initial Estimates of BCA's Effects on Virginia's Economy?

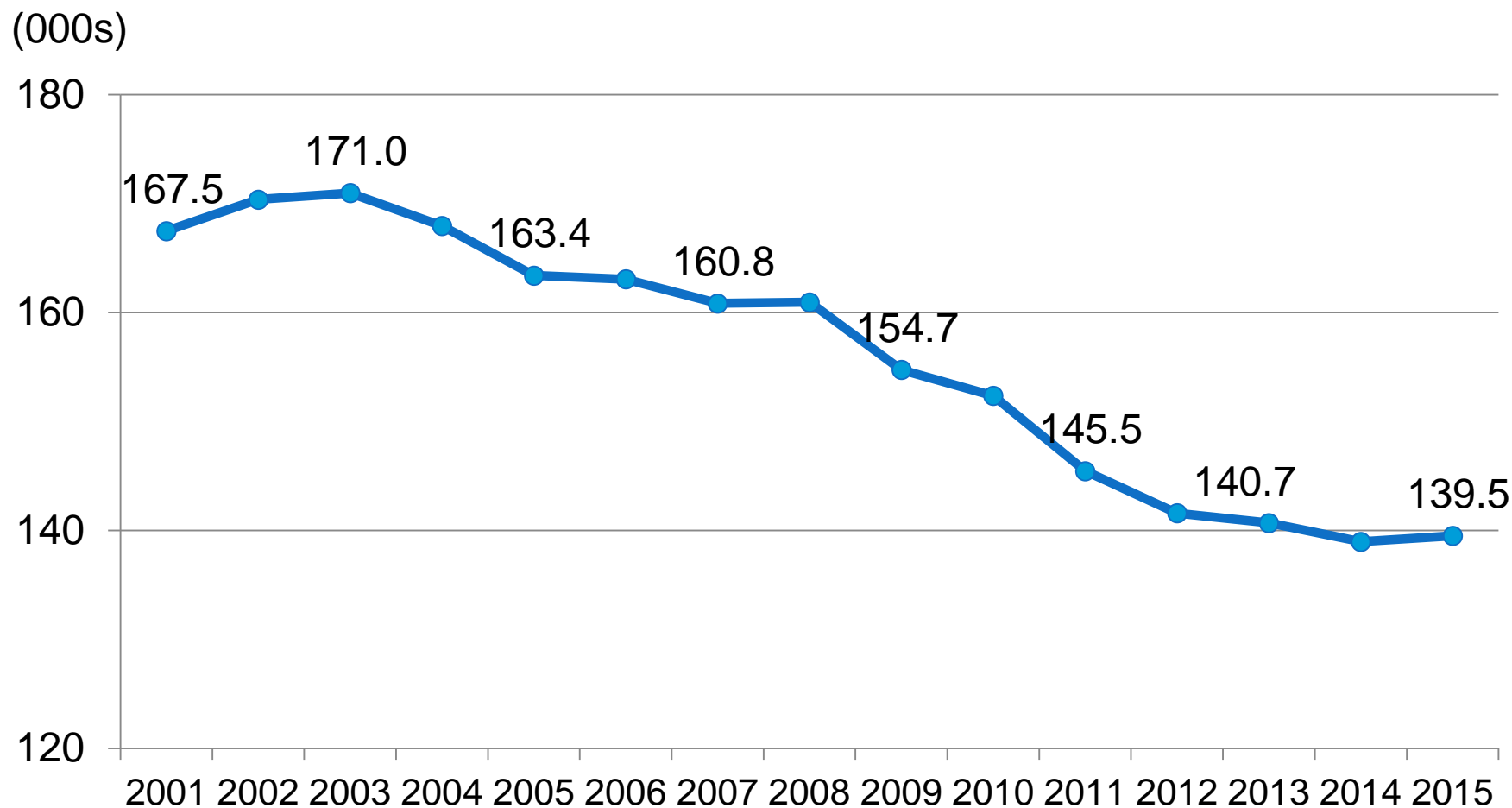
- In terms of employment, the report identified a “worst case” Virginia scenario resulting in the loss of 82,099 Virginia jobs over the two-year period of FFY 2012 and 2013
- When indirect and induced jobs are added to the equation, the total employment impact was estimated at a reduction of 164,225 jobs
  - Northern Virginia was projected to absorb 60% of the losses
  - Hampton Roads approximately 20%
  - Richmond 12%
- In combination, the employment reductions were anticipated to reduce the baseline growth assumption of 1.15% annual employment growth in Virginia and instead result in annual job losses of 1.15%
  - The professional and business services sector was expected to see losses of just under 40,000
  - Another 23,712 direct federal workforce positions were expected to be cut

