



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



5

July 29, 1986

Law and Legislative Committee
of the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Legislative Update and Recommended Position
Statement

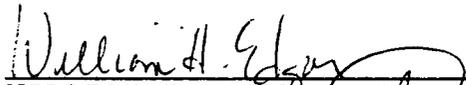
SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the Redevelopment Agency and Housing Authority of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the attached resolution approving the proposed position statements.

Respectfully submitted,


WILLIAM H. EDGAR
Executive Director

Attachment



**SACRAMENTO
HOUSING AND REDEVELOPMENT
AGENCY**



July 15, 1986

Redevelopment Agency
and
Housing Authority
of the City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Legislative Update and Recommended Position Statements

SUMMARY

This report summarizes important aspects of federal legislation which directly effect Agency programs and funding. Topics covered are Tax Reform, Housing and Community Development Authorization and Appropriations Legislation, and the 1985 Balanced Budget and Emergency Deficit Control Act better known as Gramm-Rudman-Hollings (GRH).

A summary of recommended position statements with respect to each topic follows:

Tax Reform:

- Exclude multi-family housing bonds from per capita volume caps.
- Continue to classify all tax increment (TI) bonds as governmental bonds.
- Retain tax incentives for private sector rental housing development.

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Housing and Community Development Authorizing Legislation:

- Continue authorization for all Agency programs.
- Provide multi-year (rather than one year) authorization.
- Support the NAHRO position with respect to legislative changes.

Housing and Community Development Appropriations:

- Continue funding at FY-86 levels or higher.
- Reverse the President's deferral of FY-86 funds.

Gramm-Rudman-Hollings:

- Reject across the board automatic spending cuts to domestic programs as a means for balancing the budget.
- Achieve deficit reduction target through increased revenues (e.g. taxes) and/or reduced military spending rather than cuts to domestic programs.

Resolutions incorporating these recommendations are attached for your approval.

BACKGROUND

This report covers four topics: Tax Reform, Housing and Community Development Authorizations, Housing and Community Development Appropriations, and the 1985 Balanced Budget and Emergency Deficit Control Act better known as Gramm-Rudman-Hollings (GRH). Attachment A is a detailed analysis of matters which directly effect Agency programs and funding. A summary of this analysis appears below.

A. Tax Reform:

Major federal income tax legislation is expected to be enacted this year. Congress is currently in the process of reconciling differences between House and Senate legislation. The result should reach the President for signature by September.

Two tax issues which directly effect the Agency are multi-family housing bonds and tax increment (TI) bonds. The Senate version of the tax bill is more favorable to Agency interests in both areas.

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With respect to TI bonds, both tax bills would create restrictions that will prevent at least some TI bonds from qualifying as governmental bonds for tax purposes. Those which do not qualify will have to conform to certain criteria in order to remain tax exempt. It is to the Agency's best interest that all TI bonds be classified as governmental bonds. This could be accomplished by retaining the current law definition of the security interest test.

With respect to multi-family housing development bonds, both bills would require greater targeting to low income families than current federal law. These would be consistent with current state law, however, and are not expected to be a problem. A very undesirable feature of the House version is that it would subject such bonds to a per capita volume cap. The Senate version contains no volume cap and is preferable for this reason.

B. Housing and Community Development Authorization Legislation:

The President has proposed elimination of the following Agency programs in his budget: Section 108 loans, UDAG, HODAG, public housing new construction, Section 8 Certificates, Section 8 new construction and rehabilitation, Section 312 rehabilitation loans and rental rehabilitation grants. Without authorizing legislation, no future funding could be approved by Congress.

Both houses of Congress are currently considering legislation which would continue authorization for all the above programs. Section 8 administration fees would also be increased to pre-1985 levels providing approximately \$160,000 per year in additional revenues to the Agency. Passage of authorizing legislation in one form or another is critical. Because this legislation differs so much from the Administration's budget, a Presidential veto is likely.

With respect to the legislation itself items of particular benefit to the Agency are the restoration of Section 8 administrative fees and provisions to improve public housing operating efficiency. Features considered detrimental to Agency interest are: one year vs. multi-year program authorizations, tenant management requirements, a priority for modernization funding vs. new construction (with no additional funding provided) and a proposal to sell public housing units to tenants.

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C. Housing and Community Development Appropriations:

On June 28th Congress passed a concurrent budget resolution for FY-87 which would essentially continue funding for Agency programs at FY-86 post GRH levels.

The resolution provides substantially more funding for housing and community development than the President's budget. Appropriations bills consistent with the resolution must still be enacted by Congress and signed by the President in order for funds to become available. A Presidential veto is a clear possibility. Even if legislation is passed there may be further cuts if GRH expenditure reductions are required.

Staff estimates that the Agency would be eligible to receive approximately 220 new housing units and \$10.6 million in additional HUD funding if the congressional budget resolution amounts are enacted into law. By contrast the President's budget would provide no new units and only about \$6.8 million in funding; approximately 37% less than Congress. It is to the Agency's best interest to support the congressional budget and resist any further cuts to achieve deficit reduction.

D. The 1985 Balanced Budget and Emergency Deficit Control Act; Gramm-Rudman-Hollings (GRH):

GRH is a very serious threat to the survival of housing and community development programs from both a policy and procedural point of view. The same applies to all domestic programs which rely on annual appropriations from the federal government. At the policy level GRH makes deficit reduction a very high priority goal of federal fiscal policy.

In addition, it is the Administration's goal to substantially reduce, if not eliminate, federal spending for housing and community development programs. This puts them at a distinct disadvantage in the budget negotiations that could proceed any across the board GRH spending cuts. Unless program providers and others actively advocate for their continued existence, the result will be their certain decline and possible elimination.

The mechanics of GRH inherently work to the disadvantage of housing and community development programs. At the budget stage they fall within that portion of total federal expenditures (approximately one forth) which is most susceptible to cuts

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through reduced annual appropriations. If across the board cuts later become necessary the percentage reduction to each domestic program would be almost twice as large as defense.

For planning purposes you can assume that every \$10 billion in across the board deficit reduction required under GRH will cause an approximately 5% reduction in new funding for housing and community development programs.

Each 5% loss would cost the Agency between \$340,000 and \$530,000 in new FY-87 funding depending on actual appropriations.

