Sequestration and its Potential Effect on Arizona's Economy




Economic Development Committee
Maricopa Association of Governments
February 5, 2013

MARICOPA ASSOCIATION of GOVERNMENTS

Sequestration

An automatic reduction in federal spending and deficit that is triggered when certain provisions stipulated in the Budget Control Act of 2011 are not met.

Budget Control Act, 2011

- Compromise debt ceiling deal

1. Reinstated funding caps on annual appropriations bills, FY2012 - FY2021

2. Established the Congressional Joint Select Committee (JSC) on Deficit Reduction

Two Types of Sequestration

1. Sequestration of discretionary programs, FY2012 - FY2021

2. Congressional Joint Select Committee (JSC) automatic spending cuts, FY2013-FY2021

JSC Sequestration

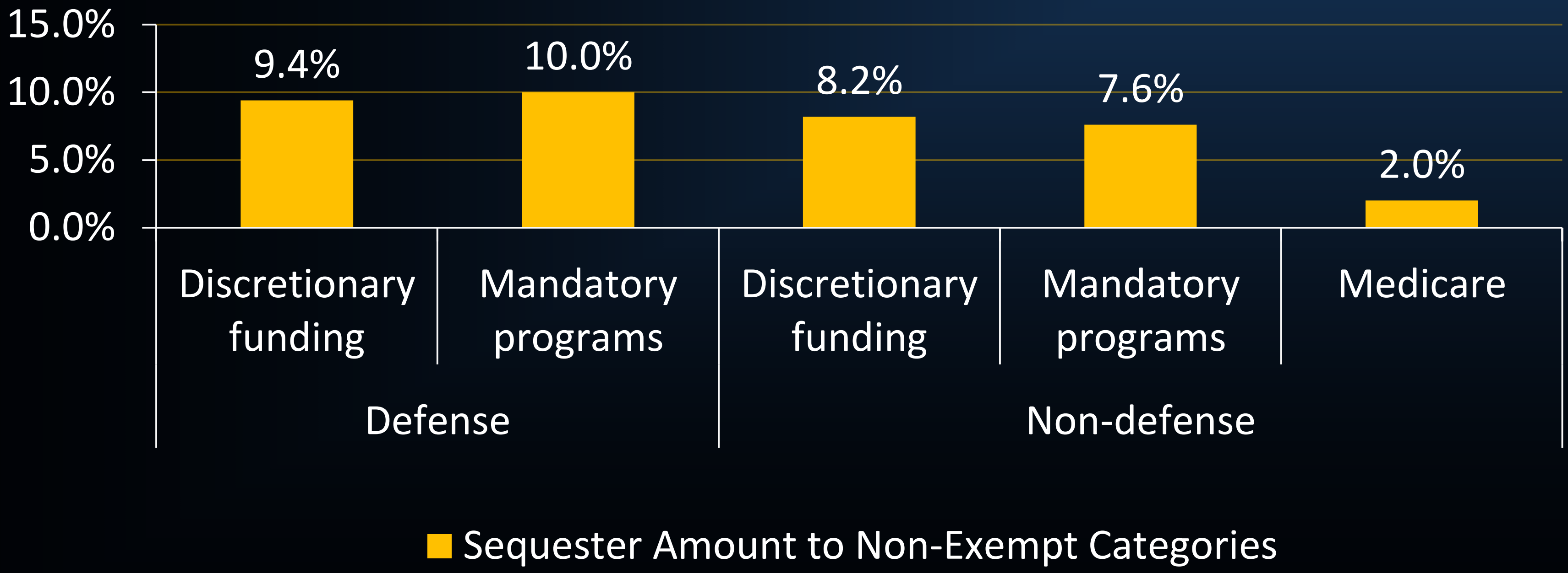
Table 1: Estimates of Annual Reductions by Function

	(in billions of dollars)
Joint Committee savings target	1,200.00
Deduct debt service savings (18%)	-216
Net programmatic reductions	984
Divide by 9 to calculate annual reductions	109.333
Split 50/50 between defense and non-defense functions	54.667

Source: OMB

JSC Sequestration

Table 2: Estimated Cuts to Defense and Non-Defense Programs due to BCA 2011 Sequestration Triggers, 2013



