

FEDERAL FISCAL UPDATE – “THE GOOD, THE BAD, THE UNFINISHED”

NCSL Fall Forum
Tampa, FL
Dec. 1, 2011

Budget Control Act

- Extended debt limit until 2013
- Phase 1: \$917 billion reduction established through ten-year caps.
- Phase 2: Formation of joint committee to reduce deficit between \$1.2-1.5 trillion. Everything is on the table
 - If Congress fails to enact the committee's proposal, sequestration is triggered. 50% of cuts for defense, 50% from non-defense spending. Exempt from cuts are programs for vulnerable populations; i.e. Medicaid, SNAP, UI, TANF

Possible Future DR Starting Point?

2011 *Summer negotiations between White House and Congress*

Discretionary Spending		\$1.1 Trillion
Mandatory Spending		\$498-685 Billion
	-- Medicaid	\$100 b
	-- Medicaid DME	\$5 b
	-- SNF/Home Health	\$50 b
	-- Medigap	\$53 b
	-- Medical Education	\$14 b
	-- Hospital Bad Debt	\$14-26 b
	-- Income Means Testing	\$38 b
	-- Clinical Labs	\$9-16 b
	-- Miscellaneous Health	\$41 b
	-- Non Health Mandatory	\$264-332 b
• Interest Savings		\$300 Billion
• Total (approx.)		\$1.9 - 2.1 Trillion

Deficit Reduction Timeline

- Aug. 5 - Congressional leadership names 12 supercommittee members
- Oct. 12 - Deadline for standing committees to submit proposals
- Nov. 1 - 4th and final public hearing for "SC"
- Nov. 2 - Bipartisan group of 100 House members urge "SC" to "go big"
- Nov. 21 - Rep. Hensarling and Sen. Murray issue joint statement declaring impasse at reaching consensus agreement.

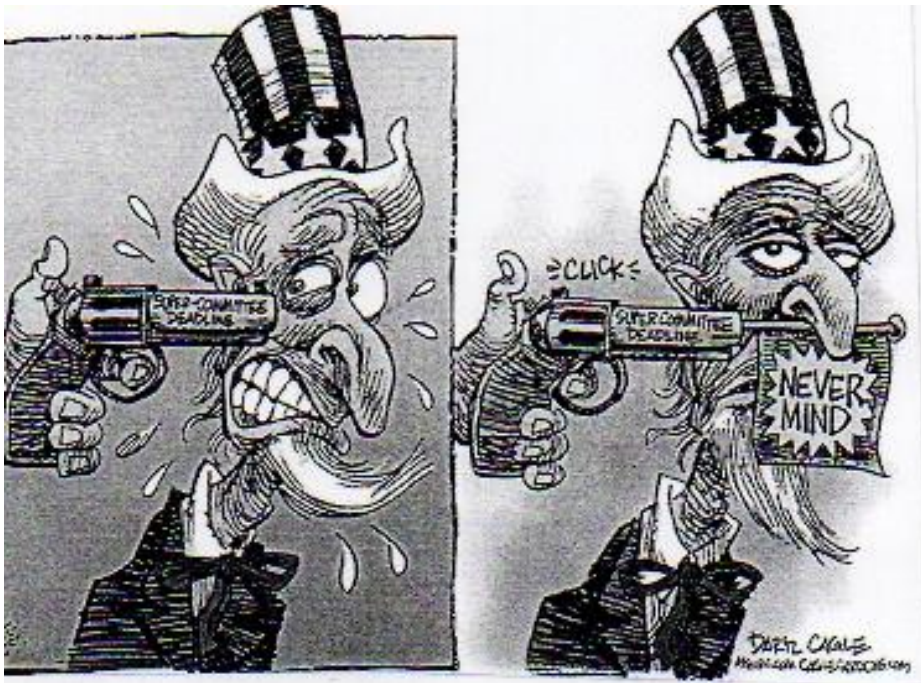
NCSL Deficit Reduction Core Principles

- Stifle federal debt/deficit growth
- Accept proportionate reductions to state/federal programs
- Expect modifications to state-federal mandatory and entitlement programs
- No new unfunded mandates cost shifts
- Medicaid/Countercyclical
- Economic Investments (infrastructure/low-income)
- No Preemption (state pensions/medical malpractice)
- Streamlined Sales Tax
- Public Safety (D-Block)

Comparison of Supercommittee Proposals (billions)

Budget Area	1 st Dem Offer	1 st Rep Offer	2 nd Dem Offer	2 nd Rep Offer
Jobs Bill	-\$450	\$0	Unspecified	\$0
Discretionary	400	250	400	200
Health Care	475	685	400	375
Other Mand.	200	500	200	100
Chained CPI	225	225	0	225
Tax Reform	1,300	0	1,000	250
Soc. Security	0	0	0	0
Interest	400	300	300	200
Total Savings	2,550	1,950	2,300	1,350
w/ BCA/CR	1,300	1,300	1,300	1,300
Total	\$3,850	\$3,250	\$3,600	\$2,650

So....What does this mean for states?