# Commonwealth of Virginia Federal Government Jobs

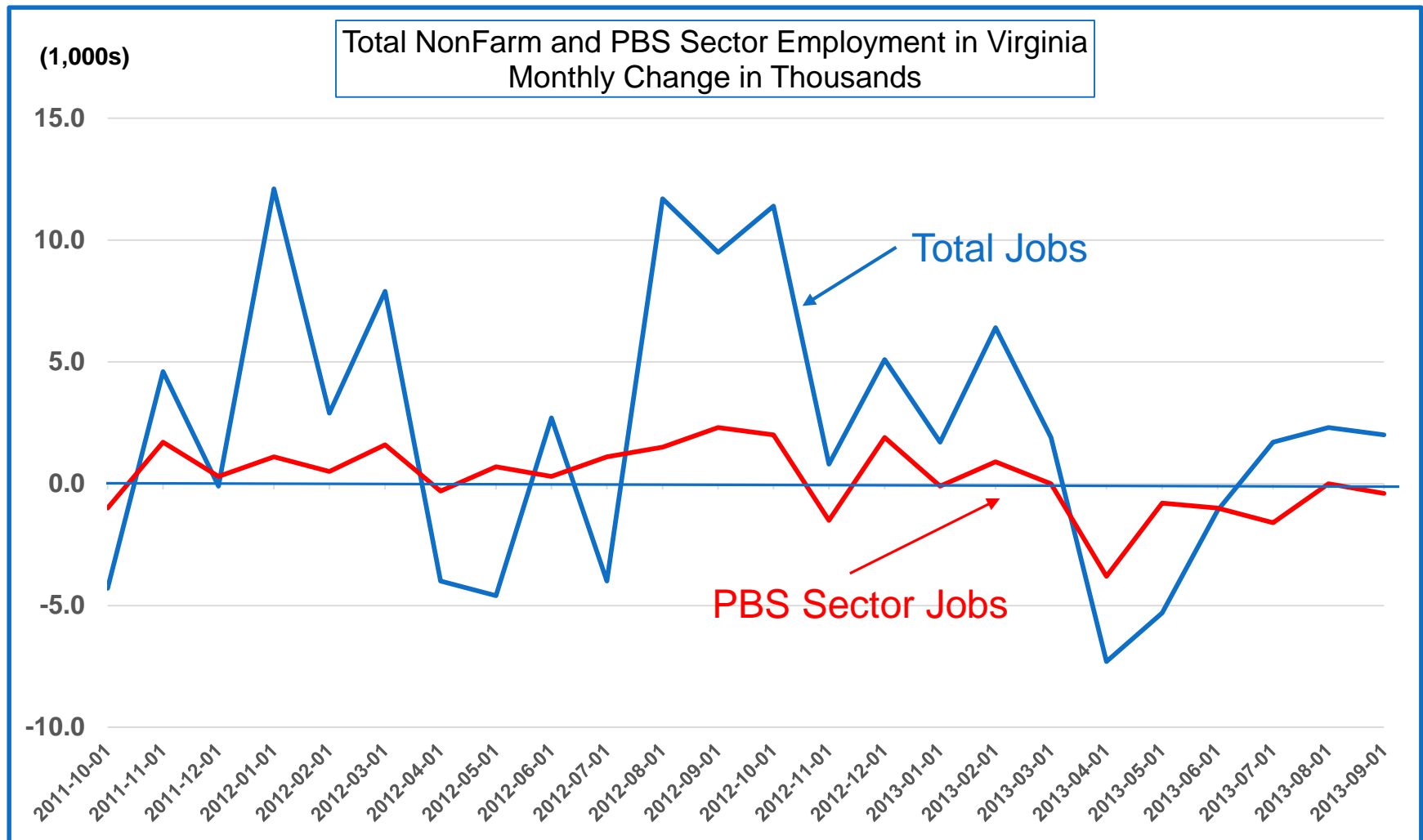


**Aug-16 Total: 179.6**

# Commonwealth of Virginia Military Employment, 2001-2015



# Virginia Employment Growth FFY 2012 and 2013



# The Virginia Economy (Annual Real Percent Change)

Year	U.S.	Virginia			
		State	Private Sector	Federal Civilian*	Federal Military*
2008	-0.3	0.1	-0.3	3.0	3.0
2009	-2.8	0.5	0.1	4.2	3.1
2010	2.5	2.4	2.6	3.7	0.8
2011	1.6	0.7	0.9	1.7	-2.0
2012	2.2	0.7	0.8	1.3	-1.8
2013	1.7	-0.2	0.1	-2.4	-2.5
2014	2.4	0.2	0.3	0.5	-2.1
2015	2.6	1.4	1.9	N.A.	N.A.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

\*Includes impacts of federal outlays for operations, payroll and procurement on the state's economy.

# The Effects of Sequestration to Date: The State and Its Two Largest Metro Areas

- As the data outlined on the previous slides illustrate, efforts to rein in federal spending had a negative impact on state tax revenues
  - After the initial passage of the BCA, Virginia's economy slowed dramatically both in the government and non-governmental sectors
  - Fear of the unknown appears to have played a large role, with private companies deferring hiring and spending as they waited to see the effects of federal reductions
