

FEDERAL FISCAL CLIFF: REVENUE AND SPENDING IMPACTS

The Bottom Line

In August 2011, Congress passed the Deficit Control Act of 2011 (DCA). Two types of reductions were scheduled to go into effect in January 2013:

- A reduction in the spending caps of the federal appropriations bills
- A further (initially) across the board reduction (sequestration)

Subsequent action in December delayed implementation of the reductions until March 2013. Therefore, there is still uncertainty whether sequestration will remain in its current form, how the law will be interpreted, and what the actual impacts on funds coming into the state will be. However, there remains a general consensus that both the long and short-term outlook is for reduced federal support coming to the states for a wide array of discretionary programs.

Only about 20% of total federal outlays in Montana (estimated at \$10 billion in FY 2009) actually go through the state budget. Therefore, any discussion of the impact of federal deficit reform on the state budget does not address the overall impact on Montana's economy or individual Montanans. However, among the federal outlays that do not pass through the state that are known to be exempt is the largest, social security payments, as well as various veterans' programs and retirement and disability funds.

Among the federal programs that do not pass through the state and will be subject to reduction are Medicare payments (limited to a 2% reduction) and military installations.

Among the federal programs that pass through the state, and will be subject to reductions are (but are not limited to) various grants in the following program areas:

- Education
- Justice
- Environmental
- Fish and Wildlife
- Public health (excluding Medicaid)

Among the programs known to be exempt are the two largest federal fund sources, accounting for over half of total federal spending in HB 2 in FY 2012: 1) Medicaid; and 2) highways.

An estimate by Federal Funds Information for States (FFIS) is that about 80% of federal funds that pass through the state budget will be exempt, leaving about 20% subject to reduction. The estimated Montana impact from FFY 2011 to FFY 2013 is over \$50 million or an estimated 9% reduction in state and local grant programs, with further reduction in subsequent years. For additional information on how the current budget sequestration would work refer to Federal Deficit Reduction Implications by Taryn Purdy.

Governor's Proposal

Governor Bullock does not include any changes in anticipation of either the current Deficit Control Act or a general or specific reduction in funds.