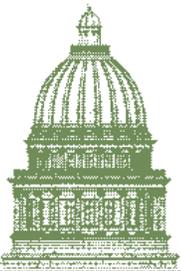


LFA



LEGISLATIVE FISCAL ANALYST

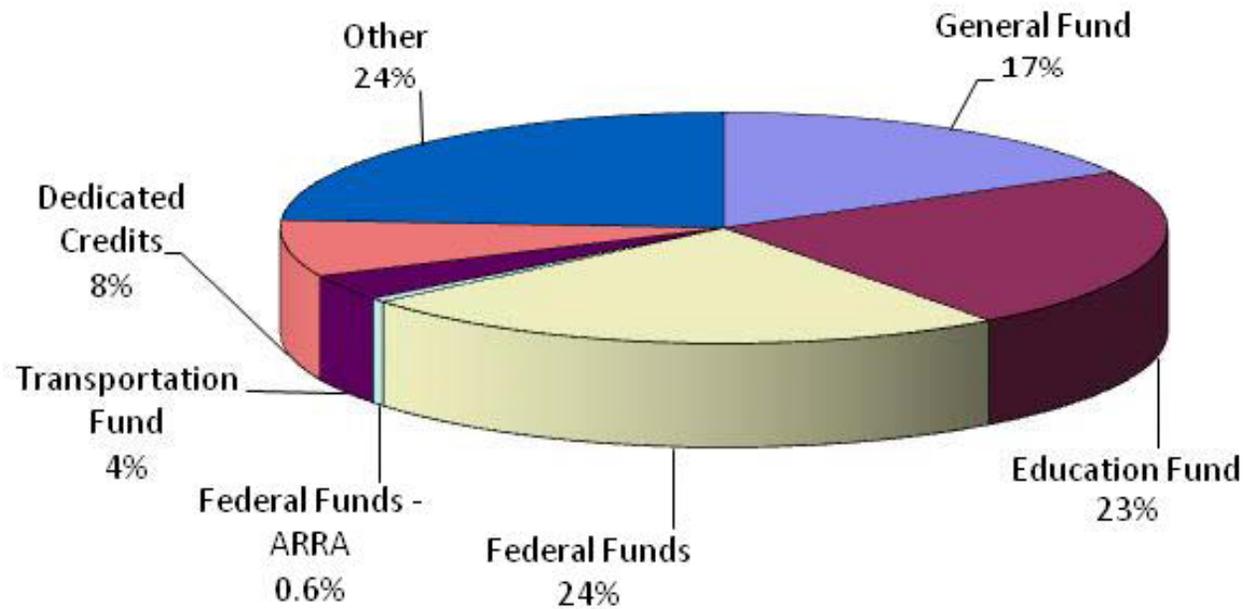


# Tightening the Belt:

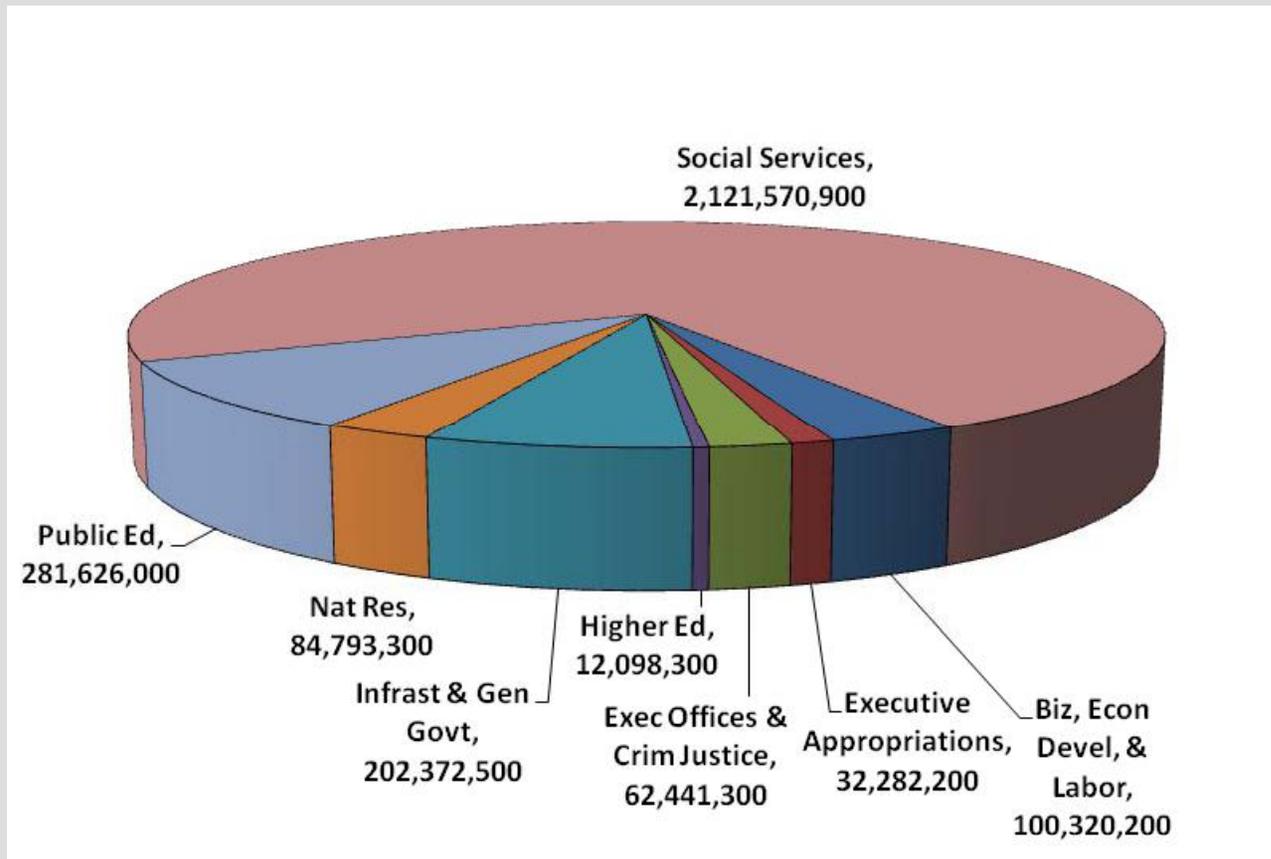
## How Federal Budget Actions Could Impact Utah