GRH deficit targets cannot be achieved through domestic expenditure cuts alone. One or a combination of the following must also occur:

1. An improvement in the general economy;
2. Increased government revenues (e.g. taxes);
3. Decreased military expenditures; or
4. Decreased spending for entitlement programs such as social security.

An improvement in the general economy cannot be counted upon. For practical and political reasons significant reductions in entitlement spending are not considered possible at least within the GRH timeframe. This leaves revenue increases and decreased military expenditures as the only viable alternative to a lack of economic growth for achieving the GRH deficit targets.

FINANCIAL DATA

Adoption of the resolutions attached to this report will have no direct financial impact on the Agency.

ENVIRONMENTAL REVIEW

Environmental review is not required for actions requested in the staff report.

POLICY IMPLICATIONS

The actions proposed in this staff report are consistent with previously approved policy and there are no policy changes being recommended.

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VOTE AND RECOMMENDATION OF COMMISSION

At its regular meeting of July 21, 1986, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolutions. The votes were as follows:

AYES: Glud, Lopez, Moose, Pettit, Sanchez, Wooley, Amundson

NOES: None

ABSENT: None

RECOMMENDATION

It is recommended that the governing bodies take a formal position with respect to each of the topics covered as indicated in the summary section of this report and in the attached resolutions. Adoption of the resolutions would authorize the Executive Director to communicate this position to the President and Congress through appropriate means.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL

Walter J. Slipe
City Manager

0095M

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

July 29, 1986

STATING THE AGENCY'S POSITION ON FEDERAL LEGISLATION

WHEREAS, there is a continuing need for federal housing and community development programs in the Sacramento City and County; and

WHEREAS, Pending federal tax legislation as well as legislation regarding housing and community development program authorizations and funding will have a direct and potentially adverse impact on Agency programs and funding; and

WHEREAS, the 1985 Balanced Budget and Emergency Deficit Control Act poses a significant threat to all domestic programs, including housing and community development programs which depend on annual appropriations from the federal government; now therefore,

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1: The Agency hereby adopts formal positions with respect to federal fiscal policy matters as follows:

a) TAX REFORM LEGISLATION:

i. Multi-family housing revenue bonds should continue to be excluded from per capita volume limitations.

ii. The legislation should be revised to allow tax increment (TI) bonds to be classified as governmental bonds as under current law.

iii. Passive investment losses in connection with low income rental housing development should continue to offset against ordinary income at least until the effectiveness of an alternative means to stimulate such development has been adopted

b) HOUSING AND COMMUNITY DEVELOPMENT AUTHORIZING LEGISLATION

i. Congress should continue authorization for current housing and community development programs unless and until proven substitutes capable of meeting identified needs are enacted. Such programs should not be eliminated for purposes of deficit reduction alone.

ii. Congress should continue to provide multi-year authorization for housing and community development programs as in the past.

iii. The position of the National Association of Housing and Redevelopment Officials with respect to specific provisions of the legislation should be adopted.

c) HOUSING AND COMMUNITY DEVELOPMENT APPROPRIATIONS

i. The federal government should provide funding for housing and community development at fiscal year 1986 post Gramm-Rudman Hollings (GRH) levels or higher.

ii. Congress should pass legislation to overturn the President's deferral of fiscal year 1986 CDBG and housing funds.

d) THE 1985 BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT: GRAMM-RUDMAN-HOLLINGS

i. Congress should reject any deficit reduction plan which uses across-the-board cuts to domestic programs as a last resort to balance the budget.

ii. Gramm-Rudman-Hollings deficit targets should be met through increased taxes or decreased military expenditures rather than across-the-board cuts to domestic programs.

Section 2: The Executive Director is authorized to communicate this position to Congress and the President through appropriate means.

Section 3: This resolution shall take effect immediately.

CHAIR

ATTEST:

SECRETARY

0339L

RESOLUTION NO.

ADOPTED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO

ON DATE OF

July 29, 1986

STATING THE AUTHORITY'S POSITION ON FEDERAL LEGISLATION

WHEREAS, there is a continuing need for federal housing and community development programs in the Sacramento City and County; and

WHEREAS, Pending federal tax legislation as well as legislation regarding housing and community development program authorizations and funding will have a direct and potentially adverse impact on Authority programs and funding; and

WHEREAS, the 1985 Balanced Budget and Emergency Deficit Control Act poses a significant threat to all domestic programs, including housing and community development programs which depend on annual appropriations from the federal government; now therefore,

BE IT RESOLVED BY THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO:

Section 1: The Authority hereby adopts formal positions with respect to federal fiscal policy matters as follows:

a) TAX REFORM LEGISLATION:

i. Multi-family housing revenue bonds should continue to be excluded from per capita volume limitations.

ii. The legislation should be revised to allow tax increment (TI) bonds to be classified as governmental bonds as under current law.

iii. Passive investment losses in connection with low income rental housing development should continue to offset against ordinary income at least until the effectiveness of an alternative means to stimulate such development has been adopted

b) HOUSING AND COMMUNITY DEVELOPMENT AUTHORIZING LEGISLATION

i. Congress should continue authorization for current housing and community development programs unless and until proven substitutes capable of meeting identified needs are enacted. Such programs should not be eliminated for purposes of deficit reduction alone.

ii. Congress should continue to provide multi-year authorization for housing and community development programs as in the past.

iii. The position of the National Association of Housing and Redevelopment Officials with respect to specific provisions of the legislation should be adopted.

c) HOUSING AND COMMUNITY DEVELOPMENT APPROPRIATIONS

i. The federal government should provide funding for housing and community development at fiscal year 1986 post Gramm-Rudman Hollings (GRH) levels or higher.

ii. Congress should pass legislation to overturn the President's deferral of fiscal year 1986 CDBG and housing funds.

d) THE 1985 BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT: GRAMM-RUDMAN-HOLLINGS

i. Congress should reject any deficit reduction plan which uses across-the-board cuts to domestic programs as a last resort to balance the budget.

ii. Gramm-Rudman-Hollings deficit targets should be met through increased taxes or decreased military expenditures rather than across-the-board cuts to domestic programs.

Section 2: The Executive Director is authorized to communicate these positions to Congress and the President through appropriate means.

Section 3: This resolution shall take effect immediately.

