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# THE BCA'S OF FEDERAL FUNDS





NATIONAL CONFERENCE *of* STATE LEGISLATURES

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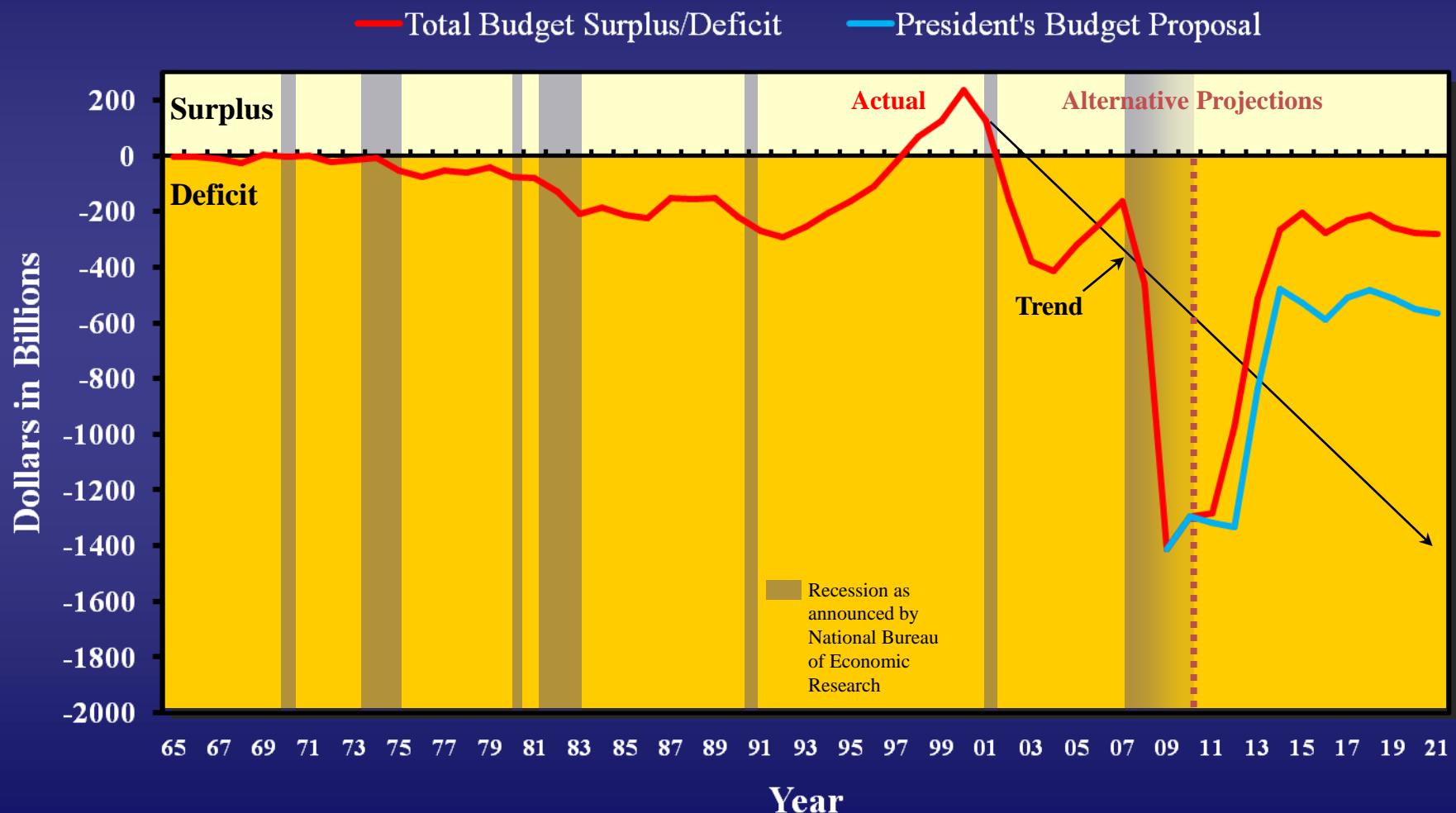
# ALASKA HOUSE FINANCE COMMITTEE

- **MICHAEL BIRD, SENIOR FEDERAL AFFAIRS COUNSEL, NCSL**
  - **FEBRUARY 21, 2012**

# HOW WE GOT WHERE WE ARE – AND WHERE WE ARE GOING

# Total Budgets Surplus/Deficit

CBO Baseline Projection (Aug. 2011) – President's 2012 Proposal (Sept. 2011)  
 FY 1965 - 2021



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.

