

Federal Budget Update: The Craziest Year Yet

NCSL Fiscal Analysts
Seminar

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**Federal Funds
Information for States**

Congressional “To Do” List

- Before: End of the fiscal year (9/30/12)
 - Complete FY 2013 appropriations, reauthorize or extend Farm Bill and TANF
- After: The November election (11/7/12)
 - Address BCA’s looming sequester and expiring tax provisions/other legislation, raise debt limit, reassure markets and consumers

Most Importantly...

**What Does it Mean for
States?**

FY 2013 Appropriations: A \$19 Billion Difference

| FY 2013 302(b) Allocations (in billions) | | | | |
|--|------------------------|------------------|-----------------|-------------|
| Appropriations Bills | FY 2013 Funding Levels | | Senate v. House | |
| | House | Senate | Dollars | Percent |
| Agriculture | \$19.4 | \$20.8 | \$1.4 | 6.6% |
| Commerce-Justice-Science | 51.1 | 51.9 | 0.7 | 1.4% |
| Defense | 519.2 | 511.2 | -8.1 | -1.6% |
| Energy-Water Development | 32.1 | 33.4 | 1.3 | 3.8% |
| Financial Services-General Government | 21.2 | 23.0 | 1.8 | 8.0% |
| Homeland Security | 39.1 | 39.5 | 0.4 | 1.0% |
| Interior-Environment | 28.0 | 29.7 | 1.7 | 5.6% |
| Labor-Health and Human Services-Education | 150.0 | 157.7 | 7.7 | 4.9% |
| Legislative Branch | 4.3 | 4.4 | 0.1 | 3.0% |
| Military Construction-Veterans Affairs | 71.7 | 72.2 | 0.5 | 0.7% |
| State-Foreign Operations | 40.1 | 49.8 | 9.7 | 19.5% |
| Transportation-Housing and Urban Development | 51.6 | 53.4 | 1.8 | 3.4% |
| Total Discretionary Spending | \$1,027.9 | \$1,047.0 | \$19.1 | 1.8% |

Status of FY 2013 Appropriations

| Appropriations Bills | House | | Senate | |
|--|-----------------------|----------------------|-----------------------|-----------------------|
| | Approved by Committee | Passed by Full House | Approved by Committee | Passed by Full Senate |
| Agriculture | 6/19/2012 | | 4/26/2012 | |
| Commerce-Justice-Science | 4/26/2012 | 5/10/2012 | 4/19/2012 | |
| Defense | 5/17/2012 | 7/19/2012 | 8/2/2012 | |
| Energy-Water Development | 4/25/2012 | 6/6/2012 | 4/26/2012 | |
| Financial Services-General Government | 6/20/2012 | | 6/14/2012 | |
| Homeland Security | 5/16/2012 | 6/7/2012 | 5/22/2012 | |
| Interior-Environment | 6/28/2012 | | | |
| Labor-Health and Human Services-Education | | | 6/14/2012 | |
| Legislative Branch | 5/31/2012 | 6/8/2012 | 8/2/2012 | |
| Military Construction-Veterans Affairs | 5/16/2012 | 5/31/2012 | 5/22/2012 | |
| State-Foreign Operations | 5/17/2012 | | 5/24/2012 | |
| Transportation-Housing and Urban Development | 6/19/2012 | | 4/19/2012 | |

FY 2013 Appropriations: At What Cost to States?

| | | Proposed FY 2013 vs. FY 2012 | | |
|----------------------------------|----------------------------|---------------------------------|--------------|---------------|
| <u>Federal Agency</u> | <u>FY 2012 vs. FY 2010</u> | <u>President</u> | <u>House</u> | <u>Senate</u> |
| Education | -1.1% | 1.3% | n/a | 0.5% |
| Health and Human Services | -5.6% | -1.9% | n/a | 1.2% |
| Housing and Urban Development | -5.4% | 1.7% | 2.4% | 5.2% |
| Energy/EPA | -33.2% | -11.6% | -36.2% | n/a |
| Justice | -40.9% | -1.5% | -6.0% | 6.9% |
| Homeland Security | -35.4% | 29.4% | 27.2% | 3.5% |
| Labor | -4.9% | -2.2% | n/a | -2.9% |
| Transportation | -9.0% | 6.8% | -0.3% | 0.3% |