# OMB Staff Meeting

# FY12 Appropriations by Revenue Source



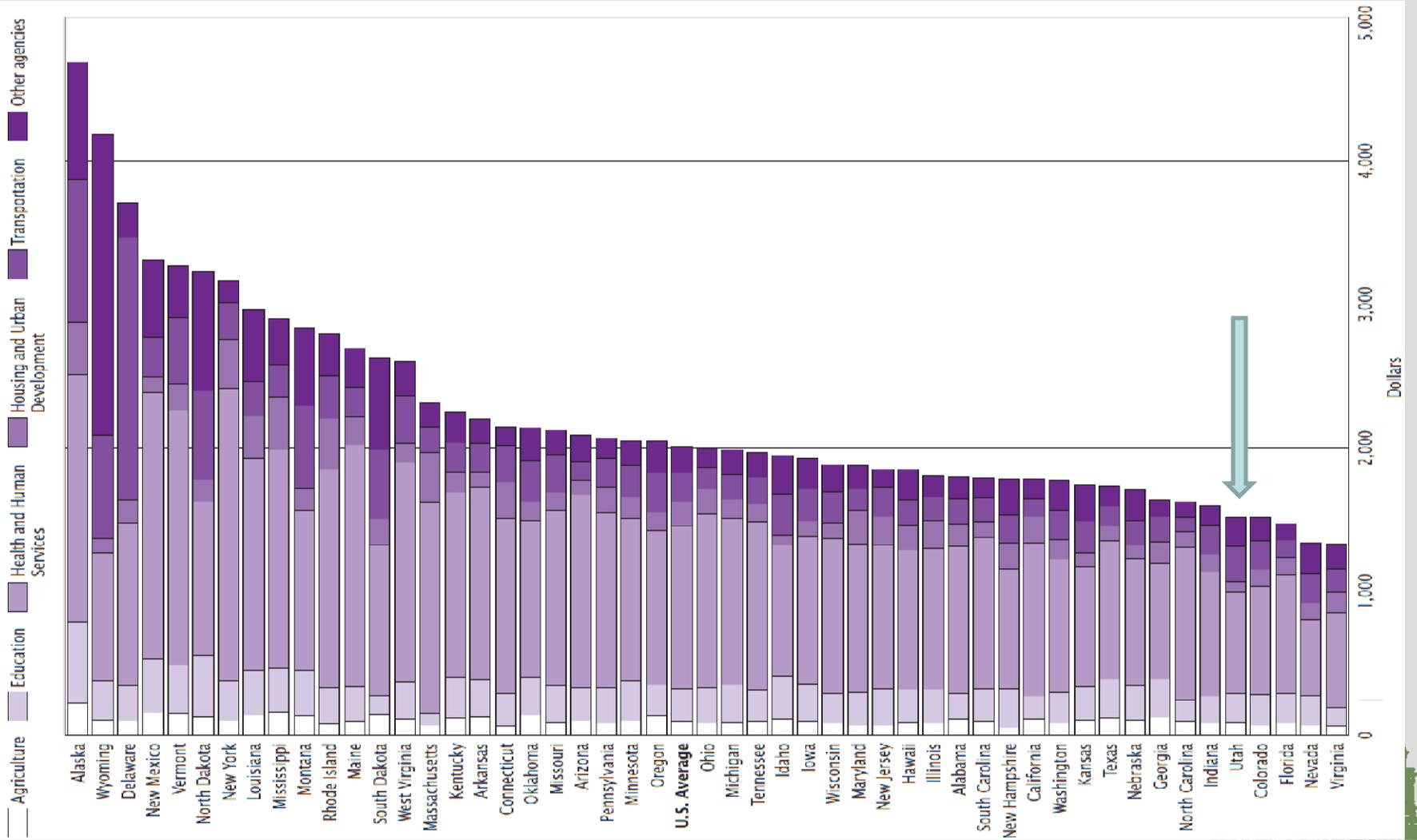
# FY12 Federal Fund Appropriations By Subcommittee