CHAIR

ATTEST:

SECRETARY

0339L

HOUSING APPROPRIATIONS LEGISLATION

A. RECOMMENDED AGENCY POSITION

The Federal Government should provide funding for housing and community development at fiscal year 1986 post Graham-Rudman-Hollings (GRH) levels or higher.

Congress should pass legislation to overturn the President's deferral of fiscal year 1986 Community Development Block Grant Program (CDBG) and housing appropriations of \$500 million and \$2.3 million.

B. CURRENT DEVELOPMENTS

On June 28th Congress passed a budget resolution which purports to conform to the FY-87 GRH deficit target of \$144.0 billion. Passage occurred more than two months after the April 15th deadline established under the Budget Act. The resolution is a blue print for appropriations bills which were supposed to be completed in the House by the July 4th recess.

As further discussed below the budget resolution passed by Congress generally continues funding for housing and community development programs at FY-86 post GRH levels. This is substantially more funding than the President requested in his budget. The resolution also provides for \$17 billion less in defense spending than the President's budget, unless the Administration agrees to a tax increase to pay for any defense increase. Any legislation passed by Congress to implement its budget resolution must be able to withstand a Presidential veto.

Looking ahead, this August 25th the General Accounting Office (GAO) will notify the President whether the deficit will exceed the maximum established. If appropriations bills have not been passed by Congress and signed by the President by that time, as appears likely, the GAO projection will be based on current law. Because of this and because economic forecasts may vary, the projected deficit amount is uncertain. If it appears that the

deficit target will not be reached for any reason there will be increased pressures to reduce appropriations to conform to GRH regardless of whether appropriations bill have actually passed by that time.

C. BACKGROUND

The budget resolution is the principle device available to Congress to relate spending for individual programs to total federal government revenue and expenditure goals. Once adopted by both Houses it serves as a guide for detailed legislation on fiscal matters. This includes taxation and entitlements as well as appropriations which are the exclusive subject of GRH cuts. In addition to establishing aggregate targets for revenues, new budget authority, total budget outlays, the national debt and the annual deficit, the budget resolution also provides specific instructions to Congressional committees representing each of the 21 established budget categories. The committees are expected to report out legislation which conforms to these instructions. If things go as planned the cumulative total of these individual pieces of legislation would achieve the aggregate targets mentioned above. Unlike the budget resolution itself which is not a law, the implementing legislation could be vetoed by the President.

The FY-87 Congressional budget resolution provides substantially more funding for housing and community development programs than the President's budget. Figure 1 is a comparison of the resolution with FY-86 appropriations and the President's budget. The figures reflect new budget authority only. Expenditures against previously approved budget authority (i.e., multi-year housing assistance payments contracts) are not included. In the case of the President's budget the totals do not include \$2.3 billion in FY-86 funding (\$500,000 for CDBG and \$2.3 billion for new housing units) that the Administration proposes to defer to FY-87. These amounts are included in the FY-86 totals shown.

Figure 1

HOUSING AND COMMUNITY DEVELOPMENT FEDERAL FUNDING ALTERNATIVES

| | <u>1 Fiscal Year 1986</u> | | <u>Fiscal Year 1987</u> | | | |
|--------------------------|---------------------------|------------|-------------------------------|-----------|-------------------------------------|------------|
| | <u>Final FY-86</u> | | <u>President's Budget (2)</u> | | <u>Congressional Resolution (3)</u> | |
| | <u>Units</u> | <u>\$</u> | <u>Units</u> | <u>\$</u> | <u>Units</u> | <u>\$</u> |
| <u>CURRENT PROGRAMS</u> | | | | | | |
| CDBG | | 2990 | | 2125 | | 2915 |
| Rental Rehab Grant | [18888] | 72 | -0- | | [16527] | 65 |
| HODAG | [3589] | 72 | -0- | | [3230] | 65 |
| UDAG | | 316 | -0- | | | 284 |
| Public Housing | | | | | | |
| Operating Subsi. | | 1421 | | 1172 | | 1421 |
| Modernization | | 1436 | | 458 | | 1436 |
| <u>NEW HOUSING UNITS</u> | | | | | | |
| Public Housing | 4785 | 937 | -0- | | 4785 | 937 |
| Section 8 | | | | | | |
| Certificates | 36642 | 2362 | -0- | | 36624 | 2362 |
| Vouchers | 34452 | 742 | -0- | | 34452 | 742 |
| Mod Rehab | <u>9570</u> | <u>883</u> | <u>-0-</u> | | <u>9570</u> | <u>883</u> |
| TOTALS | 85431 | 11231 | -0- | 3755 | 85431 | 11110 |

Key: Dollar totals (\$) expressed in thousands
Unit totals in brackets ([]) do not add vertically

- Notes: (1) FY-86 totals reflect 4.3% Graham-Rudman-Hollings cut and include amounts proposed for deferral by the President as follows: CDBG - \$500,000; New Housing - \$2.3 Billion
(2) FY-87 totals exclude FY-86 deferrals noted above.
(3) Congressional budget estimates based on NAHRO action alert #87 July 2, 1986

0030M

Note that the President's budget proposes total elimination of new funding for many programs. In the case of Rental Rehabilitation, HODAG and UDAG, the Administration proposes to cancel these programs by eliminating them from authorizing legislation. With respect to new housing units, the Administration would provide an estimated 50,000 new Section 8 housing vouchers with funding deferred from FY-86. There would be no new FY-87 funding. All other housing subsidy programs would be eliminated. This clearly illustrates the intent of the Administration to drastically reduce federal involvement in housing and community development programs.

By contrast both Congressional budget resolutions would continue housing and community development programs at essentially FY-86 funding levels. Bear in mind, however, that FY-86 appropriations were cut 10% below authorized levels during the appropriations process. Also first year GRH sequestration resulted in an additional 4.3% cut to programs shown. Thus, the absolute best one could hope for in FY-87 is a 14% reduction in overall funding for housing and community development programs compared to FY-86.

Figure 2 is an estimate of the impact of the budget proposals on Agency programs. Estimates are based on the assumption that the Agency will capture approximately the same proportion of the total federal appropriation (Figure 1) as in the past unless otherwise noted.