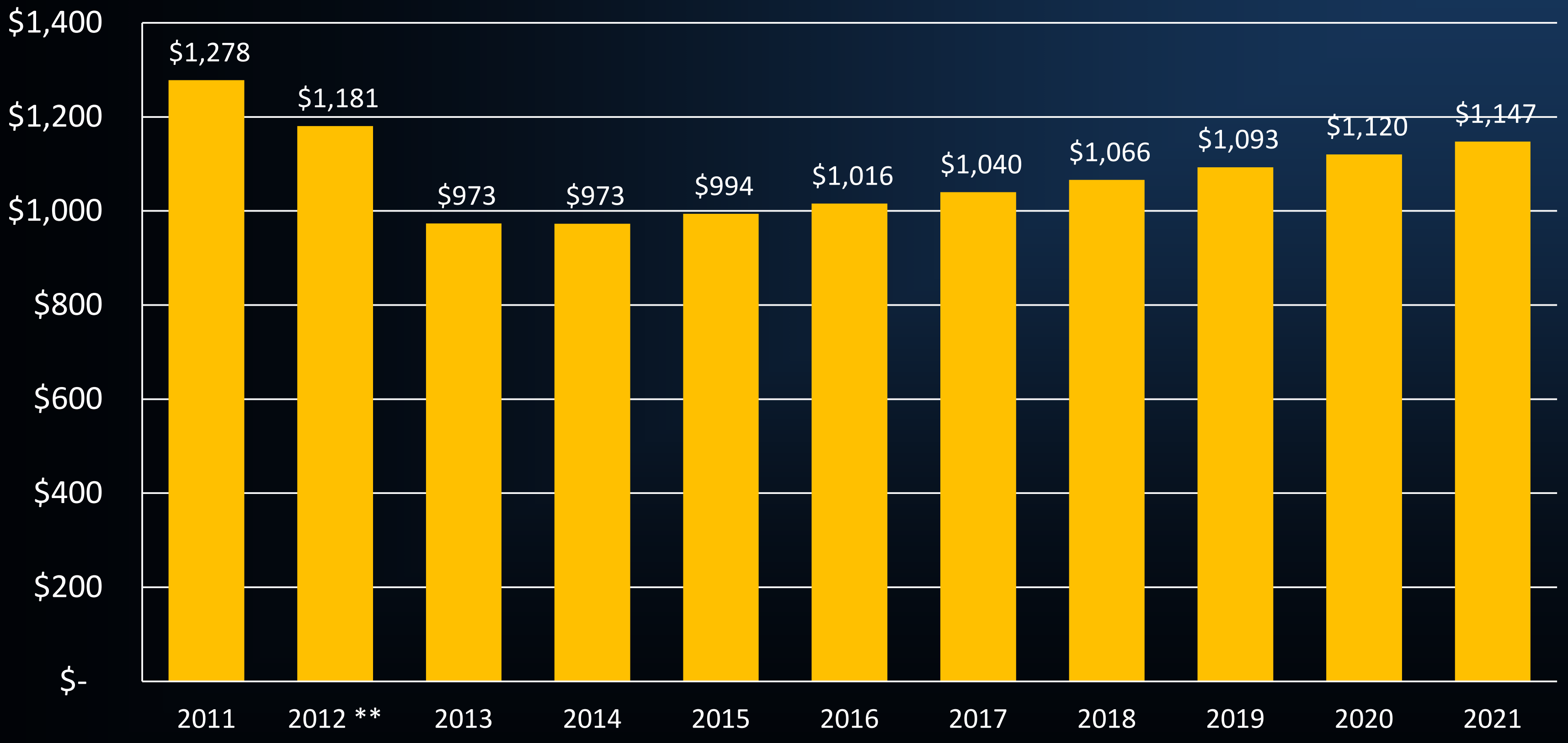
Source: OMB

Where are we Today?

