

# Briefing on the President's FY2013 Federal Budget

*An analysis of the impacts to county government*

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# The Scene:

In the first session of the 112<sup>th</sup> Congress, county governments have seen an onslaught of efforts to address deficit reduction. Because of these efforts, counties have begun to feel the effects of cuts in federal assistance. Combined with reduced state funding and lower local revenue, these cuts are forcing counties to reduce staff and services, threatening many vital county programs.

As the nation's leaders continue to debate the options for addressing our fiscal ills, NACo has expressed support for a balanced approach in tackling America's debt problems, an approach that would lessen the burden on counties and their residents.

# Where we've been:

- Major debates on raising the debt limit late last summer.
- Led to passage of the Budget Control Act of 2011 (P.L. 112-25) which created the Congressional Joint Select Committee on Deficit Reduction. (aka: The super committee).
- The BCA included \$900 billion in discretionary reductions.
- Required action by the super committee to recommend \$1.2 Trillion in additional reductions over ten years to be reported to Congress by November and enacted by January 15, 2012 or permits a trigger to obtain those reductions in 2013.
- Super committee could not reach agreement and disbanded.
- Left Congress with the responsibility of finding the \$1.2 trillion in cuts required by the BCA before 2013 sequestration kicks in.

# Breaking Down The Sequester

- The Budget Control Act (BCA) requires a sequestration of funds designed to reach the total \$2.1 trillion in reductions enacted in August 2011.
- The first \$900 billion in cuts were enacted during the passage of the BCA.
- The remaining \$1.2 T must now be found or automatic sequester of funds is triggered to be evenly split by domestic discretionary and defense accounts.
- Of the \$1.2 T it is assumed by CBO that \$216 billion (18%) will be saved by reduced debt service costs, leaving \$974 B in cuts to be evenly split over 9 years.
- In effect this means a total cut of \$492B or \$54.7B per year from each side.
- This is approximately in the range of 8.5 to 10% in cuts per year to non-defense discretionary and defense accounts. Mandatory accounts are not subject to sequester.

**Two years ago, NACo adopted policy calling for a balanced approach to deficit reduction and four key points:**

**YOU CAN NOT SOLVE THE BUDGET DEFICIT BY ONLY CUTTING DOMESTIC, NON-MILITARY DISCRETIONARY PROGRAMS.**

Currently the national debt is over \$15 trillion. Non-Military, discretionary programs are only 12%, or approximately \$480 billion, of the annual federal budget request of \$3.8 trillion.

The President's 2013 Budget uses a more balanced approach in reducing spending for defense and domestic discretionary programs.

## **FEDERAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS WILL HELP MITIGATE FURTHER LAYOFFS.**

State and local governments have shed more than 200,000 jobs since 2009. The President's Budget leaves spending flat in many accounts, however it does provide assistance to state and local governments by providing \$30 billion to avoid teacher and first responder layoffs. Unfortunately efforts to reduce deficits will continue to affect our abilities to maintain workforce needs.

## **FEDERAL INVESTMENT IN STATE AND LOCAL INFRASTRUCTURE PRODUCES PRIVATE SECTOR JOBS.**

The President's budget addresses our concerns calling for increased investment by the Federal Government in county programs such as transportation. The proposal calls for investing \$476 billion in transportation more than double the amounts discussed on Capitol Hill. An additional \$50 billion is recommended for 2013 in order to help create jobs and spur private sector investment.

Deteriorating infrastructure is a hindrance to economic expansion, while infrastructure investments unlock untapped potential in our economy leading to higher GDP and increased tax revenues.

Counties are responsible for a substantial portion of America's infrastructure – 45% of the nation's bridges, 44% of the roads and highways, one-third of the airports and transit systems, and much of our water and sewer system. We can, therefore, vastly contribute to the creation of jobs and economic recovery. In this regard the President's budget supports NACo's efforts.

**DEFICIT REDUCTION SHOULD NOT BE ACCOMPLISHED BY SHIFTING COSTS TO COUNTIES, IMPOSING UNFUNDED MANDATES, OR PRE-EMPTING COUNTY PROGRAMS OR TAXING AUTHORITY.**

Cost shifting to, or imposing underfunded or unfunded mandates on, state and local government will only exacerbate the current fiscal strain and delay efforts toward economic recovery.

