

Attachment 5. Sequestration Update January 2014

Summary: The effects of the sequestration are difficult to quantify, but some effects have become apparent on the retail and lodging sectors of the City, and it will be necessary to continue to monitor the impacts of slower growth in federal spending.

Federal Sequestration Actions to date: Dr. Fuller of George Mason's Center for Regional Analysis produces periodic presentations regarding the area's economy. In his October 22 presentation entitled "The Outlook for the U.S. and Washington Area Economies in 2013 and Beyond," he highlights that sequestration reduced federal budget authority by \$85 billion, producing actual spending reductions of \$44 billion in the fiscal year ending September 30, 2013.

On October 15, in a compromise to end the federal government's shutdown, Congress adopted a continuing resolution to keep the federal government open until January 15, 2014 and raise the debt ceiling through February 7, 2014. The agreement directed a joint House and Senate budget conference committee to work out a broader deal by December 13 under the threat of additional sequestration reductions in FY 2014. In December, the budget committees successfully worked out a budget deal to set spending levels for the next two years. The agreement restores some of the automatic sequestration related reductions. However, the agreement is likely to affect many residents of Alexandria. The agreement increases premiums for private pension plans insured by the federal government, increases retirement contributions for federal civil service workers, and reduces the cost-of-living increases for working age military retirees. According to the "National Journal," as part of the deal, new federal workers and military retirees will contribute an additional \$12 billion in premium increases and reduced cost-of-living increases to offset additional spending cuts that would have occurred under sequestration. According to the Virginia Employment Commission, of Alexandria's approximately 96,000 jobs, one sixth are related to public administration, most of which are federal jobs, so Alexandria workers and Alexandria's economy may be affected over time by the premium changes and reduced cost of living increases. Congress must still increase the debt limit or face the possibility of another government shutdown.

In a December presentation posted on the GMU website regarding economic challenges in the Washington, DC area, Dr. Fuller mentioned that federal spending will no longer drive the region's economic growth, and that the "region's economy is currently lagging the national growth rate and the rates of its peers."

Effects of Sequestration

The economic effects of sequestration are difficult to measure with any degree of accuracy. In its November 2014 Revenue and Budget outlook, the Virginia Senate Finance Committee wrote that Sequestration, "...is not the poison pill it was thought to be. Federal spending cuts are proving to be less onerous than raising taxes or cutting entitlements." However, they also wrote that, "Anticipation of federal sequestration stymied job growth in the Professional and Business

Services job series – the highest paying jobs associated with federal procurement.” There are approximately 18,000 Professional & Technical Service Jobs in the city.

As demonstrated in the Monthly Financial Report, there are indications that the sequestration has had an effect on economic activity in Alexandria, particularly on economically sensitive revenues. From August through October, sales tax receipts in Alexandria decreased by 0.7% compared to the similar period last year, while national retail sales increased by 4.2% over the same three month span. A similar pattern is displayed in Transient Lodging tax receipts, where collections for the three month period ending in August decreased by 3.8% compared to last year. The pattern of decreasing year-over-year revenues began in April, about the time the sequestration began.

Conclusion

While the effects of sequestration on the local economy were not as bad as some economists predicted early in 2013, City Staff will continue to monitor the effects of slow growth in federal government spending and account for them in the FY 2015 revenue estimates.