# Federal Aid to State/Local Govts

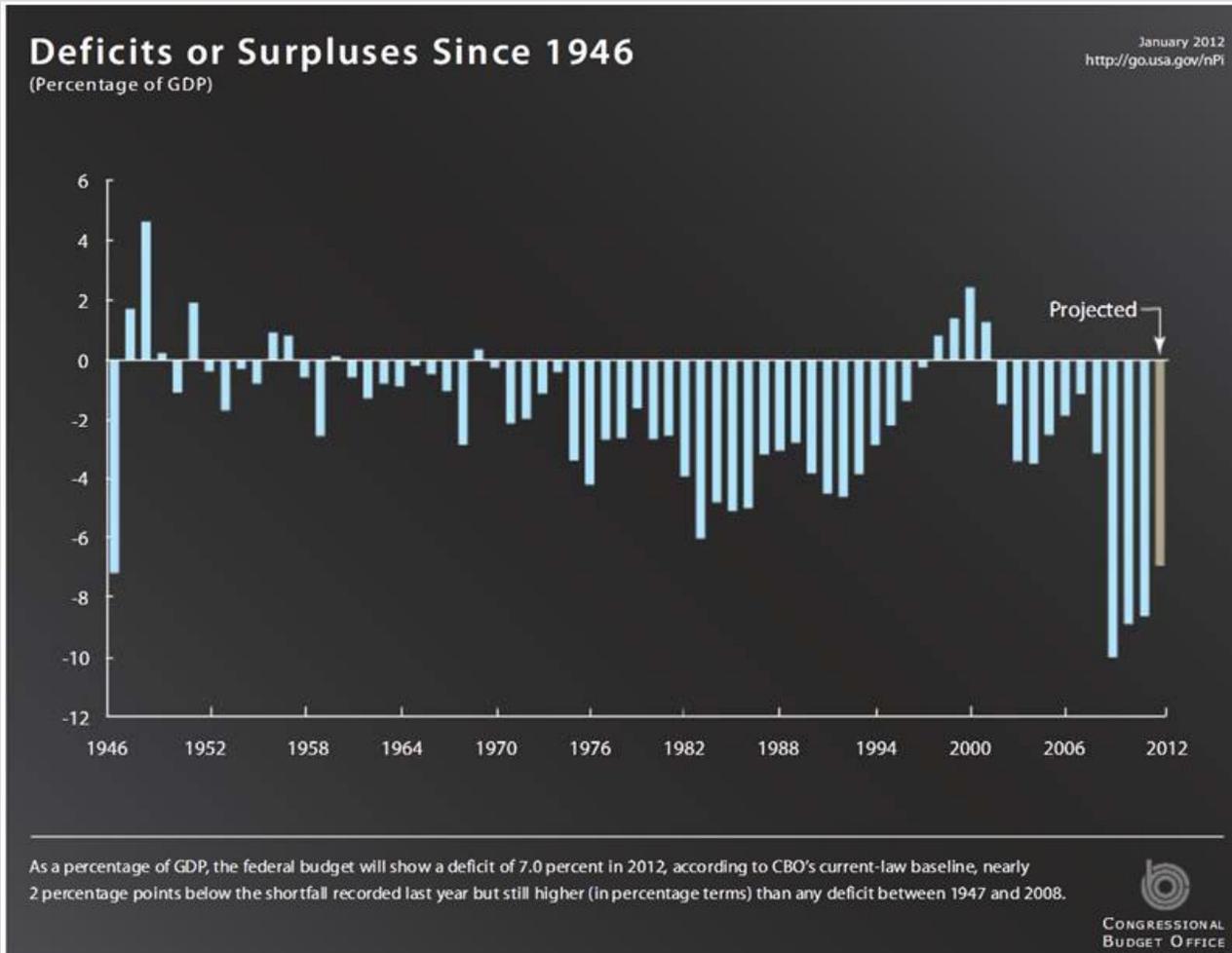
## Per Capita

Federal Aid to State and Local Governments, Per Capita Amounts by State, by Agency: Fiscal Year 2010