- American Tax Relief Act (ATRA), 2012
  1. Addressed expiring tax provisions
  2. Postponed JSC sequestration to March 1, 2013

"Still facing a fiscal cliff"

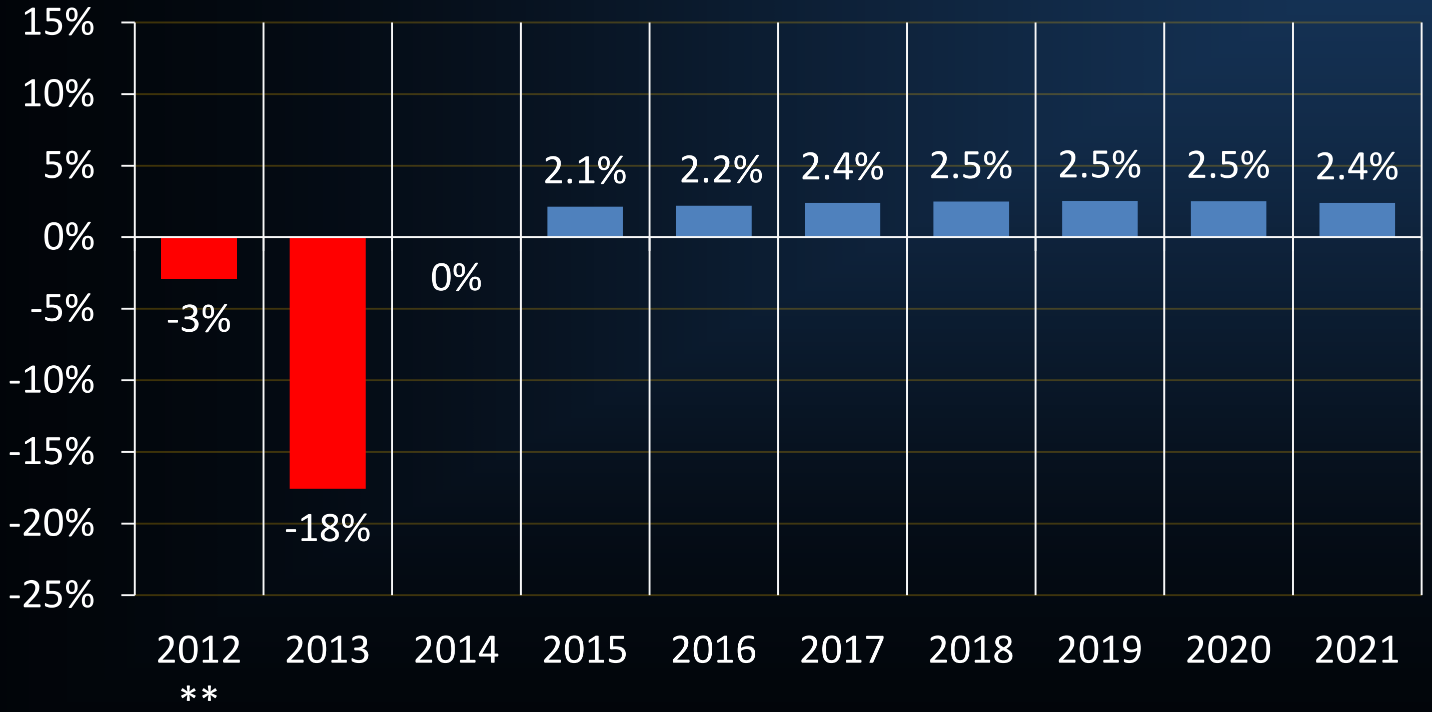
Table 3: Discretionary Funding After All BCA 2011 Adjustments, ($b)



*** Actual Outlays*

Data Source: CBO and CBPP

Table 4: Discretionary Funding (Annual % Change) FY 2013-FY 2021



*** Actual Outlays*

Data Source: CBO and CBPP

Economic Impact on Arizona

Table 5: Initial Year Economic Impact, FY2013

	DoD	non-DoD	Total Impacts
United States			
Jobs	1,090,359	1,047,349	2,137,708
Labor Income ($b)	$ 46.5	$ 62.9	$ 109.4
Gross Domestic Product ($b)	$ 94.5	$ 120.5	$ 215.0
Arizona			
Jobs	35,248	13,941	49,189
Labor Income ($b)	$ 1.5	$ 1.0	$ 2.5
Gross State Product ($b)	$ 3.1	$ 1.9	$ 4.9

Source: George Mason University, 2012

What does That Imply?