- But to date, the impacts have not been as severe as had been predicted initially
- Northern Virginia now appears to be rebounding, albeit at a modest rate
- Hampton Roads continues to struggle with a rather flat economy

# Northern Virginia

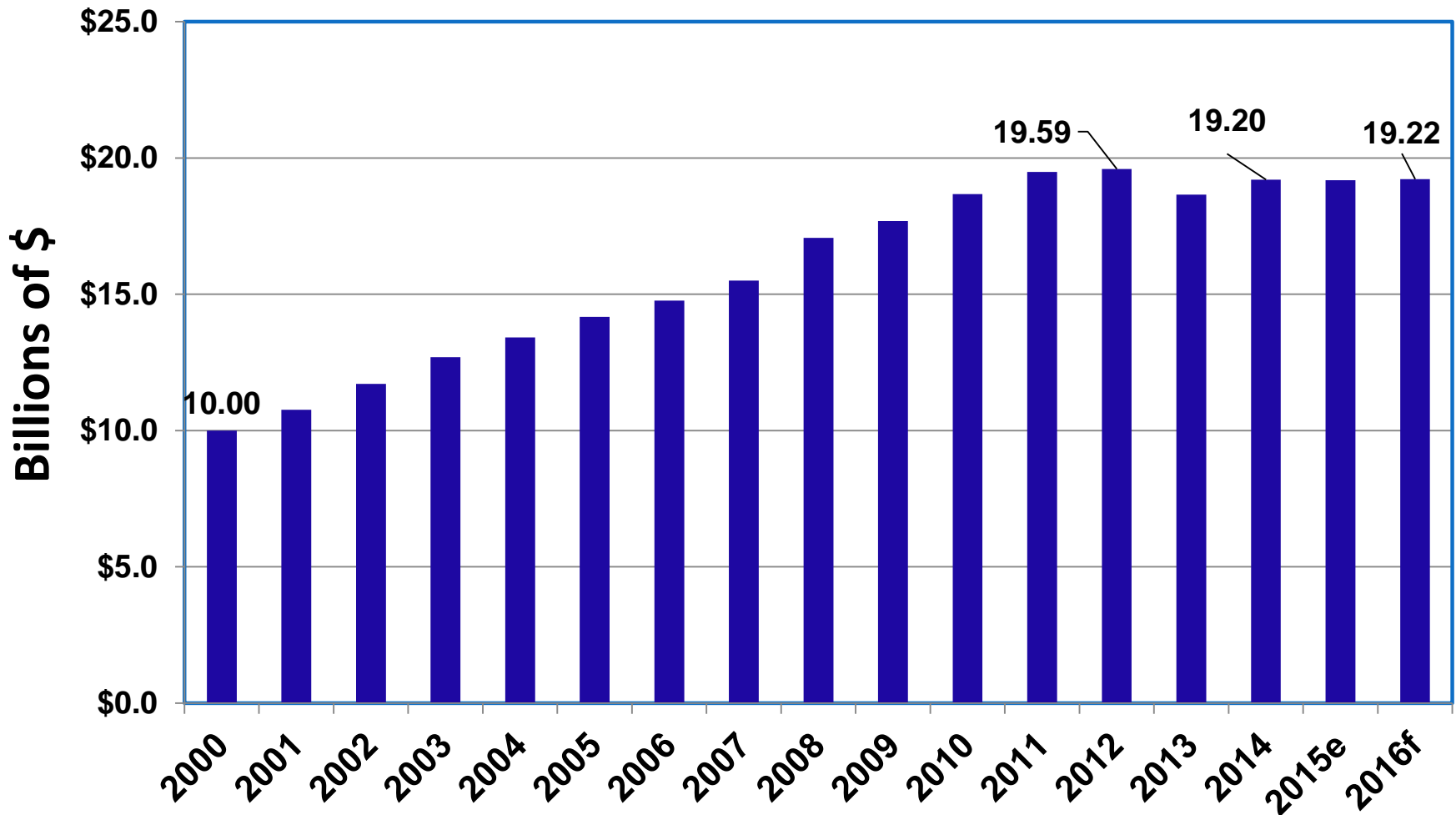
- Rapid growth in federal procurement spending clearly drove economic growth in Northern Virginia over the past 30 years
  - The Northern Virginia Regional Commission measured a .97 correlation between growth in Northern Virginia's GRP and increases in federal spending during that period
- The rapid increases in federal spending cushioned the initial impact of the Great Recession in the region
- But this dependence created a vulnerability that hit the NoVa economy beginning with the passage of the BCA in 2011
- Recent trends in Northern Virginia suggest companies have been quicker to re-tool and re-focus on private sector growth
- GMU's Center for Regional Analysis estimates that the share of the greater Washington economy based on federal spending will decline from about 40% in FY 2010 to 27% in 2020