The FY-86 totals on figure L include amounts deferred by Presidential order. These have not yet been allocated by HUD. Specifically, \$1,221,000 in City and County CDBG entitlement funds and housing funds which would provide approximately 100 new assisted housing units are currently being withheld. The President's authority to defer expenditures has been successfully challenged in court by a consortium of local public interest groups including the National League of Cities and the National Association of Housing and Redevelopment Officials (NAHRO). On May 13th the Sacramento County Board of Supervisors voted to contribute \$1,500 to this effort. The court ruling to release these funds may be appealed or the Administration may "voluntarily" release them to avoid further controversy. In either case it is important to bear in mind that this result was obtained not through cooperation with the Administration, but as the result of a hard fought legal battle.

Figure 2

ESTIMATED IMPACT OF FEDERAL BUDGET
PROPOSALS ON AGENCY PROGRAMS
(Amounts expressed in thousands of dollars (\$ x 1000)
Unless otherwise noted)

| | FY-87 President's FY-86 (1) Budget | FY-87 Congress Budget (2) | |
|---|--|---------------------------------|------------------------------|
| CDBG | \$ 7,631 | \$5,423 | \$ 7,440 |
| Section 312 (3) | | 766 | -0- 766 |
| Rental Rehab | 382 | -0- | 344 |
| Public Housing | | | |
| Operating Subsidies (4) | 1,041 | 1,041 | 1,041 |
| Modernization (CIAP) (5) | -0- | 334 | 1,048 |
| GRAND TOTAL | \$ 9,820 | \$6,798 | \$10,639 |
| New Assisted Housing Units (all sources) 220 units | | 200 units | -0- units |

Notes:

(1) Fiscal 1986 figures from the January 27, 1986 report to the governing bodies

- (2) Fiscal 1987 estimates assume the Agency will receive the same proportion of federal appropriations as in 1986 unless otherwise noted (See FY-87 Federal Funding Alternatives chart for base figures).
- (3) The Section 312 Program is funded with loan repayments not appropriations. The President proposed elimination of "312".
- (4) Public housing operating subsidy amounts are far more dependent on allocation rules established in authorizing legislation than on actual appropriations. It is assumed that the Agency will receive 100% of its performance funding formula amount under all alternatives and that this amount will not change significantly.
- (5) The Agency received no CIAP funding in FY-86 because awards were limited by HUD to emergency repairs only. The FY-87 projections assume the Agency will receive approximately the same percentage of nationally approved CIAP funds as operating subsidies. The actual award could be substantially larger or smaller.
- (6) The President's budget proposes to fund \$50,000 Section 8 vouchers in FY-87 with deferred FY-86 funds. The Agency's share would be 100 + 20 units assuming approximately the same allocation ratio as for CDBG funds (.2% of the national total).

Figure 2 illustrates the fact that the Agency would be entitled to receive approximately \$4,000,000 more in new federal funding under the Congressional budget proposal. Approximately 220 additional new housing units would also be potentially available. The actual amount of dollars and units received will depend on allocation rules and other variables which are independent of the appropriations themselves. For example, the Agency received no CIAP funds in FY-86 due to the fact that HUD allocation rules gave priority to emergency repairs not because of a shortage of funding. Therefore, the projections are useful for comparison purposes only. As such they illustrate the fact that the Agency would be far better off under the Congressional budgeted resolution than under the President's budget.

Even under the most generous assumptions new budget authority for housing and community development would constitute only about 1% of total federal outlays in FY-87 which are estimated to total approximately \$1 trillion (that is \$990,000,000,000+). It is inconceivable therefore that even a very large change in spending for housing and community development will impact the deficit that much.

The total elimination of new budget authority for example would only save \$11.1 billion under the Congressional budget resolution on Figure 1. Unfortunately, for domestic programs the reverse is also true. In order to achieve a very small reduction in the deficit, a very large reduction in spending for domestic programs will be required. As explained elsewhere in this report, every \$10 billion in expenditure reduction required by GRH would necessitate an approximately 5% across the board cut to Agency programs shown on Figure 2. Such a reduction would cost the Agency between \$339,900 and \$531,950 in FY-87 revenues depending on which budget proposal becomes law. The loss of new housing units would be even more dramatic since under the President's budget there would be no new units to begin with. This illustrates how important it is to at least maintain current funding levels through the normal appropriations process if at all possible. Any losses here may be translated into deeper cuts later on.

TAX REFORM

A. RECOMMENDED AGENCY POSITION

Provisions of the Senate tax bill relative to tax increment financing and multi-family housing bonds should be included in final legislation rather than the House provisions.

The legislation should be revised to allow all Tax Increment (TI) bonds to be classified as governmental bonds as under current law.

The law should continue to allow passive investment losses in connection with low income rental housing development to be offset against ordinary income at least until the effectiveness of alternative means to stimulate such development (i.e., tax credits) have been proven.

B. CURRENT DEVELOPMENTS

Two bills which would dramatically effect federal tax law are currently pending in Congress. The House Bill, HR 3838 was passed last December. The Senate version was passed in June. Conference committee action to resolve differences between the two is now in progress. The resulting legislation should reach the President for signature by September.

C. BACKGROUND

The principle feature of both the House and Senate bills is that individual tax rates are significantly reduced. The resulting tax losses are made up by elimination of tax preferences or shelters. Areas where the legislation will directly effect Agency operations are discussed below. In addition, the legislation will dramatically effect the real estate development industry which traditionally has been a major beneficiary of the tax preferences which would be lost. Lower marginal tax rates, longer depreciation schedules, and above all, the inability, for the most part, to offset passive investment losses against ordinary income will favor projects which generate cash over so called deep shelter projects. Low income housing development typically falls in the latter category. The law then could have a significant adverse impact on the new housing development.

The following is a summary of tax issues of direct interest to the Agency.

Tax Increment (TI) Bonds:

The classification of TI bonds as traditional government bonds is threatened under both versions of the tax bill. Basically, any TI bond or portion thereof devoted to projects with both public and private participation would have to meet certain criteria in order to be classified as a governmental bond. Any TI bond or portion thereof used for public infrastructure (e.g. streets) would continue to be classified as governmental. In determining this classification the Senate language is far less restrictive than the House. Here a TI bond would be a governmental bond if less than 25% of the bond is secured by a non-governmental entity. Under the House bill a TI bond would qualify as a governmental bond if the lesser of 5% or \$5 million of the proceeds are used for loans to non-governmental persons or the lesser of 10% or \$10 million of the proceeds are used in a trade or business by a non-governmental person.

