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WILLIAM T FUJIOKA
Chief Executive Officer

December 31, 2012

To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
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From: William T Fujioka
Chief Executive Officer

WASHINGTON, D.C. UPDATE ON "FISCAL CLIFF"

Executive Summary

This memorandum contains a report on the lack of bipartisan agreement, to date, on legislation to avert the "fiscal cliff" -- major Federal revenue increases and spending cuts, including $109.33 billion in sequestration cuts which are scheduled to take effect in January 2013. The impact of these cuts on the County's overall Federal revenue would be relatively small because the County receives most of its Federal revenue through the Medicaid, Temporary Assistance for Needy Families (TANF), Title IV-E Foster Care and Adoption Assistance, Supplemental Nutrition Assistance Program (SNAP), and Child Support Enforcement programs which are exempt from sequestration cuts. Moreover, the ultimate impact of the sequestration cuts on the County will not be known until after Congress finalizes Federal Fiscal Year (FFY) 2013 appropriations.

Fiscal Cliff

At the time of this writing, bipartisan agreement has not yet been reached on legislation to avert the "fiscal cliff," which refers to major Federal revenue increases and spending cuts which would take effect in January 2013 under current law. The major revenue increases include the expiring Bush tax cuts, Social Security payroll tax cut, and alternative minimum tax "patch." The major spending cuts include $109.33 billion in across-the-board sequestration cuts required by the Budget Control Act (BCA) of 2011, expiring extended Unemployment Insurance benefits, and a roughly 27 percent reduction in Medicare physician payments. If all of these scheduled revenue increases and spending cuts are averted, the Federal budget deficit would increase by more than $600 billion in FFY 2013 alone.

The $109.33 billion in across-the-board sequestration cuts – half of which would be imposed on non-defense spending -- are the element of the fiscal cliff which would directly affect the County. According to the Office of Management and Budget's preliminary estimates, non-defense discretionary spending would be cut by 8.2 percent and non-defense mandatory spending by 7.6 percent in FFY 2013. The impact of the sequestration cuts on the County's overall Federal revenue would be relatively small because the County receives most of its Federal revenue through the Medicaid, TANF, Title IV-E Foster Care and Adoption Assistance, SNAP, and Child Support Enforcement programs which are exempt from sequestration cuts.

It is noteworthy that no FFY 2013 appropriations bill has been enacted yet and that Federal programs and activities are temporarily funded through March 27, 2013 under a Continuing Resolution (Public Law 112-175). When Congress later finalizes appropriations for FFY 2013, it is all but certain that the impact of sequestration cuts on many, if not most, individual programs and activities will be modified. For example, funding for some programs can be reduced more or eliminated to mitigate or eliminate the impact of sequestration cuts on other programs. The ultimate impact of sequestration cuts on the County also will not be known until after Congress finalizes FFY 2013 appropriations because the Federal government typically does not award new grants until after appropriations for the entire fiscal year have been finalized.

We will continue to keep you advised.

WTF:RA
MR:MT:ma

c: All Department Heads
Legislative Strategist