



Date: November 27, 2012
To: Federal Legislative Committee Members
From: Patrick H. West, City Manager
Subject: Fact Sheet on Federal Budget Sequestration

For your information, attached is a fact sheet on the potential impacts from the nearing Federal budget reductions known as Sequestration. Sequestration was created by the Budget Control Act of 2011. This legislation both lifted the Debt Ceiling and mandated that if long-term deficit reduction targets were not met, broad budget cuts would occur on January 2nd of 2013. To-date, Congress and the President have not produced a compromise bill on the necessary deficit reductions, but discussions are currently ongoing in the Lame Duck Congress to try to reach a compromise before the first of the year.

Should Sequestration occur unaltered, the City of Long Beach will see revenue reductions next year. It is not possible to predict the specific impacts on programs and services. This is due to the uncertainty of how Sequestration will be implemented and the non-recurring nature of some federal grants the City receives.

Should you have any questions, please contact Tom Modica, Director of Government Affairs and Strategic Initiatives at 8-5091.

cc: Mayor and Members of the City Council
Suzanne Frick, Assistant City Manager
Reginald Harrison, Deputy City Manager
All Department Directors
Tom Modica, Director of Government Affairs and Strategic Initiatives
Jyl Marden, Assistant to the City Manager
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Attachment
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BUDGET CONTROL ACT OF 2011

NOVEMBER 2012

Background

Congress passed and the President signed the Budget Control Act of 2011 as a compromise that both lifted the debt ceiling and attempted to achieve long-term federal deficit reductions. The Act established the bi-partisan Joint Select Committee on Deficit Reduction that was tasked with developing a recommendation by November 23, 2011 to reduce the federal budget by \$1.2 trillion over a ten-year period. Because the committee was unable to reach a decision, the same reduction will now occur automatically through the process known as Sequestration on January 2, 2013. The ten-years of budget reductions begin with an initial cut of \$109 Billion in the first year. The Act specifies that:

“Except as otherwise provided, the same percentage sequestration shall apply to all programs, projects, and activities within a budget account”

The method by which these largely across-the-board cuts will occur is still unknown. Due to the harmful effects that indiscriminate budget cutting would have, few expect Sequestration to occur without some modification; however, any change will require action and compromise by both Congress and the Administration in the upcoming lame duck session prior to January 2, 2013.

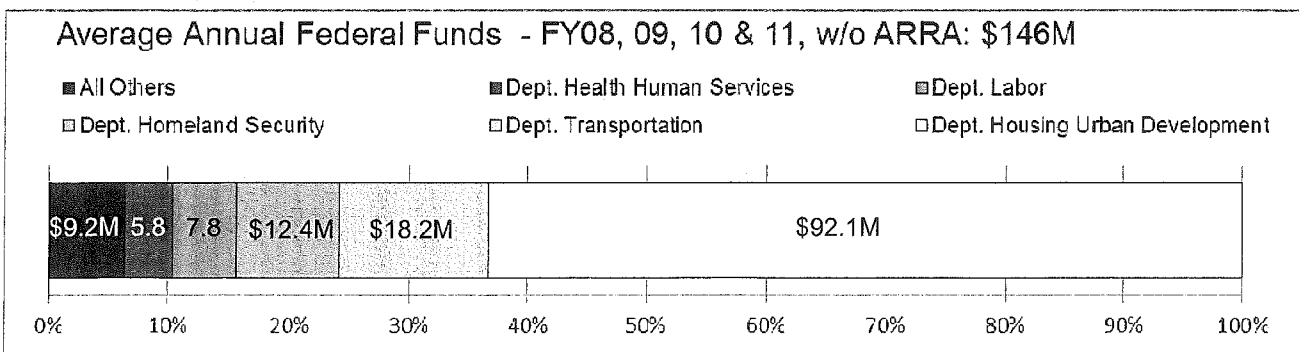
Exempt Programs

Certain programs are exempt from the Sequestration process. These programs include Social Security, all programs administered by the Department of Veteran Affairs, the Child Health Insurance Program, Children’s Nutrition Program, Medicaid, Federal-Aid Highway funding and Highway Traffic Safety Grants among others.