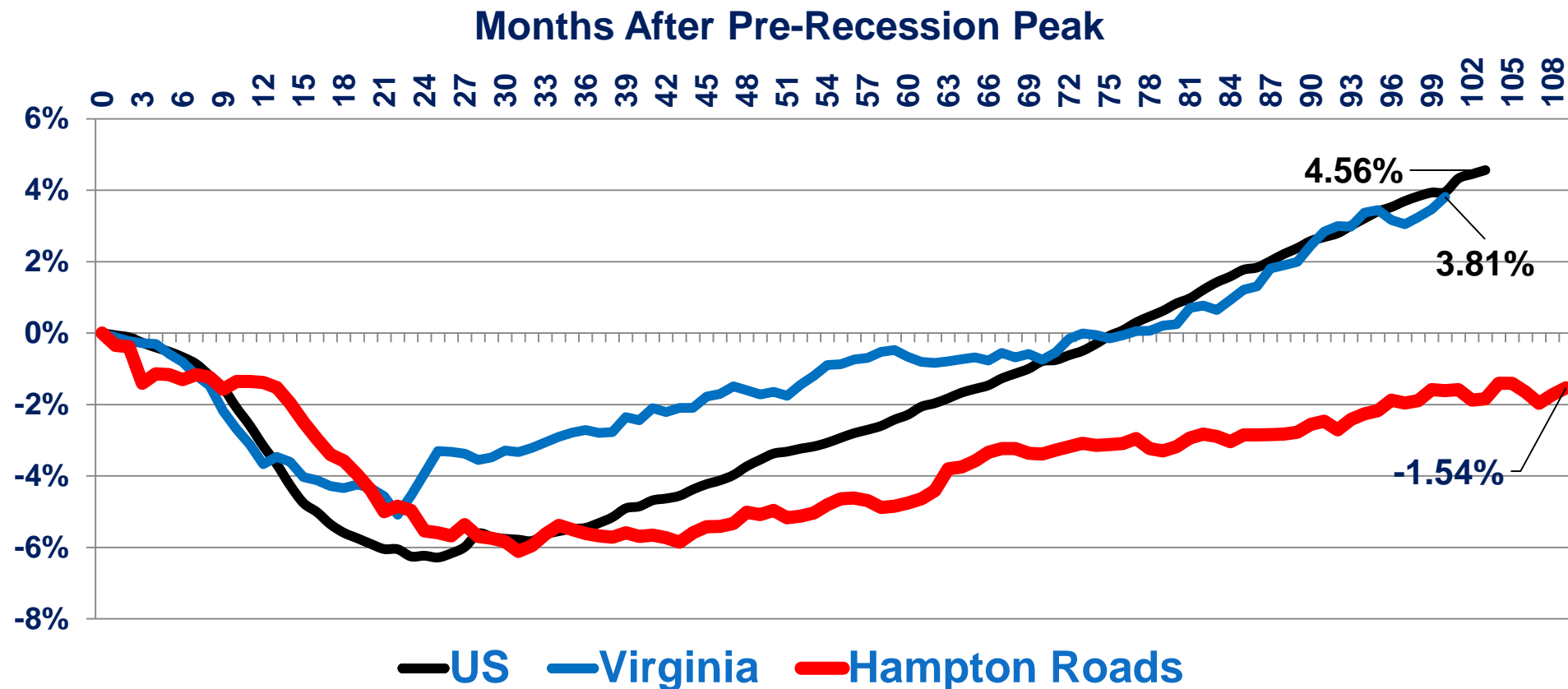
# Hampton Roads Economy Continues to Lag

