



MEMORANDUM

DATE: October 7, 2011

TO: John Donner, Chair
Workforce Investment Board (WIB) Advocacy Committee

FROM: Gregg Irish, Executive Director
Workforce Investment Board

**SUBJECT: UPDATES ON THE FEDERAL BUDGET AND PRESIDENT OBAMA'S
AMERICAN JOBS ACT**

REQUESTED ACTION

This item is for information only.

WIB Advocacy Committee Chair John Donner and his Committee colleague, Sophia Esparza, have been involved in a number of meetings with local workforce development stakeholders to formulate strategies for educating the public about pending congressional cuts to job training programs. Mr. Donner and Ms. Esparza will brief the WIB on their progress.

INTRODUCTION

Federal Budget Deficits and Federal Debt:

The federal budget deficit is equal to the difference between total federal government spending and total revenues received by the federal government, over a particular fiscal year (October 1st through September 30th).

The federal debt is the sum of the previously accumulated federal deficits, plus interest accrued.

The federal budget deficit and federal debt are routinely compared to national income. In the same manner as one's ability to manage household debt depends on income (the ability of the household to make payments), evaluating the size of the federal budget deficit and federal debt is usually gauged against the size of the national economy, or Gross Domestic Product (GDP).¹

¹ GDP is defined as the market value of all goods and services produced by the country.

According to the nonpartisan Congressional Budget Office (CBO), the federal budget deficit for Fiscal Year (FY) 2011 (October 1, 2010 – September 30, 2011) was \$1.3 trillion, equal to 8.6% of GDP. This compares to \$1.29 trillion or 8.9% of GDP for FY 2010, \$1.42 trillion or 10% of GDP for FY 2009, and \$438 billion or 3% of GDP for FY 2008.

Federal debt rose during President George W. Bush's tenure from \$5.7 trillion in 2001 to \$10.7 trillion in 2008. It has climbed under President Obama to \$14.3 trillion. The current ratio of federal debt to GDP is 92.7%. This compares to 225.9% for Japan, 75.3% for Germany, 84.2% for France, 66.8% for Brazil, and 81.7% for Canada.

What caused these federal budget deficits and the skyrocketing federal debt?

The U.S. was in the black by \$236 billion and federal budget surpluses were predicted for at least 10 years, when President Clinton left office in 2000. But just two years later, a \$158 billion federal budget deficit materialized.

The aftermath of 9/11 adversely affected the economy and President Bush enacted his first round of tax cuts. By 2004, the federal budget deficit more than doubled to nearly \$413 billion. Iraq had been invaded and another round of tax cuts was implemented.

By the end of 2008, the U.S. economy was in severe recession and the financial system was near collapse. President Bush authorized a \$700 billion bailout of banks under the Troubled Asset Relief Program (TARP). The federal budget deficit then grew to \$438 billion. That calculus did not include the costs of the Afghanistan and Iraq wars.

When President Obama took office in 2009, government spending was stepped up to reinvigorate the economy. A \$787 billion stimulus plan, \$25 billion auto industry bailout, and other economic lifelines were approved. The federal budget deficit grew. At the close of 2011, it was \$1.3 trillion.

FY 2011 Federal Budget:

President Obama proposed a \$3.8 trillion budget for FY 2011. He called for freezing most non-security discretionary spending and letting the Bush-era tax cuts for high-income Americans expire at the end of 2010. Almost \$2.4 trillion was set aside for mandatory spending on programs like Medicare, Medicaid, Social Security and interest on the national debt. Job creation, job training, infrastructure investments, and an extension of unemployment benefits were among the other funded items.

But President Obama and Republican Congressional leaders could not come to terms on the FY 2011 budget. The main point of contention was elimination of the Bush-era tax cuts. Absent an agreement, the federal government had to operate under a Continuing Resolution.²

² Rather than an FY 2011 budget, a total of seven CRs were adopted.

Opposition to soaring federal budget deficits and federal debt, spearheaded by the Tea Party movement, led to Republican landslide wins in the November 2010 midterm elections and a sweeping takeover of the 112th Congress.³ The new Republican majority in the House vowed to work closely with their Republican colleagues in the Senate to reduce federal spending.

Prior to the seating of the 112th Congress, President Obama capitulated to Republicans in the lame-duck Congress on approving another Continuing Resolution that lowered the estate tax and maintained the Bush-era tax cuts for another two years, in exchange for a 13-month extension of unemployment benefits, a payroll tax reduction of 2% for every American worker, and no cuts to federal spending. The deal added more than \$700 billion to the FY 2011 federal budget deficit.