## Budget Outlook

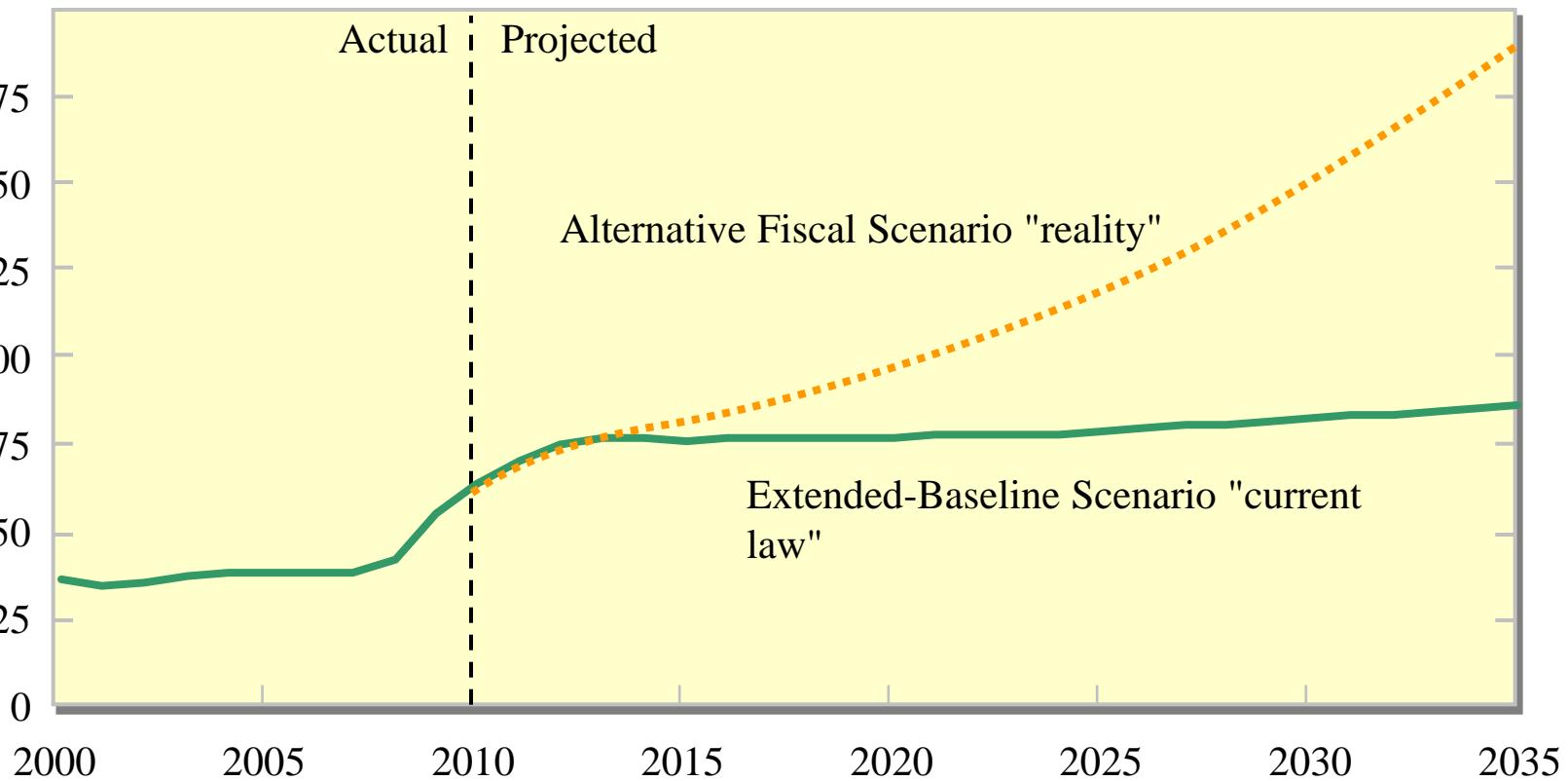
FY 2010 – 2015 (In Billions of Dollars - % of GDP)