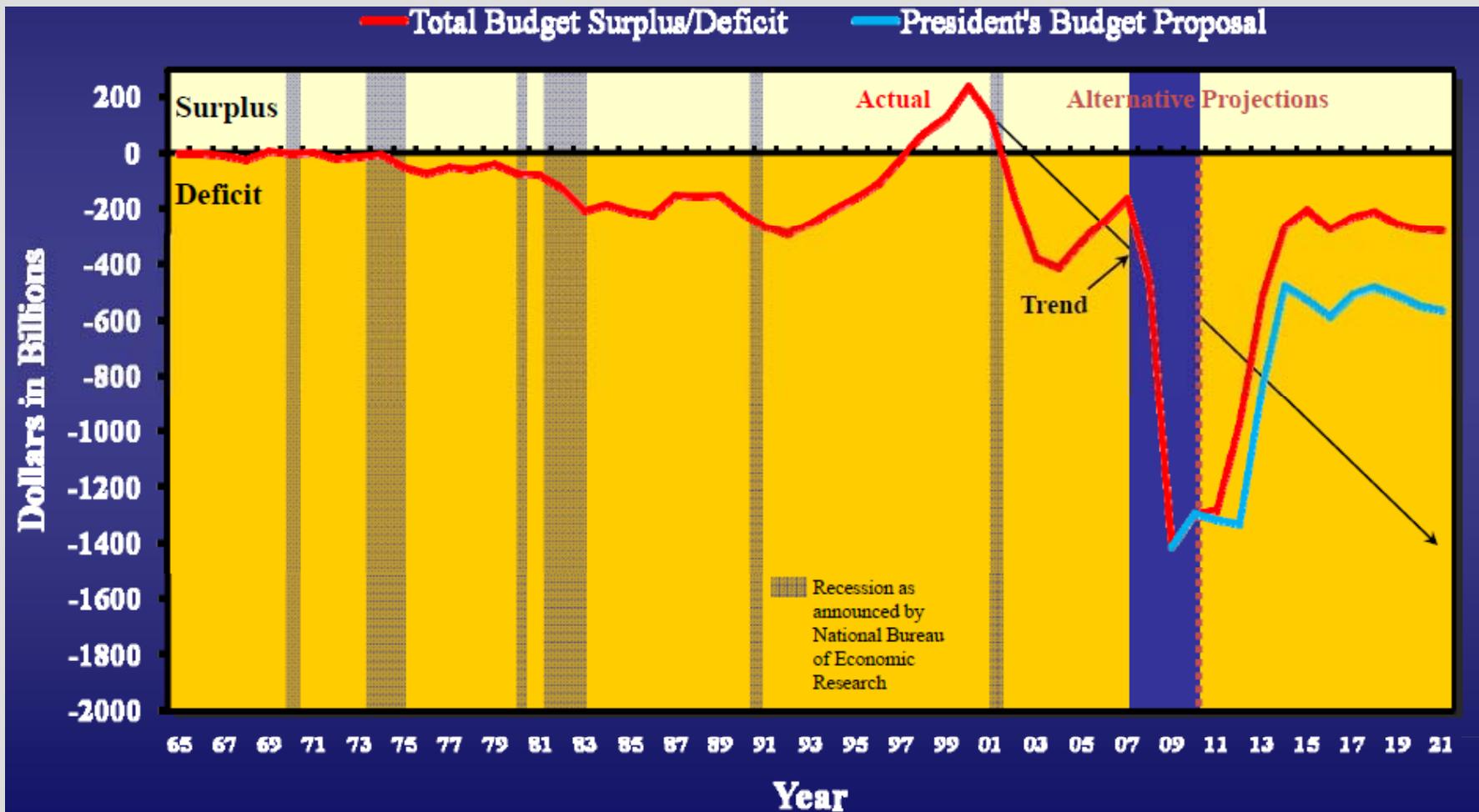




# Federal Deficits or Surpluses 1946-2012



# Total Budget Surplus/Deficit



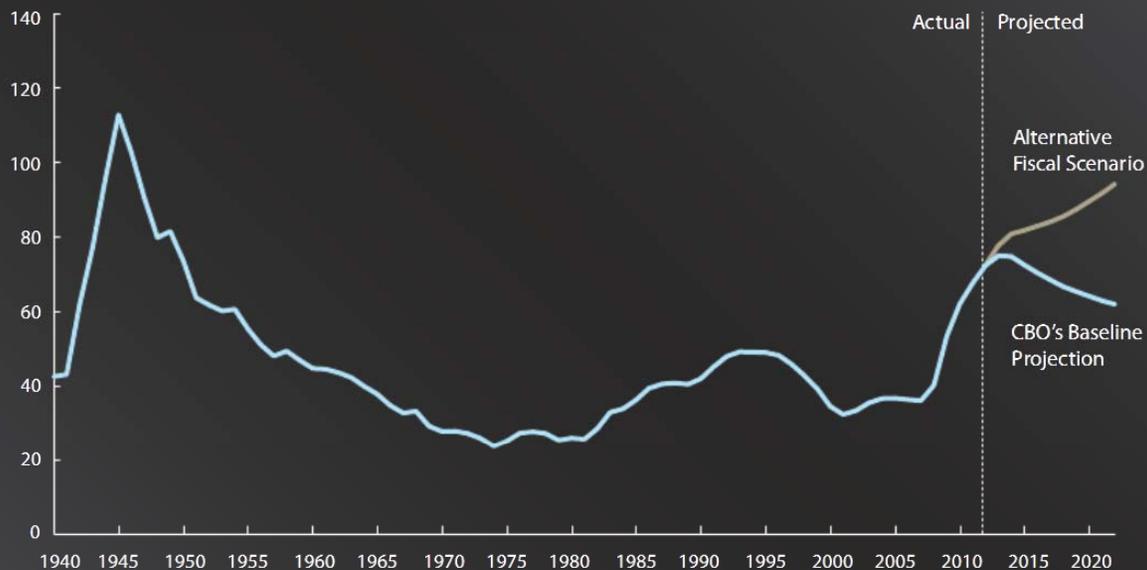
Source: "The Budget and Economic Outlook: Fiscal Years 2011 to 2021" Congressional Budget Office, August 2011.  
 Living Within Our Means & Investing in the Future, Office of Management and Budget, September 2011.

# National Debt Held by Public 1940-2012

## Federal Debt Held by the Public, Historically and As Projected in CBO's Baseline and Under an Alternative Fiscal Scenario

(Percentage of GDP)

January 2012  
<http://go.usa.gov/nPi>



With modest deficits anticipated for much of the 10-year projection period of CBO's current-law baseline, debt held by the public recedes as a percentage of GDP. However, if some of the changes specified in current law did not occur and certain current policies were continued instead, debt held by the public would rise to 94 percent of GDP by the end of 2022, the highest figure since just after World War II.



