Federal Deficit Reduction Efforts and Cities

City of Alexandria, VA
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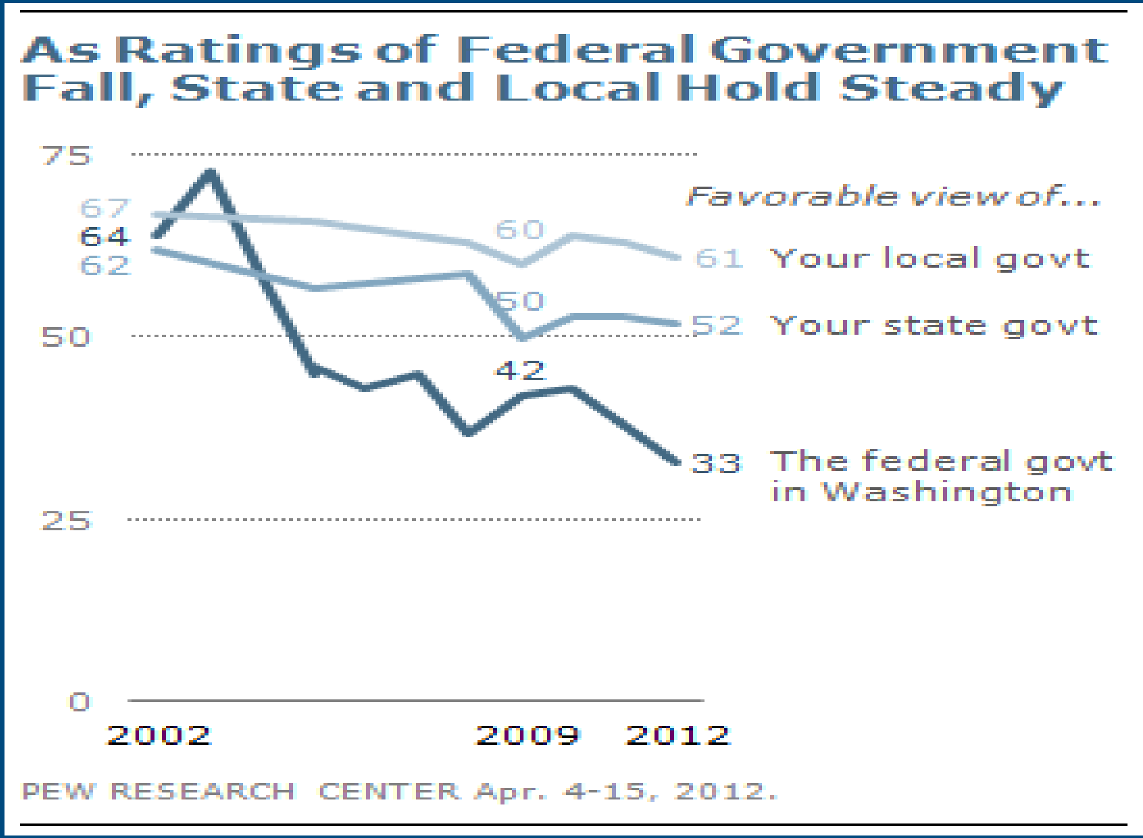
Helping Cities Leaders Build Better Communities

Today's Topics

- The Unsustainable Fiscal Path
- Efforts to Reduce the Federal Deficit
- Automatic Spending Cuts
- City Fiscal Conditions
- City Position on Deficit Reduction Efforts
- Questions and Answers



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The Unsustainable Fiscal Path

