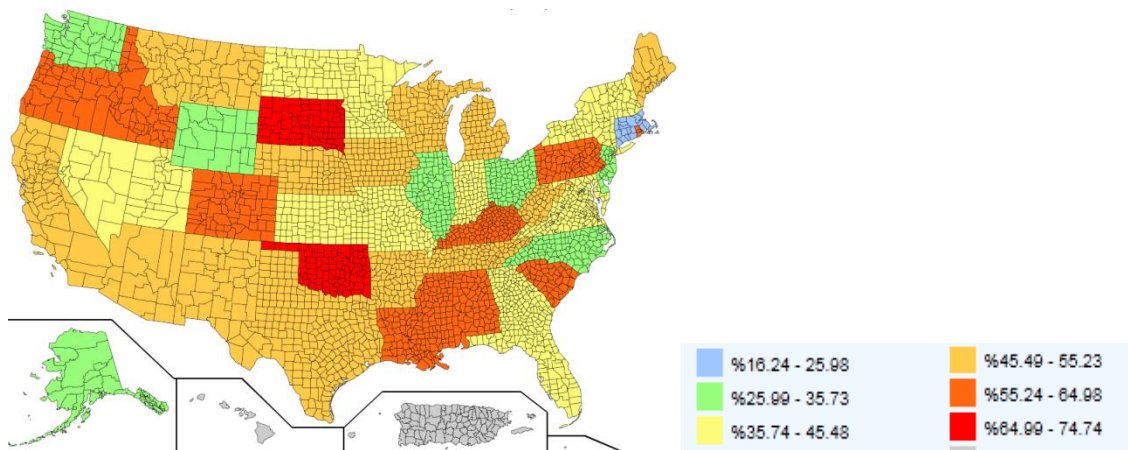


\$1.2 Trillion in “Savings” – Can It Impact My Municipality?

Many wonder if the 12-member congressional “super committee” will be able to fulfill its role to find ways to cut the deficit. Others are starting to wonder how those cuts may impact their State, county, local hospital, schools, job, taxes, retirement benefits, etc. The answer may lie in data that tells us the source of federal disbursements, the programs supported, amounts received by municipalities and sector employment figures. DIVER provides its subscribers with this data.

There is hope the “super committee” can put politics aside and come forward with a plan that meets our nation’s best interests. In the interim, it is prudent to begin to contemplate what actions may be taken and how those actions may impact your fixed income municipal investments. Now is the time to consider these risks and make informed decisions regarding your municipal portfolio.

A view of States’ reliance on Federal funds as a source of their total revenue for fiscal year 2010 can offer an indication of where the super committee may start. *Twenty States receive at least 50% of their revenue from the Federal government with Oklahoma and South Dakota leading.*¹ Reductions in Federal spending, subsidies or grants will directly impact States and are likely to have a trickle-down impact on counties and other municipal subdivisions .



Equally important is the receipt of Federal funds by counties and their constituents – reductions in Federal spending (funding to agencies and/or programs) can impact revenue directly and tax collections. According to the Consolidated Federal Funds Report for Fiscal Year 2009, of the more than \$3.2 trillion in direct expenditures and \$1.9 trillion in obligations, over 100 counties received more than \$10 billion and 660 counties received at least \$1 billion (Loving, Texas is last receiving \$2,147,814). These expenditures and obligations include retirement and disability payments, grants, procurement contracts, salaries, contingent liabilities, loans, guarantees and other types of Federal assistance.

¹ Data is not available for Hawaii as they have not yet filed their 2010 CAFR.

So which Federal agencies dole out the most and, as a result, may be in the crosshairs of the super committee? There are over 300 Federal agencies (yes, 300) that spend or obligate on behalf of the Federal government. The chart below details the top 10. What's missing from the top 10 are agencies or services such as the US Postal Service (ranked 14th) which received more than \$72 billion. A complete list of which agencies provide funds to which counties is beyond the scope of this note but DIVER provides the top 20.

<u>Agency</u>	<u>Dollars</u>	<u>% of \$5 Trillion in Expenditures & Obligations</u>
FEMA	\$1,214,614,678,994	23.99%
Centers for Medicare and Medicaid Services	\$772,199,701,135	15.25%
Social Security Administration	\$715,434,019,408	14.13%
Housing – Federal Housing Commissioner	\$340,720,810,747	6.73%
Dept. of Army (Ex- Corps of Engineers CIV Program)	\$223,792,944,691	4.42%
Dept. of Education	\$178,773,593,959	3.53%
Veterans Benefits Administration	\$133,141,754,577	2.63%
Dept. of Navy	\$120,394,134,234	2.38%
Dept. of Airforce (HQ)	\$104,608,814,727	2.07%

And, on what did these agencies spend?

<u>Program</u>	<u>Dollars</u>	<u>% of \$5 Trillion in Expenditures & Obligations</u>
Flood Insurance	\$1,201,664,160,169	23.20%
Social Security Retirement Insurance	\$419,976,451,149	8.11%
Procurement Contracts – Dept. of Defense	\$338,386,456,037	6.53%
Mortgage Insurance Homes	\$310,015,156,724	5.99%
Medical Assistance Program	\$292,315,724,910	5.64%
Social Security Dis. & Surv. Insurance	\$244,656,143,925	4.72%
Medicare – Hospital Insurance	\$235,645,663,698	4.55%
Medicare – Supplementary Medical Insurance	\$200,113,169,662	3.86%
Procurement Contracts – All Agencies Other Than Def. & USPS	\$166,235,457,268	3.21%

No matter how you look at it, if the super committee is to meet its mandate, spending reductions will reach across all States and counties. The question is which States and counties and by how much? While we will not endeavor to do the super committee's work, we do think the reader can form their own views by accessing data and tools that will help them understand questions such as:

- What sectors are people employed in within any county?
 - o Are they employed by the Federal, State or local government?
- Who are the top employers in a State?
- Where are natural disasters most likely to occur?
- What is the breakdown of population by age group and recent trends?
- Who is responsible for the operation of hospitals in a county?
- How much is Medicaid enrollment increasing in a State and what are spending growth rates for the State and Federal government?
- What percent of school funding comes from the State or Federal government?

These questions and others must be assessed as we, as a country, begin down a road none of us have travelled. While some argue savings will come from decreases in foreign aid or war expenditures, the reality is that domestic spending will be impacted. The fixed income investor needs to access relevant data to get a handle on where the impact may be felt.



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