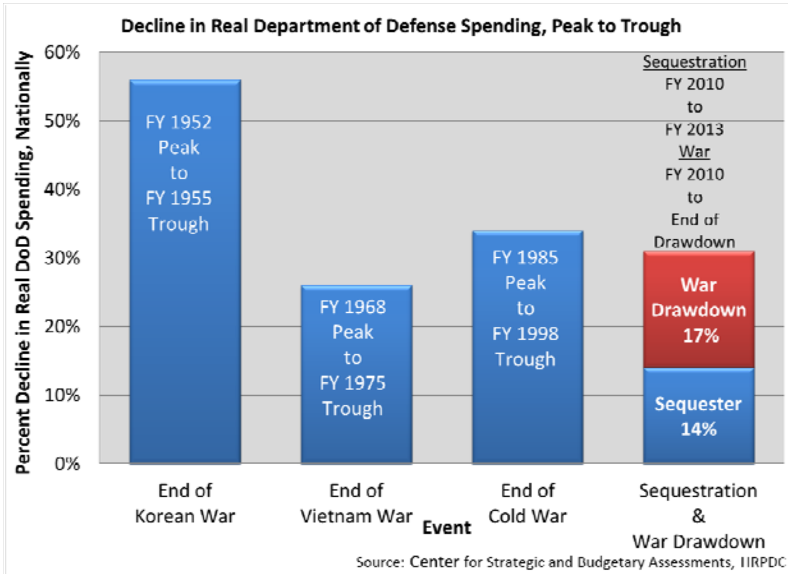
Special Report #10 HAMPTON ROADS PLANNING DISTRICT COMMISSION Nov. 23, 2011

Special Report:

"Super Committee" Fails to Act

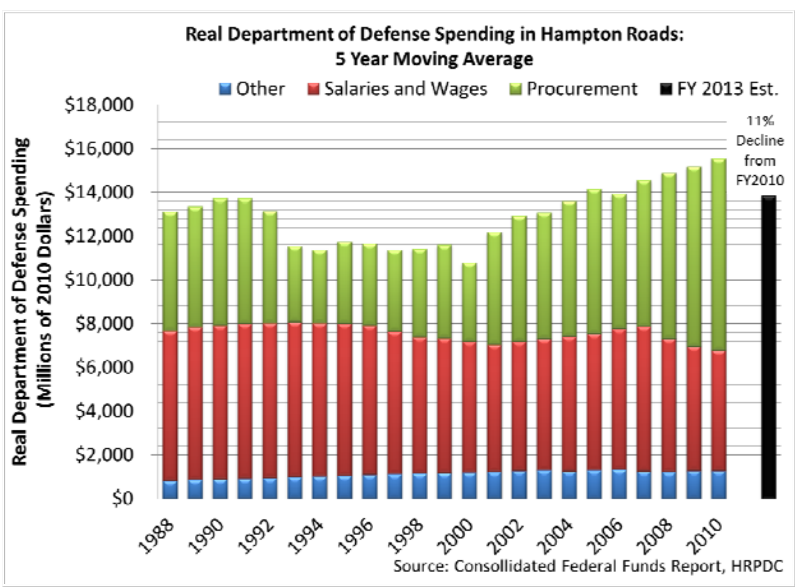
The failure of the Congressional "super committee" to come up with a plan to reduce the U.S. deficit has triggered $1.2 trillion in across-the-board spending cuts beginning in January of 2013, and ending in FY2021. As prescribed by the Budget Control Act of 2011 (BCA), spending would be decreased by an inflation adjusted $109.3 billion per year, with spending cuts split evenly between non-security spending and security programs (Department of Defense, Homeland Security, Veterans Affairs, and the National Nuclear Security Administration). The BCA would not allow for cost benefit tradeoffs for cuts, nor would it allow for money to be moved between years under the budget caps, preventing programs from back loading spending cuts to allow for a gradual decline.



The $1.2 trillion in spending cuts are in addition to the discretionary spending caps designed to reduce the budget deficit by $917 billion over 10 years. There is a great deal of speculation and debate as to the exact implementation of the proposed spending cuts, and whether or not Congressional action might prevent the "automatic reduction" from taking place. Regardless of outcome, intense budget pressure is likely to significantly reduce federal expenditures.

Given the import of Department of Defense (DoD) spending to the Hampton Roads economy, potential cuts in the defense budget are especially significant. Assuming implementation of the sequestration process, the Congressional Budget Office (CBO) estimates reductions ranging from 8.5% to 10% in the caps on new discretionary appropriations for defense programs. The Center for Strategic and Budgetary Assessments (CSBA) estimates an 11% reduction in real defense spending from the peak in FY 2010 to FY 2013, when the cuts will be put in place. This reduces base defense spending back to the FY 2007 levels ($472B a year) until the end of the sequestration process in FY 2021. It should also be noted that War spending in Iraq and Afghanistan, currently $128B, is outside of the sequestration process but will likely draw down over the decade as those conflicts end, leading to a combined decrease in real defense expenditures of 31% (similar to the 34% decline after the end of the cold war).

The direct impact of defense spending accounts for roughly 20% of the regional economy. A reduction of between 7% (CBO low estimate) and 11% (CSBA estimate) would remove approximately $1.6B from the local economy if the government decreased all defense spending equally. An 11% decrease in FY 2010 levels of spending would reduce military spending in FY 2013 to $13.85B in the region, the same level of spending as in FY 2004.



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