A few months later, under threat of an expiring Continuing Resolution and a possible government shutdown, President Obama again acceded to the demands of Congressional Republicans. In April 2011, he agreed to a stopgap measure (House Resolution 1473/ H.R. 1473) that would slice \$38.5 billion from \$3.8 trillion in planned FY 2011 federal spending.⁴ But this was only a precursor to a bigger battle to come over the debt ceiling.

The debt ceiling is the maximum amount of money the federal government needs to borrow to pay its bills, sort of like a credit card limit. The nation would have reached its borrowing cap sometime in August 2011.

Concerned about ongoing federal budget deficits and the mounting federal debt, Congressional Republicans balked at hiking the debt ceiling \$2.4 trillion beyond the current level of \$14.3 trillion to cover federal spending through 2013. They insisted that any boost in the debt ceiling be tied to corresponding federal spending reductions, and submission of a federal Balanced Budget Amendment requirement to the states for ratification.

President Obama objected to these conditions noting that the debt ceiling had been raised 91 times since 1940: 17 under President Reagan, 7 under President George W. Bush, and 3 times so far under his watch. He countered Congressional Republicans

³ The composition of the House and Senate changed to 242 Republicans and 193 Democrats and 47 Republicans and 51 Democrats, respectively. Two Independents in the Senate, Joe Lieberman (Conn.) and Bernie Sanders (Vt.), caucus with Democrats.

⁴ Republicans had originally pushed for \$61 billion in cuts as part of House Resolution 1 (H.R. 1). Of said sum, \$3 billion was to have come from workforce development programs. They eventually settled for the following cuts to job training programs under H.R. 1473: \$307 million of state formula Workforce Investment Act (WIA) funds (i.e., \$90.5 million of WIA Adult funds, \$96.5 million of WIA Youth funds, and \$120 million of WIA Dislocated Worker funds), \$5 million of WIA Dislocated Worker National Reserve Grant funds, \$85 million from the Green Jobs Innovation Fund (effectively zeroing it out for FY 2011), and \$125 million from the Career Pathways Innovation Fund's FY 2010 allocation. The Obama Administration had budgeted no funds for the latter in FY 2011.

with a plan that would rely on a combination of tax increases and spending cuts to bring federal budget deficits and the federal debt in line.

Understanding that a default on the nation's debt would have catastrophic economic consequences, a last-minute compromise was reached between President Obama and Congressional Republicans. The accord (Budget Control Act of 2011) requires federal spending cuts over 10 years (FY 2013 to FY 2021) as a condition for raising the debt ceiling in two installments of \$900 billion,⁵ and \$1.2 trillion to \$1.5 trillion.

The first installment mandates federal spending cuts of \$917 billion over 10 years (\$21 billion in FY 2012 under the normal appropriations process). These federal spending cuts are likely to impact areas such as job training, education, and housing. A bipartisan Joint Select Committee on Deficit Reduction, comprised of six Senators and six members of the House,⁶ was established and assigned the responsibility for identifying federal spending cuts equivalent to the second installment.

The Joint Select Committee on Deficit Reduction, commonly referred to as the Super Committee, must complete its work and forward deficit reduction recommendations to Congress by November 23, 2011. Congress will have until December 23, 2011 to vote "up" or "down" on the Super Committee's recommendations. Should the Super Committee fail to find \$1.2 trillion to \$1.5 trillion of deficit reduction, or if Congress refuses to pass its recommendations, then \$1.2 trillion of across-the-board federal spending cuts would be triggered. The across-the-board federal spending cuts from FY 2013 to FY 2021 would be evenly split between defense and non-defense programs.⁷

The process for increasing the debt ceiling per the two installments is described in Attachment A.

Not long after the debt ceiling deal was sealed, Standard & Poor's downgraded the U.S. credit rating.

FY 2012 Federal Budget

President Obama sent a \$3.7 trillion budget for FY 2012 to Congress that projected a year-end gap/deficit between expenditures and revenues of \$1.1 trillion. His plan would terminate 200 domestic non-security programs, and cut or freeze many others long favored by Democrats (e.g., Community Development Block Grants, heating oil

⁵ \$400 billion of the \$900 billion was immediately made available to stave off default.

⁶ Patty Murray (D-WA), Max Baucus (D-MT), John Kerry (D-MA), Jon Kyl (R-AZ), Pat Toomey (R-PA), and Rob Portman (R-OH) are the Senate appointees to the committee. Jeb Hensarling (R-TX), Dave Camp (R-MI), Fred Upton (R-MI), James Clyburn (D-SC), Xavier Becerra (D-CA), and Chris Van Hollen (D-MD) are the House appointees to the committee.