- While Northern Virginia receives the majority of procurement dollars even in the defense sector, it is supported by a wider variety of federal spending
- In contrast, in Hampton Roads the focus is almost entirely on the defense sector
  - 24 cents of every DoD dollar spent in Virginia goes to Hampton Roads
- ODU estimated that prior to sequestration 45% of the gross state product (GSP) in Hampton Roads was attributable to direct and indirect Defense Department spending
- The effects of DoD cuts have been evident in that region both in terms of continued low job growth and flat DoD spending
- Hampton Roads has yet to recover from the early sequestration cuts and has not regained the jobs lost in the Great Recession
  - Regional economy has not diversified substantially
  - Being especially Navy-centric, the distribution of DoD reductions will be especially important to that region's future growth

# Estimated Direct DOD Spending in Hampton Roads: 2000 to 2016



# Recession Recovery in the U.S., Virginia and Hampton Roads Measured by Total Jobs Restored, 2007-2016\*



Source: Bureau of Labor Statistics and Old Dominion University Economic Forecasting Project. \*Data are through August 2016

## Impacts To Date Have Not Been As Dire As Anticipated, but Have Been Drag on VA Economy

- Federal spending reductions have stabilized since 2014, as Congress has repeatedly reduced the projected impacts of the BCA of 2011 by delaying cuts and increasing the caps on an almost annual basis
- The economic growth we are now seeing in Northern Virginia suggests that the non-federally dependent portion of the Northern Virginia economy has become more influential
- However, unless the deferrals of sequestration continue, additional economic contractions will be seen across the Commonwealth
  - If spending reductions continue as originally envisioned, they could potentially reduce DOD procurement spending by one-third of the 2014 levels

# Appendix: Federal Grants Impact On Selected Agencies

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# Agency Reliance on Federal Funds

- Virginia's adopted budgets have reflected an increase in its federal revenues from a total of \$8.0 billion in FY 2015 to \$9.0 billion in FY 2018
  - Totaled about 16.7% and 17.1% respectively, of the total operating budget
  - Amounts have been adjusted to reflect the Transportation Trust Fund

<u>Fund Source</u>	Chapter 732		Chapter 780	
	FY 2015	FY 2016	FY 2017	FY 2018
General Fund	\$18,240.0	\$18,960.7	\$20,338.7	\$20,285.0
Special	\$1,745.4	\$1,752.8	\$1,763.1	\$1,757.9
Higher Education Operating	\$7,919.7	\$8,029.6	\$8,431.2	\$8,519.7
Commonwealth Transportation	\$4,366.9	\$4,975.8	\$5,448.4	\$5,240.9
Enterprise	\$1,291.3	\$1,443.2	\$1,535.5	\$1,616.9
Internal Service	\$1,771.9	\$1,908.5	\$2,026.8	\$2,125.6
Trust & Agency	\$2,377.7	\$2,652.2	\$2,302.1	\$2,133.9
Debt Service	\$326.2	\$328.2	\$329.5	\$329.8
Dedicated Spec Revenue	\$1,859.7	\$1,835.4	\$1,856.9	\$1,850.6
Federal Trust*	\$7,989.2	\$8,551.7	\$8,928.5	\$9,020.4
<b>Grand Total – Operating Budget</b>	<b>\$47,888.0</b>	<b>\$50,438.1</b>	<b>\$52,960.8</b>	<b>\$52,880.8</b>