The President's budget is not clear on proposing future regulatory mandates. Unfortunately previous proposals have caused concerns with imposing additional requirements in the environmental arena. Efforts to address the implementation of the Affordable Care Act will need to be monitored.

## President's Proposed 2013 Budget – Agriculture and Rural Affairs

- President Obama's FY 2013 budget requests \$22.96 billion in discretionary funding for the U.S. Department of Agriculture (USDA). This is a 3 percent or \$700 million decrease below the FY12 enacted level.
- USDA Rural Development programs, which directly fund county infrastructure and development efforts, are funded at \$2.4 billion in budget authority to support a program level of \$38 billion in loans, grants and other assistance. This represents an increase of \$200 million in budget authority and a \$2 billion increase in program level from the FY12 enacted level.
- The proposed overall increase for Rural Development is good news for counties, but must be kept in context. This increase is compared to the very low FY12 enacted level and is still \$533 million or 18 percent less than the NACo supported FY10 level. The \$2 billion program level increase in FY13 is mostly due to an increase in loan availability for counties and their rural partners, which cost the federal government little or nothing and does not represent an increase in direct grant funding for counties.
- The budget proposes the Regional Innovation Initiative for the third year in a row. The initiative will target 5% of several existing rural development programs to fund the priorities projects of rural regions. The initiative will help steer limited rural development dollars to the priorities of rural counties and their multi-county partnerships.
- The budget proposes a large - \$654 million increase to the Food and Drug Administration's budget, including increased spending for food safety, such as stricter regulation of imported food, under the new Food Safety Modernization Act (PL 111-53). The majority of the increase, however, is dependent on proposed user fees that may or may not be approved by Congress.

# President's Proposed 2013 Budget – Community and Economic Development

- Overall 3% increase for FY 2013, to \$44.8 billion – Of this amount 83% of HUD budget goes toward renewing Section 8 rental vouchers, public housing needs and homeless assistance.
- Provides level funding for Community Development Block Grant (CDBG) at \$2.95 billion.
  - CDBG funding will allow over 1,200 State and local governments to invest in needed public infrastructure improvements, rehabilitate affordable housing, and create and retain jobs.
- Provides level funding for HOME program at \$1.0 billion
  - HOME program will provide funding to about 645 State and local governments to increase the supply of affordable housing for low-income families.
- Increases funding for homeless assistance grants to \$2.2 billion, a 17% increase from FY 2012
- Includes \$75 million for an additional 10,000 housing vouchers for homeless veterans HUD-VASH program
- Increases housing counseling funds to \$55 million, a \$10 million increase over FY 2012.
- Increases funding for Obama Administration Initiatives
  - \$100 million for Sustainable Communities, to support local regional planning efforts - zeroed out in FY 2012
  - \$150 million for Choice Neighborhoods program to revitalize neighborhoods with distressed public housing, a 25% increase from FY 2012

## President's Proposed 2013 Budget – Environment, Energy and Land Use

- In President's budget, the Army Corps of Engineers budget is set at \$4.7 billion, this is a 5.4 decrease (or \$271 million) under 2012 enacted levels. Of that, \$1.6 billion is allotted for high-return construction projects, such as those in flood and storm damage reduction, commercial navigation, and aquatic ecosystem restoration.
- The proposal funds the EPA at \$8.3 billion. This is a decrease of 1.2 percent (or \$105 million) below 2012 enacted levels.
- The Clean Water (CW) and Drinking Water (DW) State Revolving Funds (SRF) programs were cut by \$359 million. Under the 2012 enacted language, the CWSRF received \$1.466 billion and the DWSRF got \$918 million. But under the President's proposed budget, the CWSRF would get \$1.175 billion and the DWSRF would receive \$850 million.
- The budget gives a 3.2 percent increase over 2012 enacted levels to the tune of \$27.2 billion for the DOE. Priority areas for increased funding include clean energy research and development and advanced manufacturing.
- On natural gas, the Administration proposed \$12 million for a joint research study by the DOE, EPA and the U.S. Geological Survey to local at the “environmental, health, and safety risks of natural gas and oil production from hydraulic fracturing in shale...”