⁷ Medicare would be subjected to cuts of 2%, all from payments to health care providers and none from payments to beneficiaries. Social Security, Medicaid, and civilian and military pay would be exempt from the across-the-board cuts.

subsidies to low-income families, and Pell Grants for college students). President Obama had cast these reductions as necessary to make room for new investments in education, high-speed rail, and clean energy. Not imperiled by any cuts, however, were Social Security and Medicare.

Republicans and some Democrats immediately declared President Obama's FY 2012 budget as "unremarkable" and "too timid," because it did not address the issues of escalating federal deficits and the soaring national debt, and the spending cuts were miniscule. They were opposed, as well, to President Obama's insistence on new revenue from: the bush-era tax breaks expiring, limiting itemized deductions for upper-tax bracket Americans, raising the estate tax, and doing away with tax breaks for corporations that do business overseas.

The House overwhelmingly rejected President Obama's FY 2012 budget. Instead, a budget crafted by Congressman Paul Ryan (R-WI) was approved without any votes from Democrats. Congressman Ryan's budget would rein in federal spending over the next decade by repealing the Affordable Care Act ("Obama Care"), replacing the fee-for-service Medicare program with vouchers seniors can use to purchase private health insurance, and block-granting federal Medicaid payments to the states to finance health care for the poor based on a formula that increases funding only as fast as non-medical inflation. Congressman Ryan's plan also slashes non-security domestic programs, lowers the income tax rate on top earners and corporations from 35% to 25%, and eliminates defense programs opposed by Secretary Robert Gates.

The Senate voted down both Congressman Ryan and President Obama's budgets, necessitating two Continuing Resolutions to keep the government running to mid-November.

During negotiations on the second of the two Continuing Resolutions, a standoff erupted between the House and Senate over disaster relief funding. The Federal Emergency Management Agency (FEMA) was close to exhausting its disaster relief budget from responding to a record-breaking number of catastrophes, and requested supplemental funding to get through the end of FY 2011 and the beginning of FY 2012.

The House budgeted \$3.6 billion in disaster relief funding for FEMA: \$1 billion for FY 2011 and \$2.6 billion for FY 2012. But the House wanted the FY 2011 amount to be offset by cuts to a loan program that helps automakers retool their factories to build fuel-efficient cars, and the alternative energy loan program that funded the solar panel firm Solyndra. As had been Congress' past practice, the Senate wanted no encumbrances on disaster relief funding, and budgeted \$6.9 billion to replenish FEMA's coffers. The stalemate was broken when FEMA prioritized its remaining resources to complete FY 2011. The House and Senate passed the Continuing Resolution.

In a speech before Congress on September 8, 2011, President Obama unveiled a \$447 billion legislative initiative to jumpstart the teetering economy and spur job creation. Dubbed the "American Jobs Act," the bill included measures that Republicans and

Democrats had supported in the past and was a little more than half the cost of the stimulus package President Obama signed in 2009. It featured a mix of tax cuts for businesses and workers, investments in infrastructure, aid to the states, and help for the unemployed (Attachment B).

President Obama, two weeks later, submitted to the Super Committee his framework for underwriting the American Jobs Act and reducing federal deficits over the 10 years. The proposal, borrowed from the playbook of the 18-member National Commission on Fiscal Responsibility and Reform (the Simpson-Bowles Commission) that President Obama had established in 2010,⁸ would generate \$3 trillion of savings on top of the Budget Control Act's \$917 billion. This would bring the country to a place, by the middle of the decade, where current federal spending is no longer adding to the national debt, national debt is falling as a share of the economy, and federal deficits are at a sustainable level.

To reach that number, President Obama would repeal the Bush-era tax cuts for those making more than \$250,000 per year, and close certain tax loopholes for individuals and corporations. President Obama also put forth a measure, the "Buffet Rule," to compel the ultra-rich to pay the same tax rate as ordinary taxpayers.⁹ The remaining components of President Obama's deficit reduction plan would involve savings realized from: interest on the national debt (\$430 billion), drawing down troops in Afghanistan and Iraq (\$1.1 trillion), and reducing Medicare and Medicaid waste and excessive benefit payments (\$320 billion).