# Agency Reliance on Federal Funds

- Within the state's budget, the largest recipients of federal revenues are Health and Human Resources, Transportation, and K-12
  - Majority of these federal dollars are exempted from any sequestration cuts - which explains why the federal totals have increased
    - Federal-aid highway and transit funding
    - Majority of Health and Human Resources federal funds

Budget Amounts	Chapter 732				Chapter 780			
	FY2015		FY2016		FY2017		FY2018	
Secretarial Area	Federal Revenue	% of Total Federal Funds in Operating Budget	Federal Revenue	% of Total Federal Funds in Operating Budget	Federal Revenue	% of Total Federal Funds in Operating Budget	Federal Revenue	% of Total Federal Funds in Operating Budget
Hlth & Human Resources	\$5,745.1	71.9%	\$6,136.1	71.8%	\$6,439.2	72.1%	\$6,552.5	72.6%
Transportation*	\$951.8	11.9%	\$934.7	10.9%	\$1,159.4	13.0%	\$1,139.1	12.6%
K-12 Education	\$910.0	11.4%	\$926.3	10.8%	\$927.1	10.4%	\$927.1	10.3%
All Other	\$382.4	4.8%	\$554.5	6.5%	\$402.8	4.5%	\$401.7	4.5%
<b>TOTAL</b>	<b>\$7,989.3</b>	<b>100.0%</b>	<b>\$8,551.6</b>	<b>100.0%</b>	<b>\$8,928.5</b>	<b>100.0%</b>	<b>\$9,020.4</b>	<b>100.0%</b>

## Summary of Federal Revenues as a Percentage of Individual Area Budgets

Secretarial Area	Chapter 732				Chapter 780			
	FY2015		FY2016		FY2017		FY2018	
	Federal Revenue	% Federal Revenue	Federal Revenue	% Federal Revenue	Federal Revenue	% Federal Revenue	Federal Revenue	% Federal Revenue
Health & Human Resources	\$5,745.1	44.7%	\$6,136.1	44.9%	\$6,439.2	45.3%	\$6,552.5	45.4%
Transportation*	\$951.8	16.5%	\$934.7	14.2%	\$1,159.4	16.9%	\$1,139.1	17.5%
K-12 Education	\$910.0	12.8%	\$926.3	12.5%	\$927.1	12.2%	\$927.1	11.8%
Public Safety	\$140.3	5.1%	\$139.3	4.9%	\$147.4	5.0%	\$147.0	5.0%
Natural Resources	\$78.9	19.9%	\$79.2	19.4%	\$83.6	18.9%	\$83.6	22.1%
Commerce & Trade	\$74.2	8.3%	\$246.4	22.5%	\$74.9	8.0%	\$74.9	7.9%
Veterans Affairs & Homeland Security	\$17.2	27.3%	\$16.6	25.6%	\$26.2	32.8%	\$26.2	32.0%
Agriculture & Forestry	\$13.9	14.5%	\$13.9	14.3%	\$15.8	14.7%	\$15.8	14.7%
Executive Offices	\$9.6	15.4%	\$10.6	16.6%	\$10.6	16.2%	\$10.6	16.1%
All Other	\$48.3	0.3%	\$48.5	0.3%	\$44.3	0.2%	\$43.6	0.2%
<b>TOTAL</b>	<b>\$7,989.2</b>	<b>17.0%</b>	<b>\$8,551.7</b>	<b>17.3%</b>	<b>\$8,928.5</b>	<b>17.2%</b>	<b>\$9,020.4</b>	<b>17.4%</b>

\*Includes Transportation Trust Fund



## HHR: Department of Social Services

- Receives around \$900 million a year in federal funds (45% of DSS budget), about 3/4 of that is exempt from sequestration
- Agency had an increase of 5.4% between FFY 15 and FFY 16 for grants subject to sequestration