# Gross National Debt

## CBO's Estimates of Federal Debt Under the President's Budget for 2012

(Billions of dollars)

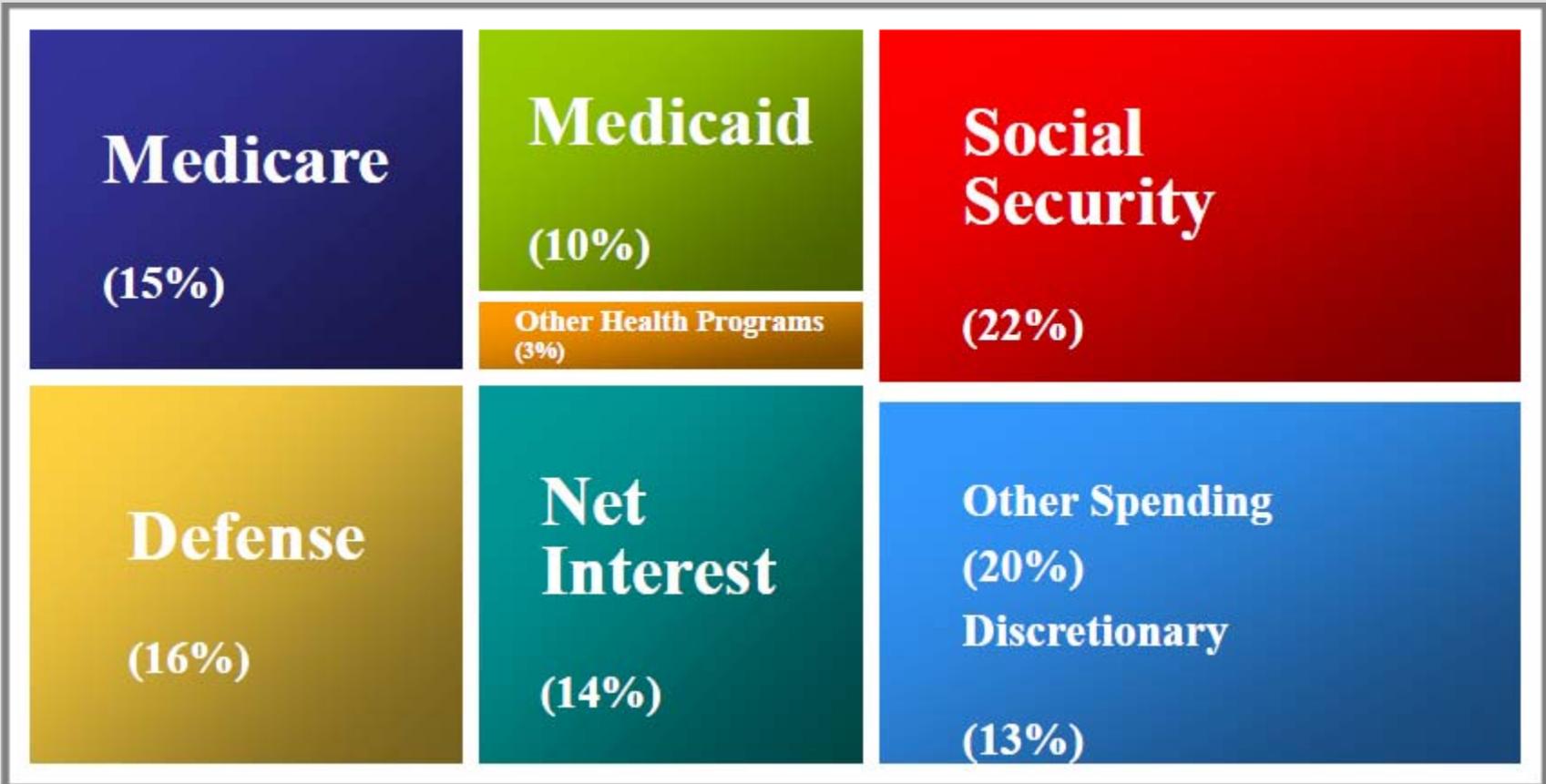
|   | Actual<br>2010 | 2011   | Estimate<br>2/23/12 | 2012   | 2013   | 2014   | 2015   |
|---|----------------|--------|---------------------|--------|--------|--------|--------|
| Debt Held by the Public                           | 9,019          | 10,389 | 10,700              | 11,661 | 12,660 | 13,516 | 14,359 |
| Debt Held by Government Accounts <sup>a</sup>     | 4,510          | 4,639  | 4,800               | 4,796  | 4,952  | 5,144  | 5,363  |
| Gross Federal Debt <sup>b</sup>                   | 13,529         | 15,028 | 15,500              | 16,457 | 17,612 | 18,660 | 19,722 |
| Debt Subject to Limit <sup>c</sup>                | 13,511         | 15,011 |                     | 16,440 | 17,596 | 18,644 | 19,707 |
| Memorandum:                                       |                |        |                     |        |        |        |        |
| Debt Held by the Public<br>as a Percentage of GDP | 62.1           | 69.1   |                     | 74.3   | 77.2   | 78.3   | 78.9   |
| Gross Federal Debt<br>as a Percentage of GDP      | 93.2           | 100.0  |                     | 104.9  | 107.4  | 108.1  | 108.4  |

Source: Congressional Budget Office (March 2011).