The American Jobs Act went down to defeat in the Senate by a Republican filibuster on October 11, 2011. The vote was 51-48, short of the 60 votes needed to advance. Not one Republican voted for the bill. Even so, President Obama pledged to fight on and rally the public in pressuring Congress to adopt his jobs plan. He is even considering separating the bill into smaller parts and presenting them to Congress for a vote.

⁸ The Co-Chairs of the commission (President Clinton's former White House Chief of Staff Erskine Bowles and former Republican Senator of Wyoming Alan Simpson) issued a 59-page report on December 1, 2010 to erase \$4 trillion from projected federal deficits through 2022 that recommended: deep cuts in domestic and military spending, a gradual 15 cent-a-gallon increase in the federal gasoline tax, limiting or abolishing popular tax breaks in return for lower rates, and benefit cuts and an increase in the retirement age for Social Security. The full commission approved the Chairmen's report by a vote of 11-7. However, the vote fell short of the 14 needed to finalize Bowles and Simpson's recommendations, and send them to the Congress for an "up" or "down" vote.

⁹ In a bit of showmanship, President Obama coined the term "Buffet Rule" in reference to billionaire investor Warren Buffet's claim of paying a lower tax rate than his secretary. Many Americans earn more than \$1 million yearly as a result of investment income, which is taxed at a rate of 15%, instead of the maximum 35%.

Senate Republicans, on October 13, 2011, rolled out their alternative to President Obama's jobs plan, the "Jobs Through Growth Act." Senator John McCain (R-AZ), flanked by his colleagues Rand Paul (R-KY) and Rob Portman (R-OH), in explaining the premise behind the Republican's approach said, "Businesses would hire [workers] if not for fear of future taxes and government red tape."

The Senate Republican blueprint for economic growth and job creation follows the contours of a House Republican proposal conceived last summer. It would reduce taxes on individuals and corporations, repeal the Affordable Care Act ("Obama Care"), and limit financial settlements for medical malpractice based on a Texas model. Moreover, the plan would rescind various government regulations (e.g., financial sector, workplace and environment) and impose a temporary moratorium on new ones, lift the current ban on new offshore oil drilling, and require Congress to enact a Balanced Budget Amendment to the Constitution that limits federal spending.

A subset of the \$140 billion Infrastructure Investment and Local Aide section of the American Jobs Act, to provide state and local governments with \$35 billion to retain/rehire teachers and first responders, was blocked by a filibuster in the Senate on October 20, 2011. The vote generally followed party lines. Senators Ben Nelson (D-NE), Mark Pryor (D-AR) and Joe Lieberman (I-CT) cast their vote with Republicans in opposing consideration of the bill. Republicans criticized the proposal as "a governmental jobs bill that would impose permanent taxes on (small) business owners."

On October 27, 2011, the Republican-led House passed a minor element of the American Jobs Act eliminating a yet-to-be enacted law to withhold three percent of payments to government contractors. The Senate took similar action a week later. This law had been approved in 2006 when Republicans controlled both chambers of Congress. The withholding requirement was schedule to go into effect in January 2013, and meant to ensure that government contractors pay their fair share of taxes. But it would have unfairly punished honest government contractors and forced them to charge more to make up for the loss of cash flow.

President Obama signed a bill on November 18, 2011, that was approved by both the House and Senate, to fund the government until December 16, 2011. The government had been operating under a Continuing Resolution that would have expired at midnight. Pursuant to last summer's debt-ceiling deal, only \$1.043 trillion can be spent this year on discretionary federal programs. A number of appropriations bills, like the one that finances USDOL, still have yet to be reconciled between the House and Senate.

On November 16, 2011, in a rare display of bipartisanship, the House approved a component of President Obama's American Jobs Act to reduce unemployment among military veterans. The Senate had enacted the same legislation a week earlier.

The measure will require all service members, prior to separation from the military, to participate in the U.S. Department of Defense's Transitional Assistance Program (TAP) and receive an individualized skills assessment, information about jobs for which they

may qualify, and job search instruction (e.g., resume preparation tips, interviewing techniques, etc.) to help prepare them for civilian employment. Veterans will also be able to apply for federal jobs before leaving the military, and federal agencies will be allowed to appoint them to civilian positions 180 days after discharge. Businesses will be eligible for tax breaks/credits/incentives for hiring veterans

The Joint Select Committee on Deficit Reduction/Super Committee announced on Monday, November 21, 2011, that it had failed to reach agreement on cutting \$1.2 trillion of federal spending over the next 10 years (FY 2013 to FY 2021).