FY 2013 Appropriations: Potential Funding Increases

- Special Education
- Ryan White AIDS Grants
- Head Start
- Child Care Development Block Grant
- Community Development Block Grant
- Housing programs
- Byrne JAG



FY 2013 Appropriations: Potential Funding Decreases

- Economic Development Assistance
- Race to the Top
- Hospital Preparedness
- Family Planning
- State Energy Program
- Clean Water and Drinking Water SRF
- Juvenile Accountability Block Grant
- UI State Administration



Will Congress Pass a FY 2013 Budget?

- Continuing Resolution (CR) likely, but for how long?
 - House and Senate leaders reached broad agreement on six-month CR.
 - Details not yet known.
 - Will it pass both houses in September?
 - What happens after March 30, 2013?



The BCA and Looming Sequester

- Absent a legislated alternative, a sequester will occur in January 2013
- \$984 billion in cuts required over FYs 2013-2021 (roughly \$109 billion per year, half from defense and half from nondefense)
- Many mandatory and a few discretionary programs are exempt
- ATB cuts in FY 2013, different process for FY 2014+



Sequester: What We Don't Know

What is the ATB percentage cut?

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



Sequester: What We Don't Know

How will individual programs be affected?

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



Sequester: What We Don't Know

How much discretion do agencies have in implementing sequester?

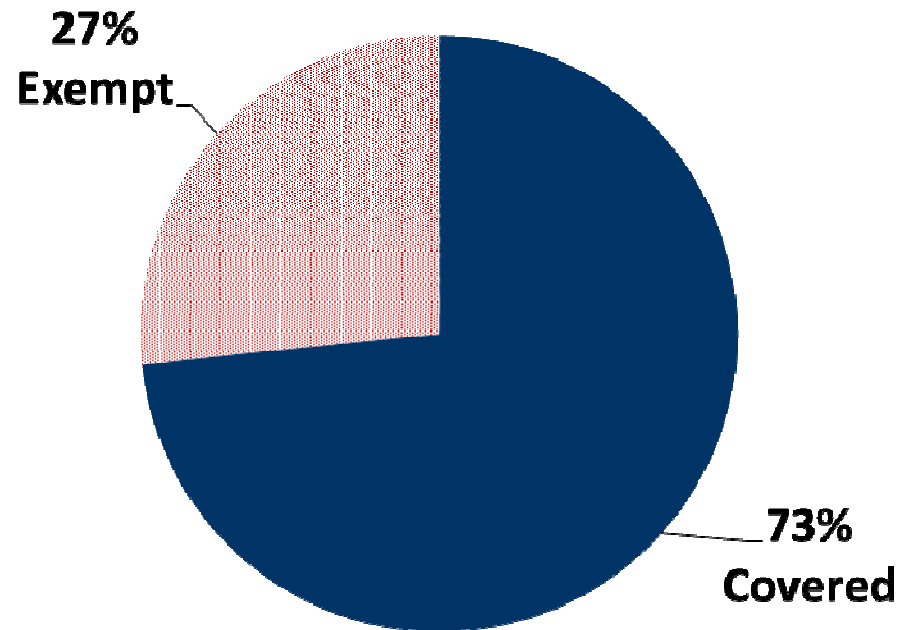
- Virtually none
- Some influence over timing (recent ED guidance)

Will Congress and the president modify the BCA?