- Over \$492 billion worth of non-defense discretionary spending on the chopping block
 - Education, public safety, energy, etc.
- Increase borrowing and capital project costs?
- Programs exempt in sequestration will not face reductions
 - Medicaid, SNAP, TANF, possible impacts from defense sequestration

(continued)

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

American Jobs Act

EDUCATION: \$35 billion for S/L govts to rehire and retain educators

PUBLIC SAFETY: \$5 billion for first responder personnel

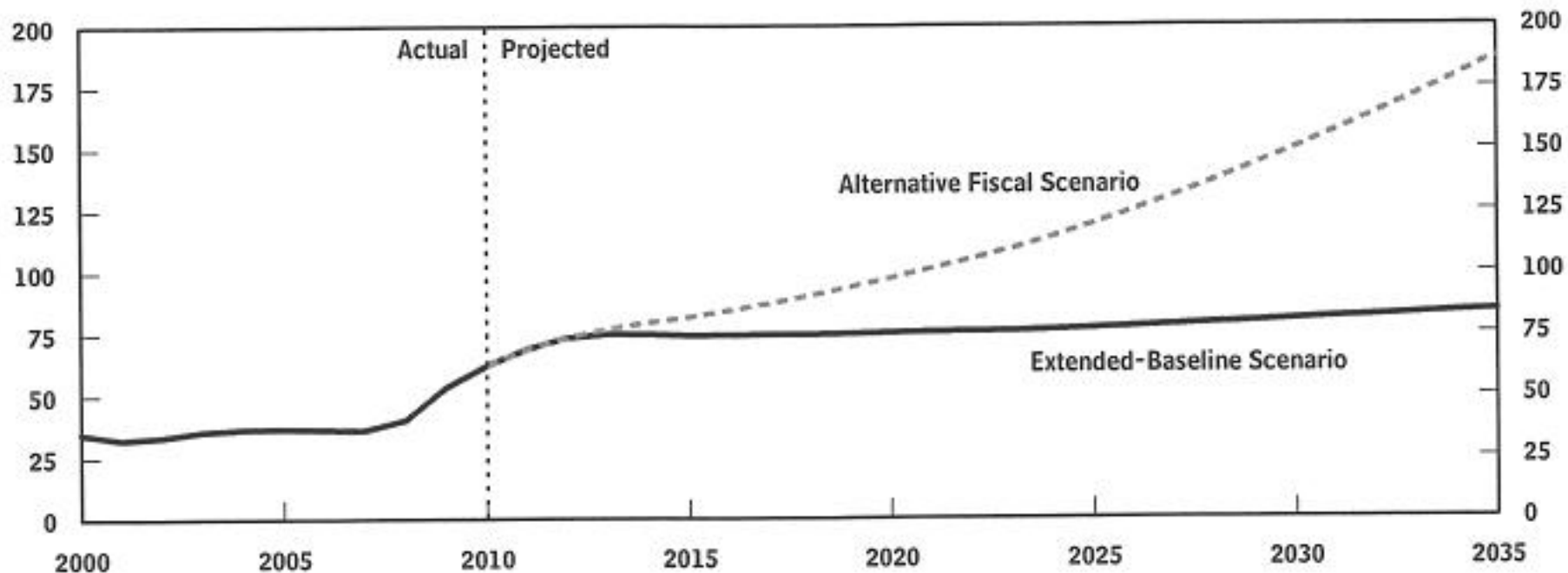
TRANSPORTATION: \$50 billion for investments for highway, transit, rail, and aviation

TAX. Reduces payroll tax for employees and employers from 6.2% to 3.1% for 2012

UNEMPLOYMENT. Extends benefits for those seeking work

Federal Debt Held by the Public Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)



Source: Congressional Budget Office.

FY 2012 Appropriations

- House passed budget resolution (H.R. 1)
 - totals \$1.019 trillion
 - \$30 billion less than FY 2011 enacted spending levels
- House passed 6 of 12 spending bills
- Senate only passed 1 – Military Construction / Veterans Affairs

On the Chopping Block?

- Subcommittee allocations
 - Transportation, Housing – 14%; Labor, HHS, Education – 12%; Defense + 3.3%
- Program Cuts
 - Women, Infants and Children
 - EPA Clean Water/Drinking Water SRF
 - SCAAP
 - Byrne Justice Assistance Programs
 - State and local homeland security funds

Keeping the streak alive...