Any TI bond considered non-governmental would have to conform to certain criteria in order to be tax exempt. A comparison of these criteria between the House and Senate tax bills follows:

| <u>Criteria</u> | <u>House Bill</u> | <u>Senate Bill</u> |
|-----------------|---|-------------------------|
| Use of Proceeds | The percentage of proceeds which must be used for authorized redevelopment purposes in a designated area is: 95% | 100% |
| Issuance Test | The TI bond issue must conform to state law and an adopted redevelopment plan. | |
| Security | Tax increments may be applied to debt service for: Any TI bond | The original issue only |

Redevelopment
Restrictions

The assessed value may not exceed 25%
of that of the entire city.

The minimum size required is:

| | |
|----------|-----------------------------|
| 10 acres | 1/4 sq. mile (160 acres) |
|----------|-----------------------------|

Per Capita
Volume Cap

| | |
|--------------------------|-----------------------------|
| \$150 (\$100 offer 1986) | \$175 (\$150 offer 1983) |
|--------------------------|-----------------------------|

\$200 million maximum volume per state
under either bill

Multi-family housing development bonds
are:

| | |
|-----------------------|------------------------|
| excluded from the cap | included in the cap |
|-----------------------|------------------------|

Advance Refunding

Not allowed under either bill.
(Governmental bonds may be advance
refunded twice)

Alternative Minimum
Tax

| | |
|--------|----------|
| exempt | included |
|--------|----------|

Here again the Senate criteria are far more favorable than the House.

It is to the Agency's best interest that TI bonds have the same status as traditional government bonds under the tax act. This would be accomplished by retaining the security interest test provision of current law. Under current law, proceeds from sale of vacant land and property taxes paid by new development are not considered to be pledged as security for TI bonds. However, the Senate bill is being drafted in such a way that these revenues would be considered to represent a security interest. This language would exclude

many TI bond issues from governmental bond status. A letter urging retention of the current law security interest test was mailed to the California U.S. Senators on May 23rd. As the tax bill moves forward in Congress there may be other opportunities to obtain acceptable language.

Multi-Family Housing Bonds:

Both bills would continue the tax exempt status of multi-family housing bonds subject to increased targeting restriction as follows:

1. Twenty-five percent (25%) or more units must be occupied by households below 80% of median income, or 20% must be occupied by households below 70% of median.
2. Under the Senate version the project must qualify under 1 above for a minimum of 12 years from the date 50% of the units are occupied or until the bond is retired. The House version would increase this minimum to 15 years.
3. Income of set aside unit occupants must be recertified each year. A 20% increase over ceiling is allowed before a set aside unit must be replaced by a comparable unit.

These restrictions are consistent with current state requirements. Policies incorporating these requirements have already been adopted locally. So increased targeting will not be a problem.

The major difference between the House and Senate bills is that the former would place multi-family housing bonds under a \$150 per capita state volume cap. This is a completely arbitrary restriction which could be a significant constraint on local bond activity. For example, in 1985 the per capita volume of Agency housing bonds alone was approximately twice the proposed limit.

Given increased targeting and the loss of tax incentives for low income housing in the tax law, generally it is questionable whether volume caps would significantly increase tax revenues. They will certainly complicate administration of bond programs, perhaps unnecessarily. If additional restrictions on the volume of such bonds are considered necessary after the new law has

taken effect, tighter targeting rather than volume caps would be the preferred alternative.

Tax Credits for Low Income Housing:

Lower marginal tax rates coupled with the inability to offset passive investment losses against ordinary income will make deep shelter real estate investments such as low income housing significantly less attractive to high income taxpayers. To offset this loss a low income housing tax credit is proposed with the following general characteristics:

1. For units occupied by very low income families (less than 50% of median) a credit of 8% of basis (with a present value of approximately 60%) is available for 10 years.
2. For units occupied by lower income families with incomes between 50% and 70% of median, the credit would be 4% of basis (present value of approximately 30%) for 10 years. The credit could be claimed on a maximum of 30% of all units in a project.
3. Credits would be claimed directly by taxpayers. They would not be subject to volume caps or governmental allocation rules. However, they could not be applied to tax exempt bond financed units.

Tax credits are generally less attractive to high income investors than the high leverage deep tax shelter provisions of current law. On the other hand, they tend to be more valuable to small scale owners interested in cash profits rather than tax losses. Most owners of low income rental housing fall in the latter category. It remains to be seen whether tax credits will be a suitable replacement for tax deductions as a stimulus for needed development. Until this is established, tax incentives for owners of low income housing who do not choose to use tax credits should be retained.

HOUSING/COMMUNITY DEVELOPMENT AUTHORIZATION LEGISLATION

A. RECOMMENDED AGENCY POSITION

Congress should continue authorization for current housing and community development programs unless and until proven substitutes capable of meeting identified needs are found. Programs should not be eliminated for purposes of deficit reduction alone.

Congress should continue to provide multi-year authorization for housing and community development programs as in the past.

Support the NAHRO position with respect to specific provisions of the legislation.

B. CURRENT DEVELOPMENTS

Authorizing legislation for housing and community development programs is pending in Congress. The House Bill is HR 1. The Senate Bill is S. 2507. Their similarities and differences with respect to topics of interest to the Agency are further discussed below. If passed by each house, the bills will be referred to a conference committee to resolve any differences. The resulting bill will be referred to the President for signature.

C. BACKGROUND

The House and Senate housing authorization bills would both continue programs of vital importance to the Agency. They would also restore Section 8 finders keepers program administrative fees to pre 1985 levels. Any legislation that emerges from the conference committee would therefore be preferable to no legislation at all from the Agency's point of view. However, the legislation is in direct conflict with the Administration's plan to eliminate programs and reduce funding for housing and community development. Therefore, Congressional delays and/or a Presidential veto are likely. The first priority for action therefore should be to obtain passage of comprehensive authorization legislation in either form. Passage of the House version which is slightly more favorable to Agency interests should be second priority.