Source: U.S. Dept of Treasury

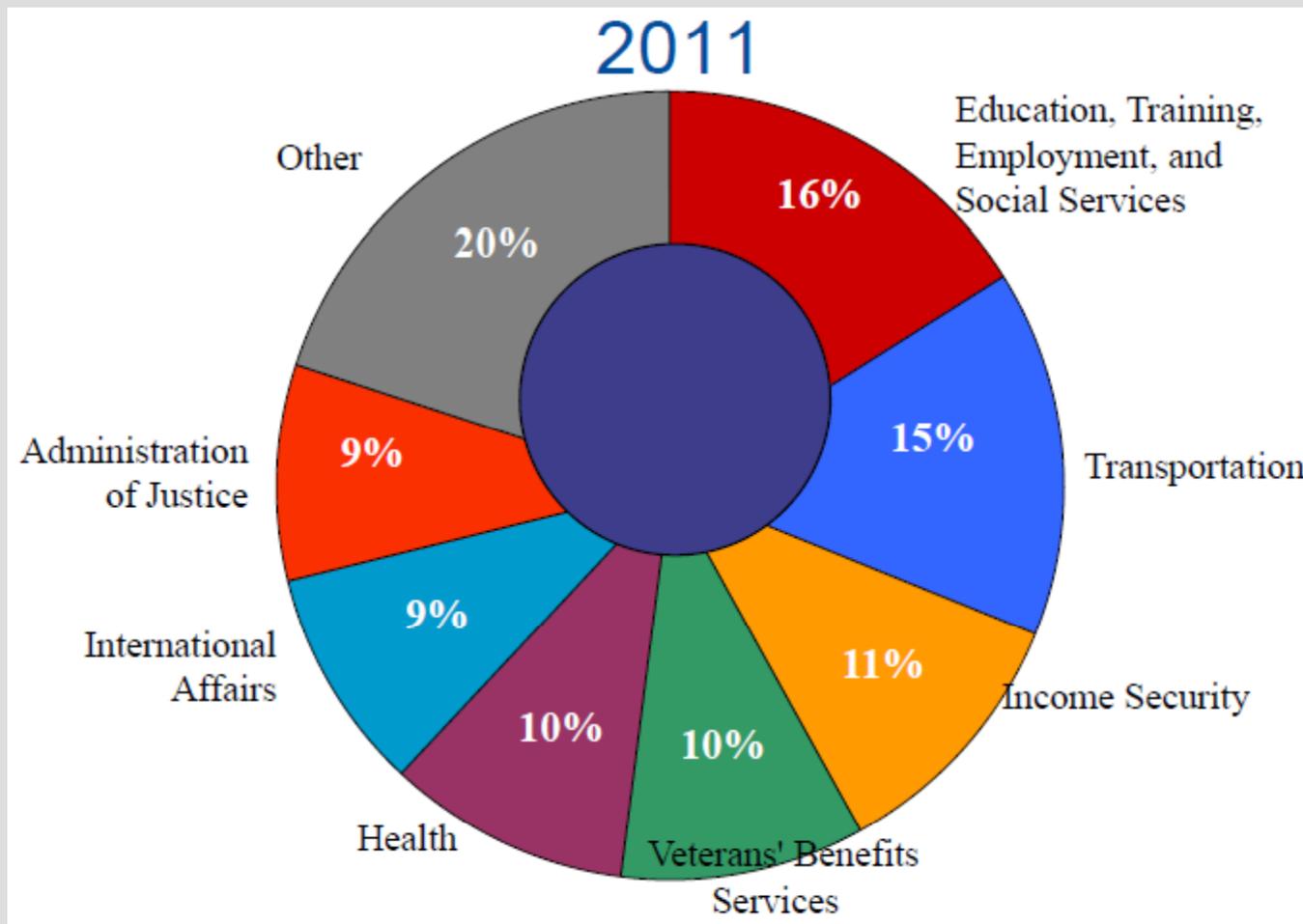
# Federal Spending Projected 2020

(CBO January 2011)



Other Health Programs" includes: Health insurance subsidies, exchanges, and related spending; Department of Defense Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life); Children's Health Insurance Program, and other programs.

# Non-Defense Discretionary Spending



# The BCA's of Federal Funds

- What happened?
- Why do I care?
- What does the future hold?

# Overview: BCA of 2011

Three components with potential to affect future funding for states:

1. Discretionary spending caps with adjustments (done)
2. Joint Select Committee on Deficit Reduction (failed)
3. Sequestration process (forthcoming)

# Discretionary Spending Caps

## Discretionary Spending Limits Under Budget Control Act of 2011\*

(\$ in billions)

|                                   | FY 2012        |                |                |                |                | FY 2013        | FY 2014        | FY 2015        | FY 2016        | FY 2017        | FY 2018        | FY 2019        | FY 2020        | FY 2021        |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                   | FY 2010        | FY 2011        | President      | House          | Agreement      |                |                |                |                |                |                |                |                |                |
| Security**                        | \$683          | \$689          | \$719          | NA             | \$684          | \$686          | NS             |
| Non-Security                      | \$402          | \$361          | \$397          | NA             | \$359          | \$361          | NS             |
| <b>Total</b>                      | <b>\$1,084</b> | <b>\$1,050</b> | <b>\$1,116</b> | <b>\$1,019</b> | <b>\$1,043</b> | <b>\$1,047</b> | <b>\$1,066</b> | <b>\$1,086</b> | <b>\$1,107</b> | <b>\$1,131</b> | <b>\$1,156</b> | <b>\$1,182</b> | <b>\$1,208</b> | <b>\$1,234</b> |
| Dollar change from previous year  |                | -\$34          | \$66           | -\$31          | -\$7           | \$4            | \$19           | \$20           | \$21           | \$24           | \$25           | \$26           | \$26           | \$26           |
| Percent change from previous year |                | -3.2%          | 6.3%           | -2.9%          | -0.7%          | 0.4%           | 1.8%           | 1.9%           | 1.9%           | 2.2%           | 2.2%           | 2.2%           | 2.2%           | 2.2%           |

\*Figures exclude funding for overseas contingency operations

\*\*Security spending consists of spending from within the departments of Defense, Homeland Security, VA, National Nuclear Security Administration, intelligence community management, and budget function 150 (international affairs).