- For the 15th consecutive year, Congress failed to complete the appropriations process by the end of the fiscal year.
- Budget Control Act caps FY 2012 spending at \$6.8 billion less than FY 2011 spending levels

Year	Combined security and non-security discretionary spending
FY 2011	\$1.049 Trillion
FY 2012	\$1.043 Trillion*

*Security - \$684 billion; non-security \$359 billion

FY 2012 Appropriations

3rd Continuing Resolution funds the federal government until
Dec. 16

H.R. 2122 - Ag, CJS, Trans.-HUD "minibus"

- Slight decrease for WIC (6.6 billion) and highway funding (\$39.9 billion)
- Increase for Byrne/JAG program, although new requirements reduce state flexibility

Federal Balanced Budget Amendment

- HJ Res. 1, SJ Res. 10, Cut Cap and Balance Act
 - Mandates a spending cap of 18% of GDP, with a 2/3 vote required to go over this limit.
 - Requires a 2/3 majority vote for to increase taxes
 - Would add a Balanced Budget Amendment to the U.s. Constitution which would require state ratification.
- The Budget Control Act requires a BBA vote by the end of the year in both houses
- H.J.Res 2 falls 23 votes short of 2/3rds.
- The Senate will hold two votes in December.

HANGING IN ABEYANCE

- Kitty litter
 - Payroll Tax Reduction for Individuals (3.1 %)
 - Emergency Unemployment Compensation Benefits (expire 1-3-12); 100 percent funding of Extended Benefits program (expires 1-4-12)
 - Optional State and Local Sales Tax Deductibility
 - A variety of “tax extenders”
 - Expansion of the AMT
 - Medicare provider reimbursement
 - FY 2013 budget
- Bipartisanship
- When they get serious again
- State ‘o states

3% Withholding

- HR 674 signed into law
- Repeals 3% withholding mandate on all levels of government.
- Is offset by changing income determination components for Medicaid, CHIP, health exchange eligibility.
- Saves states billions over 10 years; saves federal government \$7 billion plus over same period.
- HR 674 endorsed by NCSL-other public sector organizations.

“The Nunes/Burr Bills”

- H.R. 567 (Rep. Devin Nunes, CA)
referred to House Ways and Means
51 co-sponsors
- S. 347 (Sen. Richard Burr, NC)
referred to Senate Finance
8 co-sponsors

RELATED ACTIONS

- Administration's FY 2012 Commerce Budget
 - “more relevant data in the area of pensions statistics are needed”
 - “public policymakers (need) a complete data source in which to assess trillions of liabilities for public pensions”
 - “comprehensive, comparable data on public pensions are of vital need”

Objective of Both Bills

- Specifies “voluntary” annual reporting requirements for state and local government pension benefit plans
- Directs the U.S. Secretary of the Treasury to develop model reporting statements
- Directs the U.S. Secretary of the Treasury to maintain a public website where reports will be posted.

Driving and Related Forces

- BANKRUPTCY
- DEFAULTS ON OBLIGATIONS
- BAILOUTS
- FISCAL CONDITIONS

GASB

- Governmental Accounting Standards Board
 - Not a federal entity
 - Recently issued “Exposure Draft” (ED) that proposes changes to state and local government pension accounting and financial reporting standards (process started in 2010)
 - ED comments extended to 10/14/2011
 - Public hearings on ED, 10/2011
 - Field tests conducted
 - Standards finalized May-June, 2012

GASB – Select Areas of Change

- Reporting Pension Liability - net liability to balance sheet
- Annual Required Contribution – no longer required
- Discounting – combine long-term rate of return with bond index
- Note Disclosures – numerous changes
- Still addressing system/ employer issues

DATA ACT

- H.R. 2146 (Issa) and S. 1222 (Warner)
- H.R. 2146 – passed unanimously out of House Oversight and Government Reform Committee. Awaits House Action.
- S. 1222 – introduced. Legislation still being perfected prior to hearings and markup.

UMRA

- HR 373 passed out of House Oversight and Government Reform Committee
- Legislation would expand reach of UMRA to new conditions of grant assistance (per request of chair or ranking member), include independent agencies and allow for chair-requested look-back of existing rules
- No similar legislation in Senate.
- NCSL supports state-pertinent sections of H.R. 373.

FINANCIAL ASSISTANCE COUNCIL

- New 9-member executive council studying ways to make federal grant process more effective, more resourceful, less burdensome, more transparent.
- Build off of experiences with ARRA
- NCSL and other public sector groups seeking membership on Council

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