## President's Proposed 2013 Budget – Finance and Intergovernmental Affairs

- The proposal that revives an idea from the President's 2011 Jobs Act - A cap on the exemption of municipal bond interest at 28% for high-income earners (adjusted gross income for individuals earning more than \$200,000 and \$250,000 for married taxpayers). If adopted, this provision could significantly increase state and local borrowing costs.
- A proposal seen in the FY2012 budget that would reform and extend the Build America Bonds Program. The 2013 budget would extend the program for two years at subsidy rate of 30% and then permanently extend thereafter at a subsidy rate of 28%. In its earlier incarnation under the Recovery Act, the Build America Bonds Program provided a subsidy amount equal to 35% of the coupon interest on the bonds.
- A proposal to lift restrictions that prevent state and local governments from refinancing bonds.
- Among the other tax proposals in the budget are the expiration of the 2001 and 2003 tax cuts for high-income earners (individuals earning over \$200,000; families earning over \$250,000) and permanently extending estate, gift, and generation-skipping transfer (GST) taxes at 2009 levels.

## President's Proposed 2013 Budget – Health

- **Medicaid Cuts** – re-iterates the Administration's September 2011 deficit reduction legislative proposals to cut Medicaid spending by \$55.7 billion over ten years, including:
  - **Blended FMAP** – new single federal matching rate for each state (\$17.9 billion/10 years)
  - **Rebase Medicaid DSH** – rebase DSH formula from ACA-reductions, beginning in FY 2021 (\$8.3 billion/10 years)
  - **Phase down provider tax threshold** – reduce percentage of the non-federal share of Medicaid that states can raise through provider taxes beginning in FY 2015 (\$21.8 billion/10 years)
- **Prevention & Public Health Fund**
  - **\$4 billion cut** – proposes legislation to reduce mandatory PPHF spending by \$ 4 billion/10 years
  - **Reallocation** – reallocates mandatory PPHF funds to backfill other program cuts, *i.e.* Community Transformation Grants (\$80 million cut)
- **Substance Abuse & Mental Health Services Administration** – proposes cutting \$196 billion, a 6% reduction from FY 2012

## President's Proposed 2013 Budget – Human Services and Education

- The President's budget proposes once again to cut the Community Services Block Grant by almost 50 percent, from \$677 million to \$350 million. Congress rejected a similar proposal for the FY 2012 budget.
- The child care entitlement and discretionary programs would significantly increase. The entitlement program would receive \$3.417 billion, a \$500 million increase; and the discretionary \$2.603 billion, a \$325 million increase. There would also be an additional \$300 million for quality improvements.
- The Supplemental Grants under the Temporary Assistance for Needy Families (TANF) Block Grant, which expired last April, would be made permanent. However, the funding for the Supplemental Grants would come out of the TANF Contingency Fund.
- States would have the option to suspend the Supplemental Nutrition Assistance Program (SNAP) time limits for able-bodied single adults. Additionally, the SNAP enhanced benefit, which expires November 30, 2013, would be extended through March 31, 2014.
- The Title I Grants to Local Education Agencies (\$14.5 billion) and Grants to States under the Individuals with Disabilities Act (\$11.6 billion) would receive the same level of funding as 2012.

# President's Proposed 2013 Budget – Justice and Public Safety

## Department of Justice

- The budget requests \$27.1 billion in discretionary funding for the U.S. Department of Justice (DOJ). This is a 0.4 percent decrease below the FY12 enacted level. However, core Federal programs including law enforcement, litigation, and prisons and detention are funded at 1.2 percent above 2012 levels.
- The budget requests \$430 million for BJA's Byrne/JAG program. This is a \$60 million increase compared to FY12 enacted levels. Byrne/JAG *provides* grants to state and local governments to support a broad range of activities that prevent and control crime based on local needs and conditions.
- The budget request provides \$70 million for BJA's State Criminal Alien Assistance Program. This is a \$170 million decrease compared to FY12 enacted levels. SCAAP provides Federal payments to states and localities that incurred correctional costs for incarcerating illegal aliens.

## Department of Homeland Security

- The budget requests \$39.5 billion in discretionary funding for the U.S. Department of Homeland Security (DHS). This is a 0.5 percent decrease below the FY12 enacted level. However, the budget supports the disaster recovery of States and communities that have been devastated by disasters and emergencies with \$6.1 billion for FEMA's Disaster Relief Fund.
- The budget requests \$1,55 billion in discretionary funding for a new National Preparedness Grant Program (NPGP). The new NPGP would replace some 16 separate state and local grant programs . How these funds would be awarded to units of local governments remains unclear. This is a vast departure from how these funds have been awarded over the past 9 years.