Approximately 2.0 percent drop in Arizona's economic activity*

Real Gross State Product (GSP)

"This could slow down Arizona's economy during FY 2013"

* *Assuming GSP for FY2013 is at 2011 levels of $222 billion*

What does That Imply?

Department of Health and Human Services

- At FY12 Funding level of $307M
- FY13 Sequester ~ $23M

"4,012 fewer children receive MMR, Tdap, flu and Hepatitis B vaccinations"
- Childhood Immunization Grants

Source: Under Threat, 2012

What does That Imply?

Department of Education

- At FY12 funding level of $810.6M
- FY13 sequester ~ $68.7M

"343 education jobs lost, 27,367 fewer students served, and 96 fewer schools receive grant funds"
- Title I Grants to
Local Educational Agencies

Source: Under Threat, 2012

What does That Imply?

Department of Labor

- At FY12 funding level of $87.4M
- FY13 sequester ~ $6.5M

"23,029 fewer jobseekers served"
- Employment Services

"797 fewer veterans served"
- Veterans Employment and Training

Source: Under Threat, 2012

What does That Imply?

Social Security Administration

- Estimated reduction of $890 million in FY2013.
  - 5,000 jobs lost
  - 6 weeks furlough for 65,000 employees and 15,000 State Disability Determinations Services employees

"111 to 180 days increase in disability claim processing time"

Source: Under Threat, 2012

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GPEC MARKET INTELLIGENCE

AEROSPACE AND DEFENSE

IMMEDIATE THREAT: DEFENSE CUTS

TOTAL CUTS TO DEFENSE BUDGET = $1 TRILLION

PROJECTED ANNUAL REVENUE REDUCTION*

ARIZONA: $2.10 BILLION

MARICOPA COUNTY: 1.14 BILLION

**Source: Center For Security Policy * Reduction Based On National Average. 2010 Revenue Baseline*

MARKET INTELLIGENCE: A&D

ARIZONA HAD THE 6TH LARGEST SHARE OF DEFENSE CONTRACTS IN 2012.

- The top six states: California ($40.5B), Virginia ($37.6B), Texas ($32.2B), Maryland ($13.6B), Missouri ($13.1B), and Arizona ($13.0B).

TOP PRIME CONTRACT PRODUCTS AND SERVICES IN AZ ARE:

- Guided Missiles: $2.6B
- Aircraft, Rotary Wing: $1.4B
- R&D - Missile & Space Systems: $611M

TOP PRIME CONTRACTORS IN AZ ARE:

- Raytheon: $4.6B
- The Boeing: $1.8B
- Honeywell: $599M
- General Dynamics: $232M

**Source: USASpending.gov*

MARKET INTELLIGENCE: A&D

- Early 2012 developed regional approach to track and monitor industry clusters to quickly respond to opportunities and threats.
- May 2012 launched a pilot program focused on region's aerospace and defense industries.
- September 2012 completed in-depth due diligence on 114 companies and met with defense contractors employing more than over 30,000 workers in the region.

MARKET INTELLIGENCE: A&D

Threat/ Opportunity

- Monitor industry trends and analyze the effect of defense cuts
- Focus on 114 contractors in the region

Tier 1 Companies

- 20 Prime contractors
- In-depth company profiles with market signals.

Tier 2 Companies

- 36 larger suppliers
- Expanded company profiles

Tier 3 Companies

- 58 smaller suppliers.
- Basic company profiles

Engagement Strategy

- EDDTs, Chambers,
- Contraction / expansion
- UAS support

MARKET INTELLIGENCE: A&D

TOPLINE FINDINGS:

- 52% are stable
- 26% are contracting as a result of the federal spending cut. These are primarily companies/operations in which DoD contracts represent the largest share of their revenue base.
- 22% are implementing expansion plans.

NEXT STEPS

FEBRUARY 26TH ROLLOUT EVENT

- A comprehensive report of outcomes and recommendations
- A Panel discussion

INFORMATION, COMMUNICATION TECHNOLOGY

- ICT 100
- Strength & Opportunities
- Market insights
- Ready Response

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