The National Association of Housing and Redevelopment Officials (NAHRO) has been instrumental in drafting this legislation and has taken a formal position on key provisions. Key features of the legislation which reflect the NAHRO position and are beneficial to Agency interests are as follows:

1. Continued authorization for current programs: All current housing and community development programs would be continued, albeit with indefinite funding. This includes CDBG, public housing operating subsidies, and Section 8 housing vouchers which are included in the President's budget, as well as many programs that are not. The most significant from the Agency's point of view are Section 108 loans, UDAG, HODAG, public housing, new construction, Section 8 Certificates, Section 8 new construction and rehabilitation, Section 312 rehabilitation loans and rental rehabilitation grants. The Agency should support continuation of all programs.
2. Section 8 Administrative Fee Increase: Both bills would restore Section 8 finders keepers program administrative fees to pre-1985 levels or 8.5% of the HUD established fair market rent for a two bedroom unit. This would reverse the 10% fee reduction which took effect at the beginning of the Agency's fiscal year, January 1, 1986. This provision alone would provide approximately \$160,000 in additional annual revenues to the Agency. In addition, the House bill would provide for retroactive payment of the higher fee and would increase the fee for vouchers to that of Section 8 Certificates.
3. Improved Operating Efficiency for Public Housing: The House bill would revise regulations to improve operations in a number of areas; most notably the following:
 - a. Required steps to verify citizenship of assisted housing residents would be simplified.
 - b. The portability of Section 8 vouchers would be restricted to the standard metropolitan statistical area (SMSA) level. Current rules provide for portability nation-wide.

- c. The performance funding system for public housing would be improved to allow, among other things, compensation for costs beyond control, such as increased insurance premiums, and financial incentives for improved management efficiency.
- d. The requirement that HUD review and approve certain actions by a PHA to implement federal regulations would be eliminated.

Each of these changes would be beneficial to Agency operations.

Some features of pending legislation which are unfavorable to Agency interests include the following:

1. One Year Program Authorizations: Program authorizations are limited to one year and funding levels are not stated. Instead, they will be determined by annual appropriations legislation. This is a major departure from previous authorization legislation which typically covered three years with funding levels established for each. Multi-year authorizations are generally advantageous to program operators because they provide a basis for planning and a target at least for future appropriations. In rejecting multi-year authorizations Congress is in effect subordinating housing and community development priorities to the deficit reduction goal. Without established authorization levels there will be less incentive for Congress to appropriate a given amount of funds during the normal appropriations process; that is before any GRH sequestration takes place.
2. Tenant Management Requirements: The Senate bill includes financial incentives for PHA's which contract with elected tenant management councils for various management functions. Because current law does not prohibit such arrangements, such a provision is viewed as an unnecessary infringement on PHA flexibility. A similar provision was dropped from the House bill.
3. First priority for modernization funding: The House bill includes an amendment by representative Bartlet (R-Texas) which would shift FY-86 housing development funds to modernization and place restrictions on the use

of funds for new development in future years. Basically a PHA could not undertake new development unless it can certify that at least 90% of its housing stock meets housing quality standards or is in line for modernization. While adequate modernization funding is certainly needed this amendment has the effect of diverting new construction funds to this purpose and thus would reduce funds available for new construction.

4. Discount sales to public housing occupants: The House bill contains an amendment by Rep. Jack Kemp (R-NY) which would permit public housing resident management corporations or tenants to purchase public housing units at a 75% discount. Without adequate replacement funding this would seriously deplete available low income housing stock.

THE 1985 BALANCED BUDGET AND EMERGENCY
DEFICIT CONTROL ACT: GRAMM-RUDMAN-HOLLINGS (GRH)

A. RECOMMENDED AGENCY POSITION

Congress should reject any deficit reduction plan which uses across the board cuts to domestic programs as a last resort to balance the budget.

GRH deficit targets should be met through increased taxes or decreased military expenditures rather than across the board cuts to domestic programs.

B. CURRENT DEVELOPMENTS

The first sequestration order under GRH took effect February 1, 1986. The result was a 4.3% across the board reduction in new budget authority for housing and community development as well as other domestic programs. The total spending cut for military and domestic programs combined was \$11.7 billion. The revenue loss to the Agency was in the neighborhood of \$440,000.

Interestingly, the February cut fell about \$8 billion short of the \$171.9 billion target established in the law. The limit was established by special transition rules applicable only to FY-86. After round one there was approximately \$180.0 billion in deficit reduction left to achieve.

Table 1 is a calendar of the federal budget process as modified by GRH. Note that the deadline for completion of House action on appropriations bills has passed. The joint budget resolution due April 15 was delayed until June 27. Congress is currently working on appropriations bills which conform to the budget resolution. These should have been completed by the July 4 recess. It is doubtful whether they will be completed by the time of the so called deficit snapshot in August. Unlike the budget resolution, appropriations bills are laws which must be passed by both Houses of Congress and signed by the President. Uncertainties over the outcome of this legislation will undoubtedly effect projections about the amount of sequestration required, if any, by October 1.

Table 1
Federal Budget Process Under
Balanced Budget Act*

| <u>Deadline</u> | <u>Action</u> |
|------------------------------|--|
| First Monday after January 3 | President submits his budget to Congress. |
| April 15 | Congress must pass budget resolution for coming year. |
| June 15 | Congress must complete action on reconciliation bill. |
| June 30 | House must complete work on appropriations bill for coming year. |
| August 25 | After receiving reports from the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB), the General Accounting Office (GAO) notifies the President whether the deficit will exceed the maximum amount set for the coming year. |
| September 1 | If notified by GAO, the President must issue a sequester order to Congress. |
| September 1–October 1 | Congress and the President can try to develop an alternative deficit-reduction plan. |
| October 1 | Sequester order takes effect. |
| October 10 | GAO sends the President a revised report about the deficit that takes into account any changes made by Congress and signed by the President since September 1. |
| October 15 | If necessary, the President issues a revised sequester order, which is effective immediately. |

*These are the standard dates. There are some changes for fiscal 1986.

Another major uncertainty is the fact that the so called automatic trigger mechanism in the law was declared unconstitutional by the U.S. Supreme Court in a decision announced July 7, 1986. This adds considerable heat to the debate over how and when across the board cuts will take place, if at all. The legislation contains a procedure which in effect requires Congress to pass a law implementing the President's sequestration order. Also legislation which would eliminate the Supreme Court objection by placing the Auditor General's position entirely within the Executive Branch is being proposed in Congress. (The Auditor General is presently appointed by the President, but may be fired by Congress). Uncertainties with respect to the trigger mechanism and other matters will certainly effect the timing of any GRH cuts, but not their final result, namely a substantial reduction in funding for housing and community development programs.