Federal Programs (\$ in millions)	FFY 2011	FFY 2012	FFY 2013	FFY 2014	FFY 2015	FFY 2016
Low Income Home Energy Assistance Program (LIHEAP)	\$107.2	\$80.5	\$79.0	\$82.1	\$81.5	\$83.9
At-risk Child Day Care	\$42.0	\$43.4	\$41.5	\$45.0	\$46.3	\$53.2
Soc. Svs. Block Grant	\$43.4	\$43.8	\$41.7	\$40.9	\$40.9	\$41.1
Child Welfare Services	\$13.0	\$12.3	\$11.6	\$11.8	\$11.9	\$12.1
Community Services Block Grant	\$10.8	\$10.8	\$10.1	\$10.6	\$10.7	\$11.4
<b>Total</b>	<b>\$216.4</b>	<b>\$190.8</b>	<b>\$183.9</b>	<b>\$190.4</b>	<b>\$191.3</b>	<b>\$201.7</b>

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.

# HHR: Department of Health

- Federal funds subject to sequestration have decreased gradually from FFY 2011 through FFY 2015, and have seen a small increase in FFY 2016

Federal Programs (\$ in millions)	FFY 2011 Award	FFY 2012 Award	FFY 2013 Award	FFY 2014 Award	FFY 2015 Award	FFY 2016 Award
WIC Nutrition & Food Svs.	\$105.7	\$103.4	\$102.0	\$101.1	\$100.3	\$101.5
Ryan White Act HIV/AIDS	\$28.0	\$27.6	\$26.4	\$27.4	\$25.8	\$29.6
Bioterrorism and Hospital Preparedness Program	\$26.6	\$22.8	\$23.7	\$22.3	\$21.0	\$21.2
Drinking Water Loan Fund & Water Supply Supervision	\$16.0	\$15.2	\$14.3	\$14.7	\$14.6	\$13.8
Maternal & Child Health Services Block Grant	\$12.3	\$12.2	\$11.7	\$12.0	\$11.9	\$12.1
<b>Total</b>	<b>\$188.6</b>	<b>\$181.2</b>	<b>\$178.1</b>	<b>\$177.5</b>	<b>\$173.6</b>	<b>\$178.2</b>

# HHR: Behavioral Health & Developmental Services

- Federal funds provided to the Department of Behavioral Health and Developmental Services have remained relatively level from FFY 2011 through FFY 2016
  - There was a slight decrease in FFY 2013 offset by a similar increase in FFY 2014

Federal Programs (\$ in millions)	FFY 2011 Award	FFY 2012 Award	FFY 2013 Award	FFY 2014 Award	FFY 2015 Award	FFY 2016 Award
Sub. Abuse Block Grant	\$42.9	\$42.8	\$40.5	\$41.7	\$41.7	\$42.0
Mental Health Block Grant	\$10.0	\$10.8	\$10.3	\$11.4	\$11.4	\$11.6
Part C Early Intervention Services	\$10.3	\$10.4	\$10.0	\$10.6	\$10.8	\$11.3
<b>Total</b>	<b>\$63.2</b>	<b>\$64.0</b>	<b>\$60.8</b>	<b>\$63.7</b>	<b>\$63.9</b>	<b>\$64.9</b>

# HHR: Department for Aging & Rehabilitative Services

- Federal funds subject to sequestration remained relatively level from FFY 2011 through FFY 2014, increasing by 6% in FFY 2015, primarily in the vocational rehabilitation grant
  - Balances in state spending of the vocational rehabilitation grant are often redistributed to states who can provide matching funds
  - Small uptick in other grants of 2.6% in FFY 2016

Federal Programs (\$ in millions)	FFY 2011 Award	FFY 2012 Award	FFY 2013 Award	FFY 2014 Award	FFY 2015 Award	FFY 2016 Award
Vocational Rehabilitation	\$63.8	\$62.4	\$62.4	\$62.4	\$67.9	\$67.9
Older Americans Act Services	\$31.8	\$32.4	\$29.2	\$31.2	\$31.2	\$32.0
Other Grants	\$3.8	\$5.0	\$5.0	\$5.5	\$6.0	\$7.9
<b>Total</b>	<b>\$99.4</b>	<b>\$99.8</b>	<b>\$96.6</b>	<b>\$99.1</b>	<b>\$105.1</b>	<b>\$107.8</b>