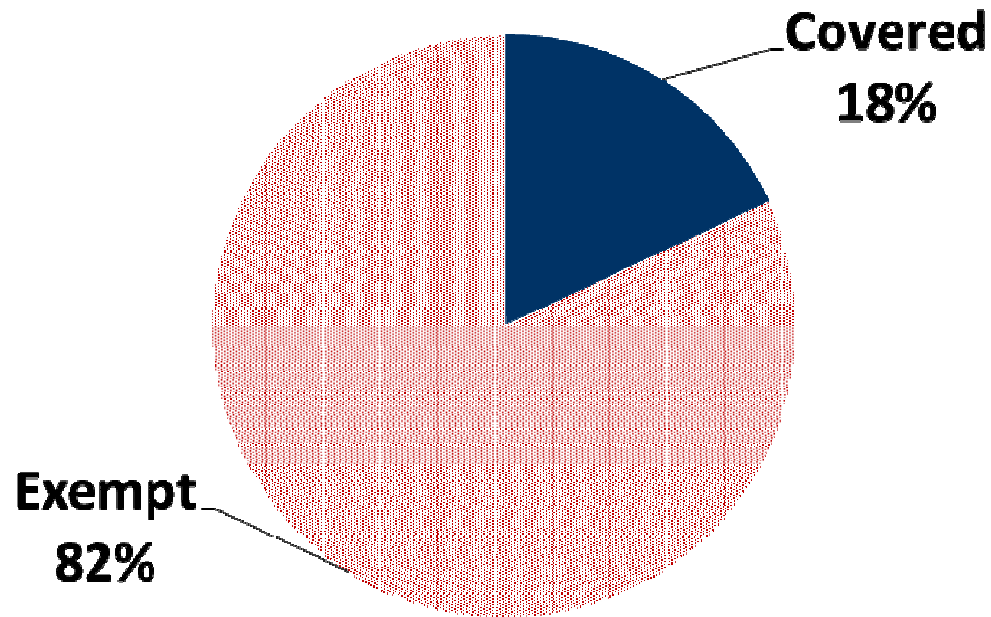
- Various proposals, no agreement (explicit legislation required)
- Congress did pass legislation requiring OMB to provide sequester details



Sequester Coverage Status of FFIS-Tracked Programs



Sequester Coverage Status of FFIS-Tracked Funding



Program Areas Most Affected

| Budget Function | % of Funding Covered by Sequester |
|-------------------------------------|-----------------------------------|
| Agriculture | 100% |
| Employment and Training | 100% |
| Community Development | 90% |
| General Gov't | 85% |
| Energy, Env., Natural Resources | 78% |
| Justice | 62% |
| Education | 54% |
| Income Security and Social Services | 23% |
| Health | 4% |
| Transportation | 4% |



What We Can Guess About a Sequester

| Potential Impact of BCA Sequester (in millions) | | | | |
|---|---------|-----------|-----------|----------|
| | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
| Nondefense Grants: | | | | |
| Covered Programs | N/A | \$109,539 | \$106,682 | \$98,815 |
| Dollar Change | | | -2,857 | -7,867 |
| Percent Change | | | -2.6% | -7.4% |
| NIH Funding: | | | | |
| Total | N/A | 23,753 | N/A | 21,900 |
| Dollar Change | | | | -1,853 |
| Percent Change | | | | -7.8% |
| Defense Funding: | | | | |
| Total | 508,490 | N/A | N/A | 457,641 |
| Dollar Change | | | | -50,849 |
| Percent Change | | | | -10.0% |



What's the Conventional Wisdom?

- For appropriations, a CR, BUT...
- For BCA, agreeing to postpone the day of reckoning, BUT...
- For expiring tax provisions, a bruising fight, informed by the election.
- For authorizations, probably extensions, BUT...

What Does this Mean for States? If Congress Reaches “Grand Bargain”.....

- “Grand Bargain” means greater certainty but less funding. Likely changes include:
 - Reforms to entitlement programs (flexibility vs. funding)
 - Further reductions in discretionary spending
 - Revenue effects from tax overhaul, and potential loss of state-focused tax expenditures

What Does this Mean for States? If Congress Punts.....

- States continue to face uncertainty
- FY 2013 budget won't happen anytime soon
 - President's FY 2014 budget released before FY 2013 budget is finalized
- Program extensions continue
- In short, more of the same

The End: Questions?



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