## President's Proposed 2013 Budget – Labor and Employment

- Provides \$3.2 billion in discretionary funding for Department of Labor (DOL), Training and Employment Service (TES) activities, a 1.2 percent increase from FY 2012 levels.
- Provides funding for Workforce Investment Act (WIA) Title I Formula Programs, at current FY 2012 levels.
  - Adult Employment and Training Activities -- \$769 million
  - Dislocated Worker Employment and Training Activities-- \$1.2 billion
  - Youth Activities-- \$824 million
- Provides \$125 million in funding for the Workforce Innovation Fund. The Departments of Labor and Education jointly will oversee this fund, which will utilize competitive grants to support systemic and evidence based reforms in the workforce system.
- Provides \$8 billion in funding, over the course of 3 years for the Community College to Career fund, a new initiative designed to improve community college students' access to job training in high growth industries, and support State and community college partnerships with businesses.
- Creates the Pathways Back to Work Fund, a new initiative designed to support summer and year round jobs for low-income youth, and connecting the long term unemployed and low income adults to employment and work based training opportunities.
- Funds Job Corps at \$1.65 billion, a 3.1 percent decrease from FY 2012 levels.

# President's Proposed 2013 Budget – Public Lands

## **Department of the Interior**

- The 2013 budget request proposes to extend the Payment in Lieu of Taxes Program as a mandatory program through 2013 at the full entitlement level. (\$398 Million)
- The 2013 budget request proposes to eliminate discretionary payments to counties authorized by the Refuge Revenue Sharing Act (16 USC 715s) to be made to offset tax losses to counties in which “Service fee” and withdrawn public domain lands are located. (\$13.9 million cut)

## **Department of Agriculture Forest Service**

The FY2013 budget request calls for a multiyear reauthorization of the Secure Rural Schools and Community Self-Determination Act. The Administration’s proposal would provide extensive cuts to the county payments titles of the program.

Specifically:

- Title I roads portion would be reduced by 20% for the first year, followed by an additional 10% in 2013, and 25% each year following. Starting in year three of this proposal, any state receiving less than \$10 million in payments would cease to be eligible for the program and all funding would be eliminated for counties within that State.
- Title III dollars for county fire assistance would be immediately cut by 50%, followed by complete elimination in year two.

## President's Proposed 2013 Budget – Telecommunications and Technology

- As part of the National Wireless Initiative, the Budget proposes legislation to provide authority for “voluntary incentive auctions” that will enable spectrum licensees to auction the rights to use their spectrum in return for a share of the proceeds.
- This step is critical both for reallocating spectrum and re-purposing it over the coming decade to greatly facilitate access for smart phones, portable computers, and innovative technologies that are on the horizon. Voluntary incentive auctions, along with other measures to enable more efficient spectrum management will provide over \$10 billion of funds that will enable the United States to:
  - Build an interoperable wireless broadband network for public safety that would allow for seamless use by first responders across the country and reserve additional spectrum for public safety use.
  - Establish a Wireless Innovation Fund to accelerate the research and development of cutting-edge wireless technologies and applications in support of a nationwide public safety broadband network.

## President's Proposed 2013 Budget – Transportation

**Overall Proposal for Transportation** The proposal calls for investing \$476 billion in transportation more than double the amounts discussed on Capitol Hill. An additional \$50 billion is recommended for 2013 in order to help create jobs and spur private sector investment.

- **Highway** Funding would be increased by \$2.7 billion to \$41.8 billion.
- **Transit** \$10.836 billion is proposed for the transit program, an increase of \$233 million.
- **Aviation** The Airport Improvement Program (AIP) is level funded at \$3.350, which is consistent with the funding in the recently enacted FAA bill. Essential Air Service (EAS) is proposed at \$214 million, somewhat higher than the FAA bill
- **Rail** \$2.546 billion is proposed for combined Amtrak and high-speed rail spending, up \$1.418 billion. The FY13 framework would again merge both Amtrak subsidy accounts with the High Speed and Intercity Passenger Rail accounts and establish two accounts for passenger rail: (i) Network Development, and (ii) System Preservation.

# The “Take away”

Although it is highly unlikely the President’s budget will be enacted, it will serve as a blueprint for policy debates.

County governments are partners with the federal government and states in providing important programs and services to the American people. For county officials, “special interests” are constituents who decided to put trust in them as public servants to adopt sound fiscal policies while providing for the basic services for which constituents expect from their local government.

# Q & A

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*Thank you for participating!*

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