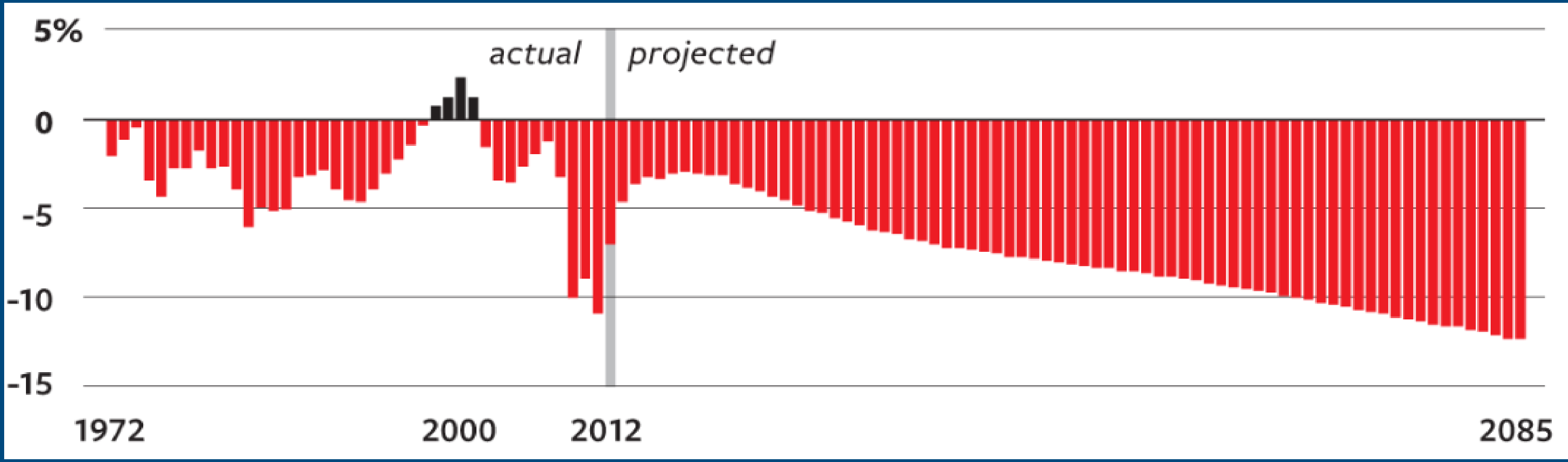
- In 2010, federal spending was 24 percent of GDP, the highest level since WWII.
- In 2010, tax revenues were at 15 percent of GDP, the lowest level since 1950.
- Since the last time our budget was balanced in 2001, the federal debt has increased dramatically, rising from 33 percent of GDP to 62 percent of GDP in 2010.

Source: Report of the National Commission on Financial Responsibility and Reform, 2010

An Ever-Widening Budget Gap

The Deficit Has Grown to Unsustainable Levels

Budget Surplus or Deficit as Percentage of GDP by Fiscal Year*



Source: Congressional Budget Office Historical Budget Data (1972-99); Office of Management and Budget, Fiscal 2012 Budget (2000-85).

*Projection includes expiration of Bush tax cuts.

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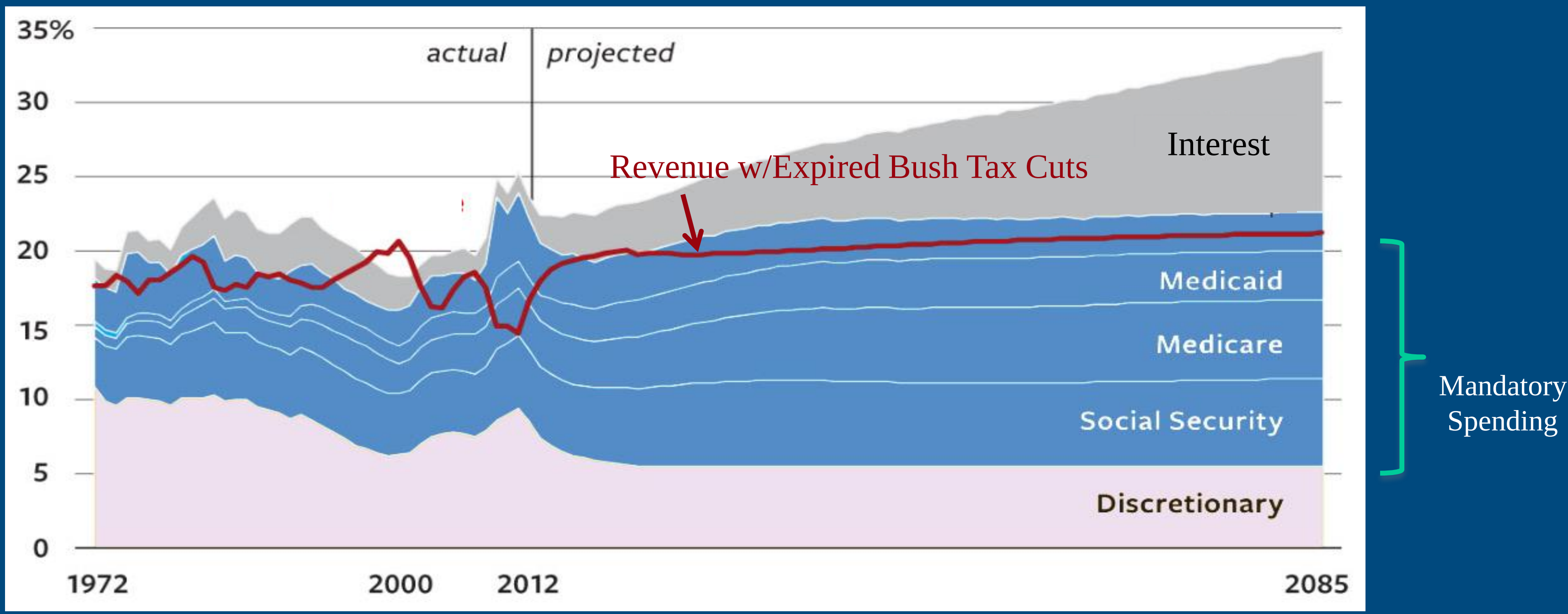
Why the Gap Has Widened

Mandatory Spending Is Outpacing Revenues

Federal Revenue and Outlays as a Percentage of GDP by Fiscal Year



Source: Congressional Budget Office Historical Budget Data (1972-99); Office of Management and Budget, Fiscal 2012 Budget (2000-85).