	2010 Actual	2011 Est	2012 Proj →	2013	2014	2015	2016	% Δ annual 2011-2016
<b>Receipts</b>	<b>2,163</b>	<b>2,314</b>	<b>2,635</b>	<b>3,069</b>	<b>3,423</b>	<b>3,665</b>	<b>3,847</b>	+ 10.7 %
<b>Spending</b>	<b>3,456</b>	<b>3,597</b>	<b>3,609</b>	<b>3,692</b>	<b>3,803</b>	<b>3,988</b>	<b>4,249</b>	+ 4.2 %
<b>Deficits*</b>	<b>1,294</b>	<b>1,284</b>	<b>973</b>	<b>623</b>	<b>380</b>	<b>322</b>	<b>402</b>	NA
<b>% of GDP</b>	<b>8.9%</b>	<b>8.5%</b>	<b>6.2%</b>	<b>3.9%</b>	<b>2.2%</b>	<b>1.8%</b>	<b>2.1%</b>	NA
<b>Public Debt**</b>	<b>9,019</b>	<b>10,164</b>	<b>11,153</b>	<b>11,773</b>	<b>12,148</b>	<b>12,463</b>	<b>12,840</b>	+ 4.8%
<b>% GDP</b>	<b>62%</b>	<b>67%</b>	<b>71%</b>	<b>73%</b>	<b>72%</b>	<b>69%</b>	<b>67%</b>	
<b>Debt Subject Limit**</b>	<b>13,511</b>	<b>14,779</b>	<b>15,910</b>	<b>16,646</b>	<b>17,162</b>	<b>17,664</b>	<b>18,261</b>	+ 4.39%
<b>% GDP</b>	<b>93%</b>	<b>98%</b>	<b>102%</b>	<b>103%</b>	<b>101%</b>	<b>97%</b>	<b>96%</b>	

# Federal Debt Held by the Public Under Two Budget Scenarios

## Long-Term Budget Outlook

Percentage of gross domestic product



Note: The extended-baseline scenario adheres closely to current law, following CBO's 10-year baseline budget projections through 2021 and then extending the baseline concept for the rest of the long-term projection period. The alternative fiscal scenario incorporates several changes to current law that are widely expected to occur or that would modify some provisions that might be difficult to sustain for a long period.

# Federal Spending Projected for 2020

CBO -- January 2011 Est.

**Medicare**

(15%)

**Medicaid**

(10%)

**Social Security**

(22%)

**Defense**

(16%)

**Net Interest**

(14%)