In typical finger-pointing fashion, Democrats blamed Republicans for their unwillingness to raise taxes on the rich and end the Bush-era tax cuts. Republicans blamed Democrats for their unwillingness to accept cuts in discretionary/domestic programs. Congress will now have less than a year to identify \$1.2 trillion of deficit reductions from FY 2013 to FY 2021 before the sequestration provision of the Budget Control Act of 2011 kicks in, requiring across-the-board spending cuts evenly split between defense and non-defense programs.

FOR DISCUSSION

Per the debt ceiling agreement (Budget Control Act), reductions in FY 2012 federal spending are to be accomplished under the usual appropriations process.

House Appropriations Committee FY 2012 Budget Plan Regarding Workforce Development Programs

The House Appropriations Committee has recommended cuts of \$2.2 billion in FY 2012 to workforce development programs under the aegis of the U.S. Department of Labor (USDOL), Employment & Training Administration (ETA) (see Attachment C). Accompanying the cuts will be a permanent shift in funding for workforce development programs from the current program year schedule (July 1st of one year to June 30th of the next year) to the federal fiscal year schedule (October 1st of one year to September 30th of the next year).

House Republicans are claiming that the change in schedule is simply an attempt to align USDOL ETA budget to the federal fiscal year, since most federal programs and agencies are funded in such a manner. By their calculations, \$4 billion for the USDOL ETA is sufficient to fund workforce development programs through September 30, 2012 (the end of FY 2012), and three months beyond that date through December 31, 2012 (the first quarter of FY 2013).¹⁰

But this seems reminiscent of the H.R.1 battle in April 2011, when Republicans tried to cut more than \$4 billion from workforce development programs as part of a Continuing

¹⁰ Jobs Corps and the Senior Community Service Employment Program (SCSEP) are both funded under the House Appropriations Committee's allocation for the remainder of FY 2012 and all FY 2013.

Resolution. Only now, Republicans are attempting cuts to workforce development programs under the guise of a schedule change that will result in considerably less funding for USDOL ETA by FY 2014.

Here's how the loss of funding will occur. The House's Appropriation Committee's \$4 billion allocation is supposed to cover workforce development programs (except Job Corps and SCSEP) an extra three months from the end of the program year (June 30, 2012) to the end of FY 2012 (September 30, 2012) and three months in FY 2013 (October 2012, November 2012, and December 31, 2012). This scenario will necessitate only nine months of supplemental funding for workforce development programs for the remainder of FY 2013. The unusually high funding balances workforce development programs are carrying from year-to-year, the House Appropriation Committee asserts, will minimize the amount of supplemental funding required.¹¹

However, to comply with the debt ceiling (Budget Control Act), the House Appropriations Committee will probably choose to limit funding to \$3 billion for workforce development programs for the remaining nine months of FY 2013. The figure is far below three-quarters of the funding for workforce development programs in the FY 2011 Continuing Resolution, and presumably the level at which the FY 2014 allocation will be set.

The split year funding arrangement¹² and program year schedule now in place, work well for workforce development programs. Having workforce development funds available on July 1st is best for planning and procuring workforce development programs, and coordinating their activities with adult schools and community colleges so that training enrollments correspond to the beginning of the school year in September. In-school youth workforce development programs, in particular, are reliant on a schedule that coincides with education's schedule to achieve desired outcomes (e.g., literacy gains, numeracy gains, educational credentials, etc.) for their participants.

Senate Appropriations Committee FY 2012 Budget Plan Regarding Workforce Development

The Senate Appropriations Committee's recommendations, for the most part, maintain funding for workforce development programs at their current levels. The committee would: allocate the same amount of Workforce Investment Act (WIA) formula funding to the states with only 5% set-aside for use by the Governor for discretionary grants and

¹¹ Workforce Investment Act (WIA) funds have a three-year lifespan. WIA savings from one year (called carry-over) can be expended over the succeeding two years. WIA carry-over from a previous year must be expended before new funding from the next year.

¹² WIA Programs are advance funded. FY 2011 (October 1, 2010 through September 30, 2011) WIA funds were made available on July 1, 2011 (the start of Program Year 2011) to underwrite workforce development programs. FY 2012 (October 1, 2011 through September 30, 2012) WIA funds would typically be made available October 1, 2011 (during Program Year 2011) to underwrite WIA programs.

the rest for distribution locally, maintain the Secretary's Workforce Innovation Fund at \$100 million to support novel state and local workforce development strategies, and allow WIBs to contract with institutions of higher education and other eligible training providers to facilitate training. The only exception would be training programs for ex-offenders, which would be reduced from \$86 million to \$75 million.