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Efforts to Reduce the Deficit

- Bowles-Simpson Plan (not adopted)
- Budget Control Act:
  - Super Committee (failed to reach agreement)
  - Automatic Spending Cuts or Sequestration (set to take effect January 2013)
- Ryan Budget Proposal
- President Obama's Budget Proposal

The Automatic Spending Cuts

Sequestration Arose From the Ashes

If Congress does not reduce the deficit by $1.2 trillion through 2021, automatic spending cuts (sequestration) will kick in starting in 2013.

If Sequestration Is Enforced	
Budget	**Cuts 2013 to 2021**
Defense	$493.2B
Non-Defense	$493.2B
Interest	$216B
TOTAL	**$1.2T**

"It's irresponsible, it's bad policy, and we deserve better from our federal government."

NLC President Ted Ellis, mayor, Bluffton, IN

Source: National Journal, Mar 15, 2012, "Hard Promises," Nancy Cook; GAO Report, 2005; Center for Budget and Policy Priorities, 2011.

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Breaking Down the Sequestration

Total "triggered" cut
$1.2 trillion

Subtract 18 percent
in debt service savings
$216 Billion

Distribute remaining
$984 billion
evenly among fiscal
years 2013 to 2021

$109.3 Billion in
Automatic Cuts per Year

Evenly split each
year's cut between
defense and
non-defense
accounts

Defense
$54.6 billion

Non-defense
$54.6 billion

Translating the Automatic Spending Cuts

- 9.4 percent to non-exempt defense discretionary spending

- 8.2 percent to non-exempt domestic discretionary spending

- 2.0 percent to Medicare, 7.6 percent to non-exempt non-defense mandatory programs, and 10 percent to non-exempt defense mandatory programs

Automatic Spending Cuts Will Do Harm

- Reduce the nation's GDP by $215 billion;
- Decrease personal earnings of the workforce by $109.4 billion;
- Cost the U.S. economy (and cities) 2.14 million jobs;
- Reduce GDP growth in 2013 by two – thirds; and
- Increase unemployment by as much as 1.5 percentage points raising the current national rate above 9 percent.

Source: The Economic Impact of the Budget Control Act of 2011 on DOD and Non-DOD Agencies, Stephen S. Fuller, Ph.D., Dwight Schar Faculty Chair and University Professor, Director, Center of Regional Analysis, George Mason University, Arlington, Virginia with Chmura Economics & Analytics Richmond, Virginia, July 2012

City Fiscal Conditions

- For the sixth straight, year city revenues continue to fall as financial pressures such as infrastructure, health care and pension costs combine with cuts in state and federal aid to weigh heavily on cities' bottom lines.
- Cities are making personnel cuts, delaying or canceling infrastructure projects and cutting local services.
- 2013 will continue to present challenges to city budgets due to stagnant housing markets, high unemployment, and looming federal budget cuts.

Source: 2012 NLC City Fiscal Conditions Report

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Spending Cuts Have Hit Cities Already

Federal Program	FY 2010	FY 2012	Percent Change
Job Training	$ 3.8 billion	$ 2.6 billion	- 31.6%
Highways	$ 41.8 billion	$ 41.1 billion	- 1.70%
CDBG	$ 4 billion	$ 2.9 billion	- 27.5%
COPS	$ 791 million	$ 166 million	- 79.0%
Clean Water SRF	$ 2.1 billion	$ 1.5 billion	- 28.6%
Drinking Water SRF	$ 1.4 billion	$ 919 million	- 34.4%

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The City Position on Deficit Reduction

- Congress and the Administration should stop the budget sequestration from going into effect; it is bad policy that will do more harm than good.
- Any deficit reduction plan should balance spending cuts with revenue enhancements.
- Spending cuts should not come from domestic discretionary programs alone - all options should be considered.
- The interest exemption on municipal bonds should be maintained – it is not a tax loophole.

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Can We Avoid Sequester? **YES!**

- ✓ Enact legislation to repeal sequester before January 2, 2013

- ✓ Enact legislation to delay the cuts—and buy time for a grand bargain on the federal debt and deficit

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Thank You

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