**Other Spending**

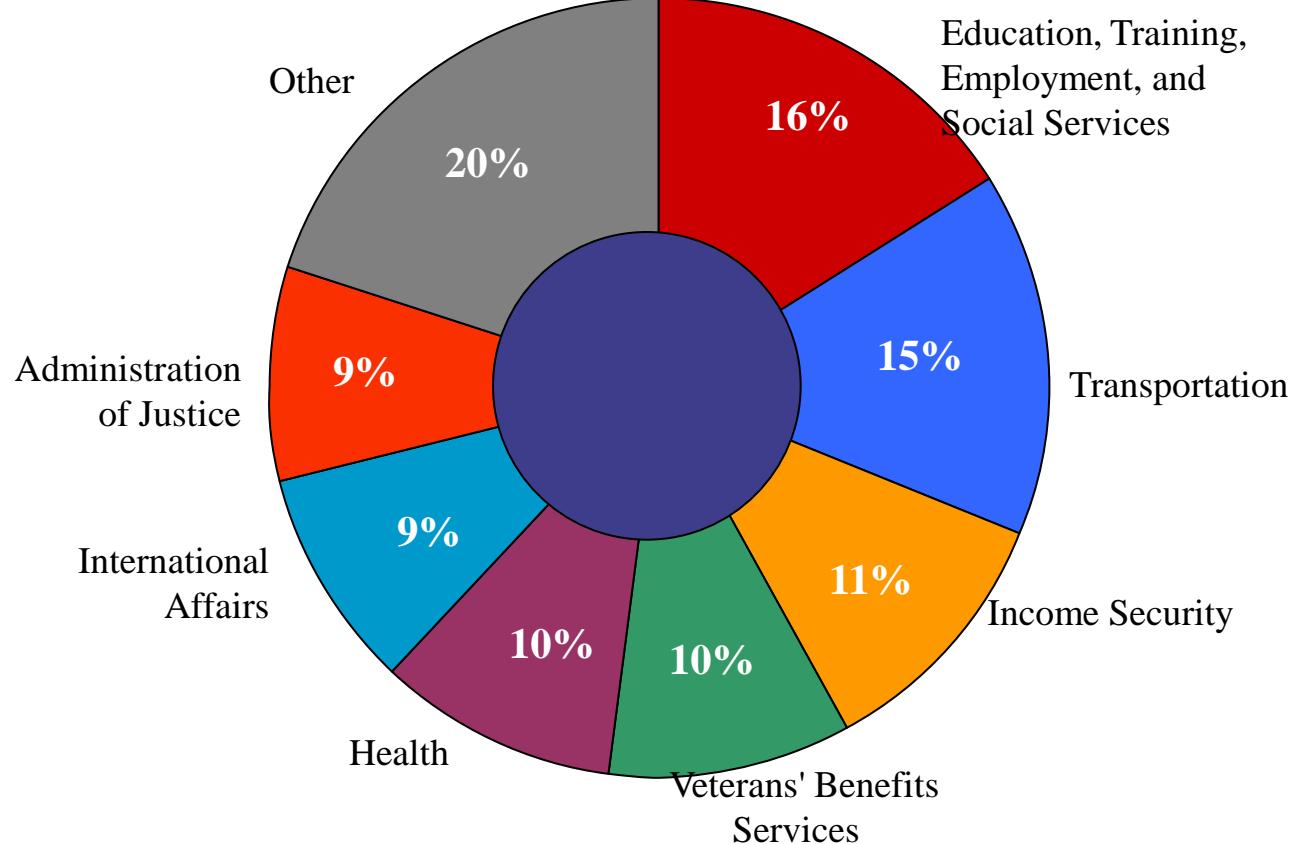
(20%)

**Discretionary**

(13%)

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.

# Nondefense Discretionary Spending 2011



Note: Non-defense includes budgetary resources provided by obligation limitations for certain ground and air transportation programs.

\* Includes funding for natural resources and environment; general science, space, and technology; general government; community and regional development; agriculture; Medicare and Social Security (for administrative activities); energy; and commerce and housing credit discretionary funding.

# A BRIEF HISTORY OF DEFICIT REDUCTION STUDIES, REPORTS AND NEGOTIATIONS



# Recent Reports to Curb the Federal Deficit and Potentially Re-craft the State-Federal Fiscal Partnership

- The National Commission on Fiscal Responsibility and Reform
- The Co-Chairs Proposal
- The Bipartisan Policy Center
- The New America Foundation
- The Committee for a Responsible Federal Budget
- The Esquire Commission
- Several Others

# Common Features Among Recent Reports

- Comprehensive in scope
  - include both spending and revenue recommendations
  - put everything or most everything on the table
- Bipartisan
- Primarily federal policymakers
- Missing ingredient: state and local government impact