The constitutional and timing issues described above are two factors which, to say the least, will greatly complicate matters this fall if additional deficit reduction is determined to be required. Others include the fact that this is a Congressional election year and that, in August, the Senate is scheduled to act on legislation to increase the National Debt ceiling to \$2.34 Million. For these reasons it is impossible to forecast the outcome of a Presidential sequestration order. It is a near certainty that events will not proceed according to the timetable outlined in Table 1. However, the policy objective of GRH, namely to reduce the deficit to zero by October 1, 1990, is likely to remain intact. Any deficit reduction shortfalls in FY-87 would therefore carry forward to FY-88 and beyond.

C. BACKGROUND

General: GRH is first and foremost an instrument of federal fiscal policy. It establishes specific deficit targets and a time table for achieving those targets as follows:

| <u>Fiscal Year</u> | <u>Maximum Deficit Amount</u> |
|--------------------|-------------------------------|
| 1986 | \$171.9 |
| 1987 | 144.0 |
| 1988 | 108.0 |
| 1989 | 72.0 |
| 1990 | 36.0 |
| 1991 | 0 |

Congress is expected to meet these targets through the normal budget process which in theory involves not only new appropriations, which are the exclusive target of automatic spending cuts under GRH, but laws governing entitlements (i.e., social security, AFDC, food stamps, medicare, etc.) and taxes as well. If the deficit target is not reached through the budgetary process; if the economic forecasts upon which projections are based prove inaccurate; if there are unforeseen economic changes which cause a substantial increase in expenses or a decrease in revenues, for example increased unemployment; virtually any cause short of a declared war or recession will trigger automatic spending cuts called sequestration. In this case the burden of balancing the budget would fall squarely on the shoulders of domestic and military programs which rely on annual appropriations.

For planning purposes you can assume that each \$10 billion of deficit reduction required under GRH will result in an approximately 5% reduction in new funding for housing and community development programs. For defense programs the percentage reduction would be approximately half that much (see Table 3). The reason for the difference is that defense expenditures subject to reduction under GRH are approximately twice as large as domestic expenditures.

The Policy Environment: The goal of deficit reduction is widely held not only by the President and Congress, but by the American public as well. Any attempts to reduce the impact of GRH on particular programs cannot ignore this important fact. Other fiscal policy goals which enjoy a broad consensus can be summarized as follows:

- Preserve the social safety net
- Strengthen defense
- Do not raise taxes

Another very important goal which, though not a consensus goal, is certainly a top priority of the Reagan Administration is to reduce federal spending for local housing and community development programs. This fact is clearly demonstrated by the President's FY-87 budget which proposes drastic cuts to current programs and funding.

In a policy environment such as the above housing and community development programs will have to overcome major political obstacles each year in order to survive. During the normal budget process they must resist Administration pressures to eliminate programs and reduce funding. However, unlike the past, simply surviving the budget process may not be enough. If reductions to achieve the deficit target are required for any reason these programs will be subject to almost certain cuts. The only alternatives would be for Congress and the President to agree on a deficit reduction plan which maintains spending for domestic programs or to abandon the deficit reduction goal entirely.

In the final analysis the GRH deficit reduction goal can only be achieved through one or a combination of the following:

1. Improvements in the national economy which increase government revenues or decrease expenditures under laws currently in effect.
2. An increase in government revenues either in the form of increased taxes or various fee increases.
3. Reductions in military spending.
4. Reductions in entitlements including social security and government pensions in addition public health and welfare programs.
5. Reductions in spending for domestic programs. This category accounts for only about 17% of total federal spending. As further explained below it will be virtually impossible to eliminate the deficit through cuts to these programs alone.

The dynamics of GRH are such that any bad news from the point of view of the deficit in categories 1 through 4 above will translate directly into pressures to reduce expenditures in category 5. This is true regardless of whether the automatic trigger mechanism remains in place. A general economic down turn decreased revenue collections, increased military expenditures, increased entitlements, any or all of these things will cause pressures to reduce housing and community development expenditures. Without expanded policy support it will be extremely difficult to overcome these pressures.

Federal Expenditures Overview: Table 2 is an estimate of FY-87 federal expenditures classified by major categories and arranged according to their susceptibility to automatic spending cuts. The Table was prepared by Stanley E. Collender of the Touche Ross Washington, D.C. office. Relating the table to Agency programs, new funding such as the annual CDBG award and any new housing or rehabilitation funding would appear in the "What's left?" category under domestic programs. Agency receipts with respect to previous year's authorizations would fall into the "Nondefense prior-year commitments" category.

Table 2
Fiscal 1987 Sequestration Process:
Where the Cuts Would Fall*

| <u>Exempt programs</u> | <i>Fiscal 1987**</i> <i>(\$ billions)</i> | <i>Fiscal 1987</i> <i>(%)</i> |
|---|--|----------------------------------|
| Social Security | \$210 | 21% |
| Interest on the national debt | 150 | 15 |
| Nondefense prior-year commitments | 78 | 8 |
| Low-income programs*** | 61 | 6 |
| Unemployment compensation | 20 | 2 |
| Veterans' pensions and compensation | 15 | 2 |
| Offsetting receipts | -42 | -4 |
| Total exempt | \$492 | 50% |
| <u>Programs facing limited cuts</u> | | |
| Prior-year defense contracts | \$100 | 10% |
| Health programs | 86 | 9 |
| Retirement programs with COLAs | 48 | 5 |
| Total facing limited cuts | \$234 | 24% |
| <u>What's left?</u> | | |
| Domestic programs | \$ 90 | 9% |
| Defense programs | 174 | 17% |
| Total what's left? | \$264 | 26% |
| Total fiscal 1987 budget | \$990 | 100% |

*The figures for fiscal 1987 are estimates. They do not represent the actual numbers contained in the President's budget proposal.

**Numbers may not add to totals due to rounding.

***Medicaid; aid to families with dependent children; special supplemental feeding program for women, infants, and children; supplemental security income; food stamps, and child nutrition.