Analysis

The Budget Control Act of 2011 mandates a sequestration of the federal budget that, according to Office of Management and Budget (OMB) calculations, will result in a reduction of 8.2 percent for non-defense discretionary appropriations and 7.6 percent for non-defense direct spending from FY2012 levels. Defense spending will be reduced by 9.4 percent for discretionary spending and 10 percent for non-exempt direct spending. If Sequestration is allowed to occur as written, the City of Long Beach could be significantly impacted.

Long Beach’s last four Schedules of Expenditures of Federal Awards (SEFA Reports) showed the City received an average of \$146 million annually from Federal sources. This figure excludes any dollars from the American Recovery and Reinvestment Act (ARRA), known as the Federal Stimulus. The total Federal revenue amount also does not include the \$2.26 million received by the Airport and Redevelopment Agency as interest rate subsidies on Build America Bonds.



The majority, 63%, of the City of Long Beach's federal funds are from the Dept. of Housing and Urban Development. These are primarily pass-through dollars for Section 8 housing vouchers, Community Development Block Grants and Homeless Services. The second largest source is the Dept. of Labor, which administers Workforce Investment Act programs. Health and Human Services is the third largest recipient of Federal support. Immunizations, Public Health Emergency Preparedness and HIV prevention and care are all programs vulnerable to Sequestration.

To provide an example of the potential fiscal impact to the City of Long Beach from Sequestration, an 8.2 percent reduction to the City's historical level of Federal revenues, excluding ARRA, is equal to \$12 million. This is roughly one-half of one percent of the City's total revenue. The additional potential loss from the Build America Bonds is \$171,608.

Due to the uncertainty of how Sequestration will be implemented and the non-recurring nature of some federal grants the City receives, it is not possible to forecast the exact impacts on Long Beach programs and services. However, of particular concern to the City are cuts to the following programs or funding sources on a national level:

- The Community Development Fund, which includes the Community Development Block Grant (CDBG), would be cut by \$279 million; currently funded at \$3.4 billion.
- State and Local Department of Homeland Security (DHS) Grants, which include Urban Area Security Initiative (UASI), State Homeland Security Grant Program and Port Security Grants, would be cut by \$183 million; currently funded at \$2.37 billion.
- The HOME Investment Program would be cut by \$82 million; currently funded at \$1.0 billion.
- Department of Justice State and Local Law Enforcement Assistance Grants, which includes Byrne Justice Assistance Grants, would be cut by \$92 million; currently funded at \$1.1 billion.
- COPS Program would be cut by \$13 million; currently funded at \$162 million
- WIA Dislocated Worker State Grants would be cut by 79 million; currently funded at \$1,011 million
- Public Health Emergency Preparedness Program would be cut by \$48 million; currently funded at \$619 million
- Section 8 Tenant-Based Rental Assistance would be cut \$1,588 million; currently funded at \$18,914 million

Potential Effects on the National Economy

In addition direct revenue losses to local governments, Sequestration combined with expiring federal tax cuts will negatively impact the national economy. The Federal Chairman, Ben Bernanke, described Sequestration as a "fiscal cliff" that may trigger a national recession. According to Fitch Ratings, "The US fiscal cliff represents the single biggest near-term threat to a global economic recovery". The ratings agency forecasts a 2% reduction in the US economic growth rate if the full Sequestration process and expiration of federal tax cuts occur. The potential impacts to the City from another recession likely outweigh the direct revenue losses from Sequestration.

Next Steps

Congress may still enact specific program cuts to avoid Sequestration. The United States Conference of Mayors, has submitted a letter, signed by Long Beach and other represented cities, urging congressional action to address both short-term and long-term federal fiscal challenges with a bipartisan, balanced solution that would facilitate, not undermine economic growth. Both the House and Senate have alternative proposals that are nearing the necessary deficit reductions. Discussions are currently ongoing in the Lame Duck Congress to try to reach a compromise before the first of the year.