# Major Areas Addressed in Reports with Potential Repercussions for State-Federal Fiscal Partnerships

- Domestic discretionary spending
- Medicaid, Medicare and other mandatory and entitlement programs
- Federal tax reform
- Federal tax expenditures
- Social security
- Public finance
- Medical malpractice
- Transportation



# What Happened? Why Should I Care? The Past, Present and Future of the Budget Control Act: BCA's of Federal Funds-

# Overview: BCA of 2011

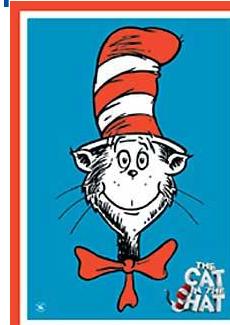
Three components with potential to affect future funding for state grant programs:

- Discretionary spending caps w/adjustments (done)
- Joint Select Committee on Deficit Reduction (failed)
- Sequestration process (forthcoming)

# BCA “DEFICIT SAVINGS”

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

- Thing 1: \$917 billion in discretionary spending (\$787 billion without interest savings) over ten years via spending caps.
- Thing 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.



# Super Failure

No Agreement  
on  
November 21



Automatic Cuts are “Triggered” for  
FYs 2013-2021

**Process Ends**



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# Discretionary Spending Caps

Discretionary Spending Limits Under Budget Control Act of 2011\*  
(\$ in billions)

	FY 2012													
	FY 2010	FY 2011	President	House	Agreement	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
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

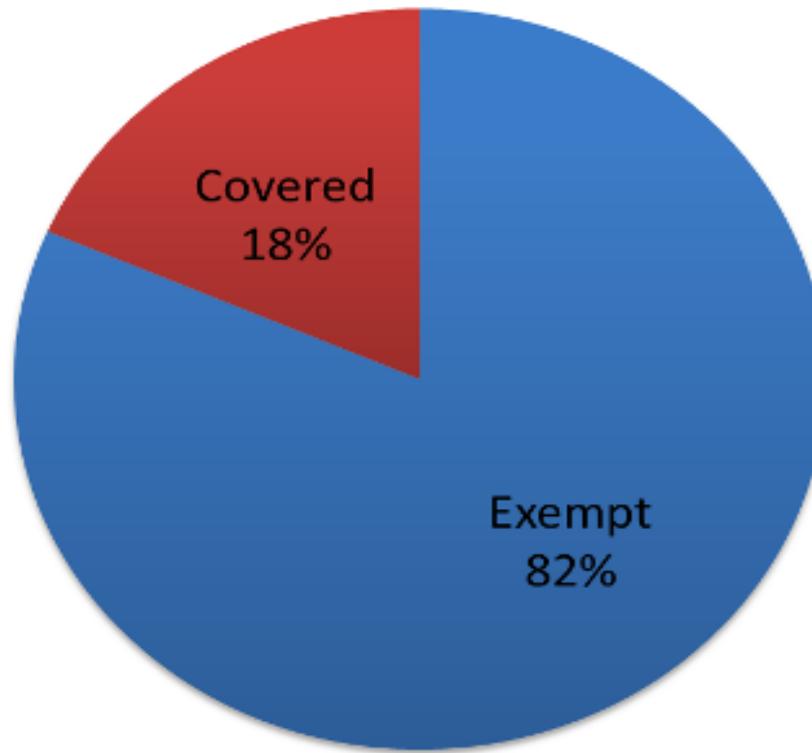
\*\*Security spending consists of spending from within the departments of Defense, Homeland Security, VA, National Nuclear Security Administration, intelligence community management, and budget function 150 (international affairs).

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

"Thing 1" - \$917 billion in savings over 10 years.