Sources: FY 2012 budget for FY 2010 and FY 2012 President; House Budget Committee website for House FY 2012; NGA for FY 2011

\$917 billion in discretionary savings (\$787 billion without interest savings) over 10 years.

# Joint Select Committee on Deficit Reduction

- \$1.2 trillion (\$984 without interest savings) over nine years
  - \$492 B in non-defense discretionary / mandatory spending
  - \$492 B in defense discretionary spending

# Super Failure

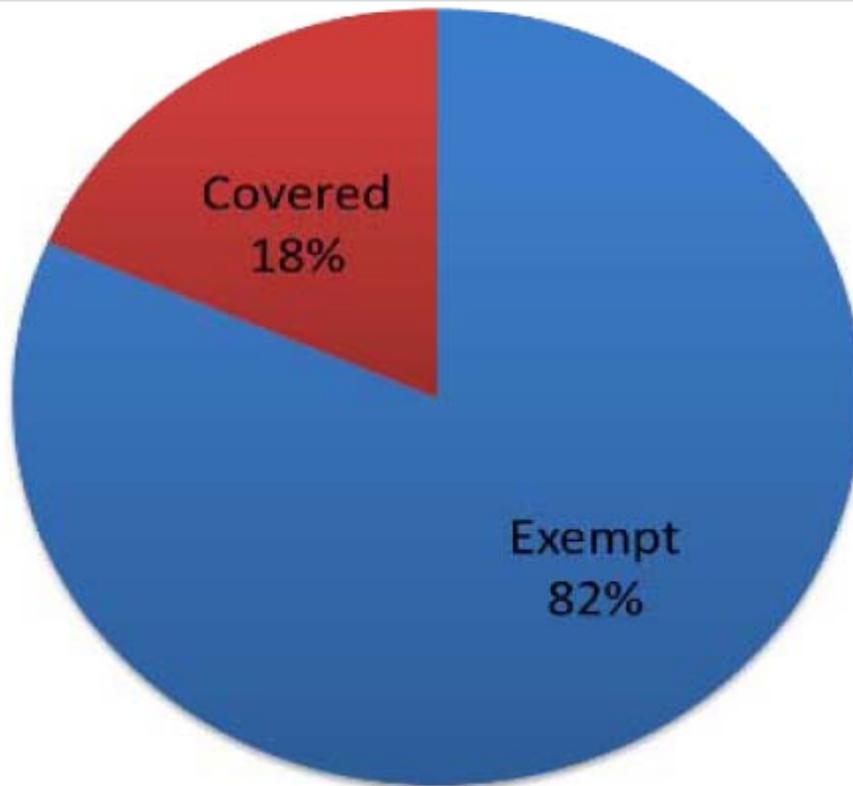
No Agreement  
on  
November 21



Automatic Cuts are “Triggered” for  
FYs 2013-2021

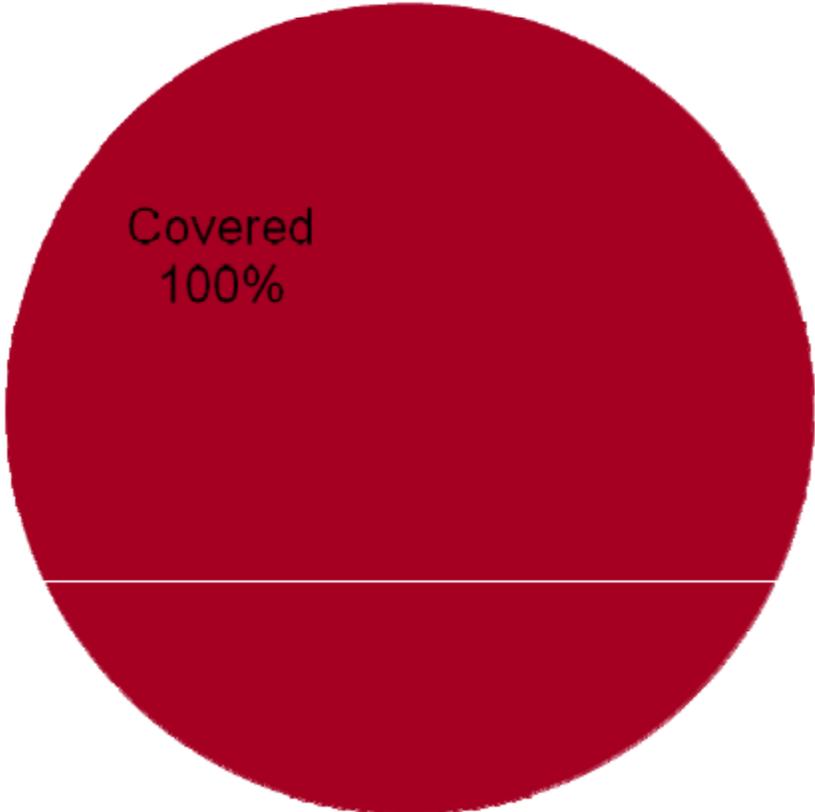
**Process Ends**

# Sequestration: Non-Defense



Total funding: \$586 billion  
FFY 12 domestic discretionary and  
mandatory spending that goes to  
states