# K-12: Major Programs Allocated on a Statewide Basis to All School Divisions

- These six programs, distributed to all school divisions, make up about 80.3% of the \$1.0 billion in net federal revenues reported in FY 2015 and total \$4.1 million less than what was received in FY 2014
- Collectively, the net reduction equates to a 0.5% decrease

<u>Summary of Largest Federal Programs</u> (\$ in millions)	FY11 Total Grant Awards Spent	FY12 Total Grant Award Spent	FY13 Total Grant Award Spent	FY14 Total Grant Award Spent	FY15 Total Grant Award Spent
Special Education – IDEA	\$202.7	\$256.1	\$261.5	\$255.4	\$243.2
Title I, Part A – Basic School Improvements	\$211.3	\$258.4	\$250.4	\$221.2	\$223.9
National Lunch Program	\$190.4	\$204.3	\$210.2	\$217.8	\$223.9
National School Breakfast	\$55.0	\$62.8	\$63.6	\$66.4	\$221.2
Title II, Part A - Improving Teacher Quality	\$46.9	\$44.3	\$44.3	\$39.2	\$38.6
Voc. Education Basic Grant (Carl Perkins)	\$18.2	\$18.2	\$17.5	\$16.9	\$16.6
<b>Total</b>	<b>\$724.5</b>	<b>\$844.1</b>	<b>\$847.5</b>	<b>\$816.8</b>	<b>\$812.8</b>

## K-12: Programs Allocated to Selected Divisions

- These five federal programs are awarded to just certain divisions and account for about 10.3% of the remaining federal dollars Virginia received for public education
- In total, these programs realized a slight uptick of \$6.1 million from FY 2014 to FY 2015, which total about a 6.3% increase

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	FY15 Total Grant Award Spent
Impact Aid*	26	\$47.9	\$44.6	\$50.6	\$36.9	\$38.4
21 <sup>st</sup> Century Learning Centers	44	\$16.5	\$20.0	\$15.3	\$12.2	\$14.2
Head Start*	21	\$24.4	\$27.4	\$27.6	\$25.0	\$27.9
Adult Literacy	32	\$9.4	\$10.0	\$10.8	\$11.6	\$10.7
Language Acquisition	81	\$11.2	\$10.9	\$11.1	\$12.2	\$12.7
<b>Total</b>		<b>\$109.4</b>	<b>\$112.9</b>	<b>\$115.4</b>	<b>\$97.9</b>	<b>\$104.0</b>

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

## K-12: 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 – however, any reductions associated with sequestration is difficult to pinpoint on an annual basis due to the multiple year spend out that is permitted
- DOD funding for Impact Aid has realized a reduction in FY 2014 of \$13.7 million or about 2.7%
- Total revenues reported by the school divisions for FY 2015 reflect a modest increase of \$1.5 million

School Division (\$ in millions)	FY 2011 Total Grant Awards Spent	FY 2012 Total Grant Awards Spent	FY 2013 Total Grant Awards Spent	FY 2014 Total Grant Awards Spent	FY 2015 Total Grant Awards Spent
Virginia Beach	\$11.5	\$9.4	\$17.1	\$8.1	\$9.9
Fairfax County	\$4.5	\$3.9	\$3.7	\$2.5	\$2.7
Norfolk	\$4.1	\$6.4	\$4.2	\$3.5	\$2.6
Chesapeake	\$3.8	\$3.3	\$3.4	\$2.8	\$3.4
Prince George	\$3.9	\$4.0	\$4.6	\$4.1	\$4.9
York	\$8.4	\$8.2	\$9.2	\$8.7	\$9.2
Newport News	\$4.6	\$3.9	\$3.1	\$2.7	\$1.2
Stafford	\$1.5	\$1.3	\$1.2	\$0.9	\$1.4
Prince William	\$1.2	\$1.1	\$1.1	\$0.9	\$0.8
Hampton	\$1.9	\$0.8	\$0.7	\$0.5	\$0.4
Others	\$2.6	\$2.3	\$2.2	\$2.1	\$1.9
<b>Total</b>	<b>\$47.9</b>	<b>\$44.6</b>	<b>\$50.6</b>	<b>\$36.9</b>	<b>\$38.4</b>