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The Authoritative Resource on Safe Water SM

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Get Ready for the Budget Rollercoaster; SRFs Affected

There are serious budget machinations underway in DC, with much more to come by the year's end. Annual appropriations to capitalize the drinking water and wastewater state revolving loan fund programs will both be caught up in a roller coaster of activity.

The new fiscal year (FY13) begins on October 1 and as of today Congress has not enacted a single one of the 12 annual appropriations bills needed to keep federal agencies running. Instead, the House of Representatives last week passed a so-called Continuing Resolution (H.J. Res. 117) to fund all federal agencies until March 27, 2013. The Senate is expected to pass it this week. This continuing resolution (CR) increases spending for most federal programs and agencies – including EPA and SRF programs – by 0.6 percent.

However, under the budget agreement that was reached last summer as part of the debt ceiling negotiation (and adopted in law as the Budget Control Act of 2011), Congress is supposed to produce a long-term deficit reduction plan by the end of this year. If Congress fails to reach agreement on such a long-term plan, then automatic spending cuts totaling \$109 billion in FY13 will automatically take place, with bigger cuts in each of the following years. These cuts must fall almost equally on the Defense Department and on the “civilian” side of the budget, though for the most part entitlement programs like Social Security and Medicare are exempt. These cuts are the co-called sequestration you have – or will – hear so much about in the weeks ahead. They will take effect January 2, 2013, unless Congress reaches either a long-term deficit reduction plan or an agreement to suspend the sequestration.

Bear in mind that the sequestration was designed – by Congress – as a way of holding a gun to its own head, by being so unpleasant to both parties that Congress would find it better to agree on the long term plan and avoid sequestration altogether.

Also bear in mind that, broadly speaking, non-defense discretionary spending covers all the programs you associate with the federal government other than Defense and entitlement programs (like Social Security and Medicare). These non-defense discretionary programs make up about one-third of federal spending. That is just slightly less than the percentage by which the federal budget is out of balance. Saying that another way, total federal revenues from all sources are slightly more than enough to cover entitlement programs, defense, and interest on the national debt. Virtually all other federal spending today is borrowed.

Last Friday the Office of Management and Budget released its plan to allocate the sequestration across federal agencies. Under sequestration, OMB says that non-defense discretionary spending will go

down 8.2 percent and mandatory spending will do down 7.6 percent (primarily this represents cuts to doctors and other Medicare providers). Defense spending will be cut by 9.4 percent.

OMB's indicates that under sequestration EPA's spending for state and tribal assistance grants, which includes the SRFs, would drop \$280 million. We would expect that the drinking water SRF would receive about \$847 million (compared to \$917 million in FY12) while the waste water SRF would go to \$1.35 billion (compared to \$1.46 billion in FY12).

So, here's the roller coaster we mentioned at the beginning: SRF funds are set to see a very modest increase for perhaps a couple of months under the CR and then a decrease beginning in the New Year, unless Congress can agree on a long-term plan.

Uncertainty abounds. It's a heck of a way to run a railroad, don't you think?

As always, please contact your AWWA Washington Office if you have questions or comments.