The first point to be made from Table 2 is that nearly Three-fourths of annual federal government outlays are virtually immune from reduction through the budget process. This includes so called " uncontrollable" spending and spending for entitlement programs such as social security. Uncontrollable spending is spending that for legal reasons cannot be stopped; for example interest on the national debt and contractual obligations. Almost, One-third of federal spending falls within this category.

The second immune category is spending for entitlement programs. Here spending is determined by authorizing legislation, which establishes eligibility requirements and payment amounts, and real world demand, which determines total outlays. Anyone who qualifies for an entitlement receives the stated amount. Entitlements consist of government pensions and the so called "safety net programs". The latter category includes social security, health care and unemployment in addition to programs targeted specifically to low income people such as Aid to Families with Dependent Children (AFDC) supplemental security income (SSI) and food stamps. Special rules under GRH would achieve minimal reductions in spending for some entitlements for example by cancelling scheduled increases or reducing payments by 1% or 2%. These reductions could easily be offset by increased outlays under authorizing legislation which for practical political reasons is not likely to change significantly.

The second point to be made from Table 2 is that even very large reductions in new spending for domestic programs will produce only very small reductions in total federal outlays. For example, the President's FY-87 budget proposes only about \$3.8 billion in new budget authority for housing and community development programs compared to \$11.2 billion in FY-86. This is \$7.4 billion or 66% less than FY-86 and is by any standard of measurement a very drastic cut. Yet according to Table 2 such a cut would produce less than a 1% reduction in total federal outlays estimated at \$990.0 billion. The exact figure is .7%.

The above example illustrates the fact that you cannot achieve significant reductions in federal expenditures, and thus the deficit, by simply trimming the fat from domestic programs. Major cuts will be required. To further illustrate this point consider the "What's left?", domestic programs category on Table 2. This category plus the "Non-defense prior year commitments" category above contains total federal expenditures for all

federal government functions except those otherwise listed. With respect to the Sacramento economy the list includes such things as revenue sharing, law enforcement, flood control, transit subsidies and environmental protection, as well as loans and loan guarantees for agriculture, small business and housing. These are all in addition to the CDBG and housing programs upon which this Agency depends.

According to Table 2, domestic program spending susceptible to GRH cuts (the "What's left?" category) is \$90 billion or 9% of the total. This category is also the one most likely to be cut, but not increased, as the result of budget negotiations that would precede any across the board spending cuts. Current deficit estimates range from \$140 billion to over \$200 billion. Therefore, under GRH, if nothing else happens to reduce the deficit this category would have to absorb cuts of approximately half this amount, or between \$70 and \$100 billion, over the next four years. Considering the wide variety of programs this category represents, this is clearly an impossibility.

Due to the long range negative impact on domestic programs, one can readily expect that, unless the economy improves to a point where government action to control the deficit is not necessary, Congress and the President must at some point agree to another plan to control the deficit, or abandon this goal entirely. However, in the meantime, there may be serious and perhaps irreparable damage to housing and community development and other domestic programs most susceptible to cuts.

Gramm-Rudman-Hollings in Action; an example: Table 3 is an example of how automatic sequestration would work under GRH. The table and the description below is reproduced from the Touche Ross legislative analysis referenced earlier. The calculations are based on expenditure projections shown in Table 2. This analysis supports the following two general conclusions about automatic expenditure reductions or sequestration.

1. Domestic programs individually will suffer much larger percentage cuts than military programs. This is because the dollar volume of military spending subject to automatic cuts is approximately twice as large as domestic spending. Therefore, the percentage reduction to each military program is about half that required to achieve the same total savings on the domestic side.

2. At current funding levels, each \$10 billion of sequestration required will necessitate an approximately 5% across the board cut in new funding for domestic programs. Agency programs potentially effected by cuts are Section 312 and rental rehabilitation funds, public housing modernization and operating subsidies, CDBG and funding for new assisted housing units under all programs including public housing, Section 8.

From the point of view of domestic programs any alternative including a tax increase or military spending cuts would clearly be preferable to sequestration.

The following discussion relates to Table #3 on the following page. Refer to Table #2 on Page 34. The first step in the sequestration process is to divide the \$60 billion reduction evenly between defense and domestic programs. Next, take the total amount of federal retirement cost-of-living adjustments (COLAs) - about \$1.4 billion - divide it in two, and subtract this amount from the required defense and domestic spending reduction. This lowers the automatic cut to \$29.3 billion in each category.

After repealing the defense COLAs, any additional cuts in military spending must come from the "what's left?" category shown in Table 2. To calculate the percentage by which programs in this group would be reduced, take the \$29.3 billion automatic cut and divide it by \$174 billion. The result is a 16.7 percent reduction in every defense program, project, and activity.

After cutting domestic retirement COLAs, any further reductions in domestic spending must take into account programs - most notably, guaranteed student loans - that can be reduced by only a limited amount according to special rules in the legislation and those, like Medicare, that cannot be cut more than 2 percent. In fiscal 1987, these cuts would save an estimated \$3 billion, leaving an additional required automatic cut of \$26.3 billion.

Since the remainder of program cuts must come from the domestic portion of the "what's left?" category in Table 2, the percentage of across the board cuts in this group is calculated by dividing \$26.3 billion by \$90 billion. That translates into a 29.2 percent reduction in every domestic program, project, and activity including virtually all aid to state and local governments.

Table 3
Hypothetical Sequester Order
for Fiscal 1987
(\$ billions)*

| <u>Budget calculations</u> | <u>Defense</u> | <u>Domestic</u> |
|---|-------------------------------|------------------------------|
| Divide \$60 spending cut equally between defense and domestic programs. | 330.0 | 330.0 |
| Cancel federal retirement COLAs — \$1.4 — and distribute total evenly between defense and domestic. | -0.7 | -0.7 |
| For defense, divide the remaining \$29.3 by \$174 in the "what's left" category of defense programs eligible to be cut. All programs must be cut by this percentage. | $\frac{29.3}{174}$ = 16.7% | 29.3 |
| For domestic, subtract reductions — \$3 — allowed for programs covered by special rules and those subject to only limited cuts. | | -3.0 |
| For domestic, divide the remaining \$26.3 by \$90 in the "what's left" category of domestic programs eligible to be cut. All programs must be cut by this percentage. | | $\frac{26.3}{90}$ = 29.2% |

*The figures for fiscal 1987 are estimates.