# Sequestration: Defense



Covered  
100%

Total Funding: \$530 billion  
in FY 2012

# Sequestration Exemptions

- Most transportation programs
- Medicaid (vendor pmts & admin)
- Pell Grants
- CHIP
- Most child nutrition and food stamps
- Most child care, child support enforcement, foster care, and adoption assistance
- Abandoned Mine Reclamation Fund
- Crime Victims Fund

# Sequestration Non-Exemptions

- Education (elementary, secondary, vocational, and higher)
- Employment and training
- Energy
- Environment
- Agriculture / Natural Resources
- Justice
- Housing / Community Development
- Social Services (non-mandatory)
- Health (non-Medicaid / CHIP)
- National Forests / Mineral Leasing
- Defense

# Examples of Programs

Subject to Sequestration

- Clean/Drinking Water Revolving Fund Grants
- WIC Program
- State Wildlife Grants
- Low-Income Energy Assistance Program
- No Child Left Behind
- Rural and Low-Income School Program
- CDC Immunization Grants

# Current Year (FY 2012)

- Expect overall federal discretionary grant funds **reduced 2.7 percent**
  - Weatherization and Energy Assistance
  - Byrne Justice Assistance Grants
  - Highway and Highway Safety
  - Water Revolving Funds
  - Community Development Block Grants
  - Women, Infants, and Children

## Next Year (FY 2013)

- Expect overall federal discretionary and mandatory/entitlement programs to be **reduced 8-9 percent** through **across the board** reductions to non-exempt programs.

# Next Year (FY 2013)

- Reductions primarily in:
  - Education (Title I and special education)
  - Energy (incl. low income energy assistance)
  - Environment (incl. water loan funds)
  - Criminal Justice
  - Community Development
  - Human Services

# Impact on Utah of 9%

## FY 2011 Grant Amounts and Potential Losses

- Agriculture: \$43M = \$4M Potential Loss
- Education: \$257M = \$23M Potential Loss
- Environment: \$26M = \$2M Potential Loss
- Health/Human Services: \$140M = \$13M Potential Loss
- Homeland Security: \$10M = \$1M Potential Loss
- HUD: \$9M = \$0.8M Potential Loss
- Justice: \$6M = \$0.5M Potential Loss
- Labor: \$54M = \$5M Potential Loss
- Transportation: \$378M = \$34M Potential Loss
- Other: \$13M = \$1M Potential Loss
- Total: \$936M = \$85M Potential Loss

Source: GOPB

# Next Year (FY 2013)

- Education Reductions
  - States may have to backfill some education cuts (particularly Title I and special education) on a one-to-one basis or risk court action that could be even more expensive.

# Next Year (FY 2013)

- Defense appropriations reduced by **about 10 percent** likely to affect the state economy:
  - Base operations
  - Defense contracting
  - Weapons development
- Another round of BRAC?

# Uncertainty Prevails

- Elections in November
- Will Congress allow cuts, amend BCA, or punt to next Congress?
- Debt Limits
- Bush Tax Cuts
- Tax Extenders
- Tax Reform
- Credit Downgrades
- Impasse

# What Seems Certain

- Further Discretionary Reductions
- Education, Energy, Environment, Health, Human Services, Housing, Justice, Labor/Employment will carry the brunt of cuts under sequester
- Defense reductions under sequester
- Numerous programs exempt in FY 2013; after that, it's all up to appropriators
- Short term relief from unfunded or underfunded federal mandates highly unlikely
- Federal funding for inflationary costs unlikely

## Two Years Out (FY 2014)

- Determined through appropriations process from overall spending caps.
- If caps breached, across the board cuts apply.

# 2012's Big Dates

- January, December: Debt Ceiling
- February: President's Budget
- February/December: UI, Payroll Tax, Medicare
- April: Budget Resolution
- September: Appropriations Deadline FY 2013
- November: Elections
- December: Tax Cuts, Tax Extenders

# Recent Developments

- Programs renewed 2/17/12:
  - Extended unemployment compensation benefits (100% federal funded)
  - Extended payroll tax cut (6.2% to 4.2%)
  - Medicare provider reimbursement – averted a 27% reduction
- Will cost \$150 B (2/3 borrowed)

# President's FY13 Budget Highlights

- \$3.8 Trillion, 2,571 pages
- Averts sequestration via \$3T 10-year deficit reduction plan
- Deficit reduction plan includes increased taxes on wealthy; Medicare and Medicaid savings; savings from winding down overseas military ops; reduced high-earner itemized deductions; termination of oil/gas preferences
- Includes \$350B "JOBS" initiative
- Increases domestic discretionary spending by 7% over sequester levels and defense discretionary by 12%
- Program consolidations in Education and HL Security

# President's FY13 Budget Highlights

- Additional competitive or Race to the Top grants, notably higher education, early childhood education
- Makes permanent the Build America Bond program; limits deductibility of interest on tax-exempt bonds
- Funds 5-year reauthorization of SAFETEA
- Eliminates direct agricultural payments
- Funds National Interoperable Communications Network
- Defense: Eliminates weapons programs; proposes two BRAC rounds, proposes pay raise for military personnel
- Increases funding for TANF, ChildCare, Child Nutrition, and most low-income programs

# What has Utah Done to Prepare?

- HB 138, 2011 GS: Agencies must annually report plans in case of a 5% or 25% loss of federal funds
- Legislature must authorize each federal grant over \$1M
- Attention to “strings”

# Thanks

- The analyst thanks NCSL for providing much of the material in this presentation.