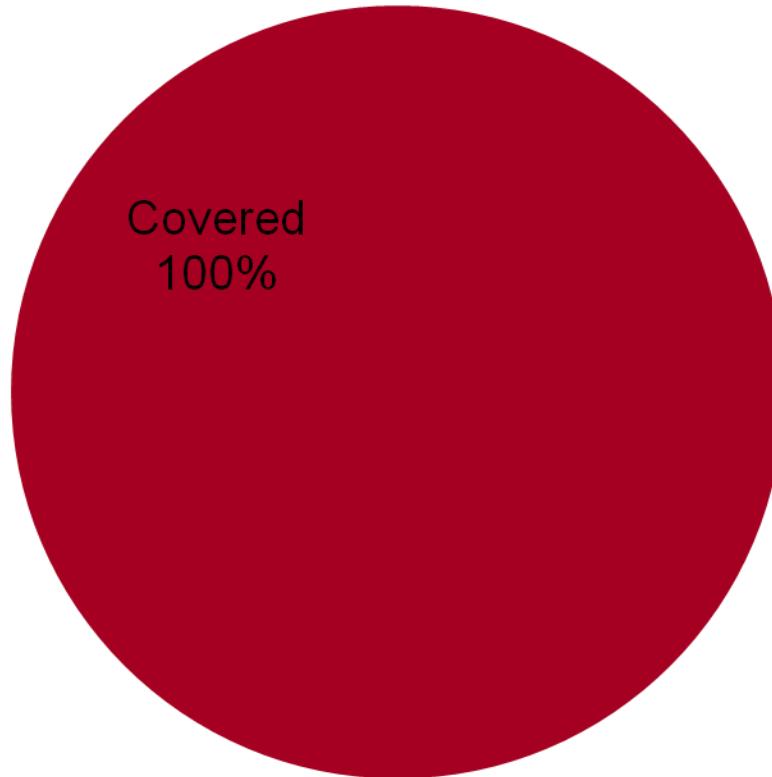
# What We Can Say About a Sequester- "Thing Two" (non-defense)



Total funding: \$586 billion

FFY 12 domestic discretionary and  
mandatory spending that goes to  
states

# What We Can Say About a Sequester- "Thing Two" (defense)



Total Funding: \$530 billion  
in FFY 2012

## 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

Crime Victims 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 Guess About a Sequester

## Potential Impact of FY 2013 Sequester on Selected Discretionary Grant Programs

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

# Impact of BCA on Alaska - nondefense

## "Thing Two"

(in thousands)

FFY 2012 – Exempt from Sequestration	\$2,055,924
FFY 2012 – Covered (Subject to Sequestration)	\$604,238
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Total	\$2,660,162
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Hypothetical FFY 2013 Covered (Subject to Sequestration)	\$553,746
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## “Thing Two” - Examples of programs subject to sequestration

- Clean / Drinking Water State Revolving Funds (SRF) Grants
- Woman, Infants, and Children (WIC) Program
- State Wildlife Grants
- Low-Income Energy Assistance Program (LIHEAP)
- No Child Left Behind
- Rural and Low-Income School Program
- Centers for Disease Control and Immunization (CDC) Immunization Grants

## FEDERAL DEFICIT/OTHER CONCERNS

- 2.7 % Discretionary Spending Reductions, FFY 2012 (on heels of 4.6% reduction in FFY2011)
- 8-9% Discretionary/Mandatory Spending Reductions, FFY 2013
- 10% Defense Discretionary Spending Reductions, FFY 2013
- Uncertainty
- Credit Rating Downgrades
- “The World of Bankruptcy, Defaults, Pensions, Bailouts and State Fiscal Conditions”
- Impasse on Reauthorizations
- Tax-Exempt Financing
- Tax “Reform”

## “CERTAINTY” FOR FFY 2013

- Further Discretionary Spending Reductions
- Education, Energy, Environment, Health, Human Services, Housing, Justice, Labor/Employment will carry the brunt of spending reductions IF sequester holds.
- Defense Reductions Imminent if Sequester Holds
- Numerous Programs Exempt for FFY13. After that, it is all up to the appropriators.

# THE LOOMING 'CRASH' OF '12

- January, December      Debt Ceiling
- February      President's Budget
- February/December      Payroll Tax, UI, Medicare
- April      Budget Resolution
- September      Appropriations Deadline; New Fiscal Year
- November      Elections
- December      2001, 2003, 2010 Tax Cuts
- December      Tax Extenders
- All Year Long      Reauthorizations

# HIGHLIGHTS OF PRESIDENT OBAMA'S FY2013 BUDGET

- \$3.8 TRILLION; 2,571 pages
- Averts "SEQUESTRATION" via \$3 Trillion, 10-year deficit reduction plan
- DEFICIT REDUCTION PLAN includes increased taxes on high-income individuals; Medicare and Medicaid savings; savings from winding down overseas military operations; reduced high-earner itemized deductions; termination of oil and gas tax preferences.
- MEDICAID SAVINGS: state provider tax restrictions; blended matching rate for Medicaid and CHIP; reduced state disproportionate share allotments.
- Includes \$350 billion FY 2012 "JOBS" initiative with increased funding for state transportation/infrastructure and state teacher retention efforts.
- Increases DOMESTIC DISCRETIONARY SPENDING FOR FY2013 by 7% over sequester levels and DEFENSE DISCRETIONARY SPENDING by 12%.

## BUDGET HIGHLIGHTS (CONT.)

- MAJOR PROGRAM CONSOLIDATIONS in education and homeland security.
- ADDITIONAL COMPETITIVE OR RACE TO TOP GRANTS, notably higher education, early childhood education
- MAKES PERMANENT BUILD AMERICA BONDS PROGRAM; LIMITS DEDUCTIBILITY OF INTEREST ON TAX-EXEMPT BONDS.
- FUNDS 5-YEAR REAUTHORIZATION OF SAFETEA-LU.
- ELIMINATES DIRECT AGRICULTURAL PAYMENTS
- FUNDS NATIONAL INTEROPERABLE COMMUNICATIONS NETWORK
- DEFENSE: eliminates some weapons programs; proposes two base realignment and closure rounds; proposes pay raise for military personnel
- INCREASES FUNDING for TANF, Child Care, Foster Care, Child Nutrition and most low-income programs except LIHEAP, SSBG, CSBG.

# LIKELY COMPONENTS – HOUSE BUDGET RESOLUTION

- Domestic Discretionary Spending Below BCA Cap
- Medicare, Medicaid, and other Entitlement Overhauls related to Savings
- Block Grants: Medicaid and Food Stamps (or at least enhanced flexibility)
- No Tax Increases; calls for corporate tax reform/simplified tax code
- Adjustments to Defense portion of “Sequestration”
- Federal Pay Freeze; Increased employer pension contributions
- Fraud, Waste, Abuse Reduction; Streamlined Government
- Major Medicare Reform

## **FEDERAL GOVERNMENT EXPENDITURES, PER CAPITA AMOUNTS BY STATE, BY MAJOR OBJECT CATEGORY, FISCAL YEAR 2010. Includes Retirement and Disability, Other Direct Payments, Grants, Procurement and Salaries and Wages.**

1. Alaska	Nearly \$18,000
US Average	Over \$10,000
50. Nevada	Over \$7,500

Source: Consolidated Federal Funds Report for Fiscal Year, 2010

## STATE RANKINGS FOR PER CAPITA AMOUNTS OF FEDERAL GOVERNMENT EXPENDITURES: FY2010

Retirement and Disability	Alaska, 49 <sup>th</sup>
Other Direct Payments	Alaska, 50 <sup>th</sup>
Grants	Alaska, 1 <sup>st</sup>
Procurement	Alaska, 4 <sup>th</sup>
Salaries and Wages	Alaska, 2 <sup>nd</sup>
<b>TOTAL</b>	Alaska, 1 <sup>st</sup>

Source: Consolidated Federal Funds Report for Fiscal Year 2010

## SOURCES FOR SLIDES:

SLIDES 4-8, William Hoagland, CIGNA, former director, U.S. Senate Budget Committee, NCSL Fall Forum, Tampa, Florida, December, 2011

SLIDES 14, 17-18, 20, Federal Funds Information for the States, NCSL Federal Funds Webinar, January, 2012

SLIDES 29 -30, Consolidated Federal Funds Report, FY 2010

All Others, NCSL



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# For more information

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