GO ITEM #1
June 24, 2013

MEMORANDUM

June 20, 2013

TO: Government Operations and Fiscal Policy Committee

FROM: Stephen B. Farber, Council Administrator
Jacob Sesker, Senior Legislative Analyst

SUBJECT: Resolution to Approve the Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program

Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

Background

On June 29, 2010 the Council approved policies on reserve and other fiscal matters in Resolution No. 16-1415. Action clause 5 states: ***The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.*** On November 29, 2011 the Council clarified and strengthened these policies in Resolution No. 17-312, which retained the fiscal plan language and replaced the earlier resolution.

Pursuant to these policies, on June 29, 2010 the Council approved the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program in Resolution No. 16-1416. On June 28, 2011 the Council approved the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program in Resolution No. 17-184. On June 26, 2012 the Council approved the Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program in Resolution No. 17-479.

On June 18, 2013 the Council introduced a resolution to approve the Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program. See the resolution on ©1-4. **The GO Committee is scheduled to review the resolution at this meeting.** The Council is scheduled to act on June 25.

The FY14-19 Tax Supported Fiscal Plan Summary, like all versions of the fiscal plan, is a snapshot in time that reflects current fiscal projections and policy assumptions. The one certainty from past experience is that as conditions change, future versions of the plan will change as well. What this version shows – as rows 25 and 33 on ©3 make clear – is that strict adherence to the County's fiscal policies will limit the resources available to allocate to the agencies during the six-year period, particularly in FY15.

Issues

1. Fiscal projections and policy assumptions. Fiscal projections are now especially subject to change because national and global economic and financial prospects remain uncertain. Updated projections will be available for the next two versions of the fiscal plan, which are scheduled for December 2013 and March 2014. The policy assumptions in this version are listed in the notes on ©3:

a. FY14 property tax revenue is at the Charter limit using a $692 income tax offset credit, per the Council's action. Property tax revenue at the Charter limit is assumed in FY15-19. See row 1.

b. The FY11-12 fuel/energy tax revenue increase, which the Council reduced by 10% in FY13, is reduced by another 10% in FY14, per the Council's action. Rates are assumed to remain flat in FY15-19. This assumption is reflected in row 5.

c. Reserve contributions are at the policy level and consistent with legal requirements. See ©4.

d. PAYGO, debt service, and current revenue for the CIP reflect the amended FY13-18 CIP.

e. Retiree health insurance pre-funding (OPEB) is increased to full funding in FY15. (FY14 is year 7 of the 8-year funding schedule.) See rows 22 and 58-62. Note that the agencies' tax-supported OPEB funding rose from 0 in FY11 (because of recession-related fiscal pressures) to $49.6 million in FY12, $105.4 million in FY13, and $138.0 million in FY14. The projected amount for FY15 is $182.4 million. The FY16-19 amounts reflect the latest actuarial funding schedule.

f. State aid for MCPS and the College is assumed to be flat in FY15-19 because while some increases are likely, the amounts are unknown at this time.[1]

2. Resources available to allocate to the agencies. Rows 25 and 33 show that based on current fiscal projections and policy assumptions, overall resources available to allocate to the agencies in FY15-19 will change by -5.0%, +4.4%, +3.6%, +4.4%, and +4.1%, respectively. The change in the approved budget for FY14 is +3.7%. The change for FY13 was +5.0%, following severely constrained budgets in FY10-12 caused by the Great Recession.

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[1] Most of the direct State aid the County receives is education aid for MCPS. In FY14, for example, MCPS received 87% of the County's total direct State aid ($605.0 million out of $697.5 million). While the fiscal plan assumes that State aid for MCPS will continue at the FY14 level, it is more likely that this aid will increase. State K-12 aid is allocated on a per pupil basis. Since MCPS enrollment is projected to increase, the County's education aid would also increase. In addition, MCPS receives per pupil State aid allocations for students with low-incomes, Limited English Proficiency, and special education needs. The number of MCPS students in these specific populations has been steadily growing and is projected to continue to grow, which also would increase overall State aid. Note, however, that per pupil allocations are wealth equalized among Maryland jurisdictions each year, which complicates projections of State aid. Year-to-year fluctuations in a jurisdiction's wealth affect how much of total State aid it receives. Thus, it is possible for the County to receive a decreased per pupil allocation in a given year if the County's wealth increases relative to other jurisdictions. Any possible per pupil decrease could reduce the amount of increased State aid MCPS receives as a result of higher enrollment or other factors.

3. Focus on FY15. The projected **overall 5.0% decline in agency resources for FY15**, as noted above, reflects current fiscal projections and policy assumptions. Because of State maintenance of effort requirements for MCPS and Montgomery College, plus year three of the pension cost shift for MCPS, the decline for the other two tax supported agencies, MCG and M-NCPPC, would be much more than 5.0%.[2] **Note that agency increase requests in FY15, including major known commitments, may in fact total 4.0% or more. The difference between an increase of this kind and a decline of 5.0% is over $300 million.**

While this decline is not of immediate concern, it provides a useful **early alert**. Over the next nine months, as the Plan is updated with new data on revenues and expenditures, projections that lead to the 5.0% decline may be adjusted. For example, income tax revenue, which reflects a writedown of $60 million in FY14 and $150 million in FY15 to guard against the potential impact of the federal sequester and the Wynne case, may be adjusted upward.[3] Similarly the large projected allocation to PAYGO may be modified in next year's FY15-20 CIP.

Moreover, the Council and the Executive have always worked to aggressively address budget shortfalls when they arise. In the last decade, repeated mid-year budget savings plans totaling $240 million, most in the $30 million range, were approved when needed. At the depth of the recession three years ago, when the revenue failure nationwide reached its peak, the Council and Executive took sweeping measures in April and May to rewrite the FY11 recommended budget that the Executive had transmitted in March. **That said, the currently projected 5.0% decline in FY15 agency uses bears close attention. For the December 2013 Fiscal Plan update, the assumptions for revenues and expenditures should be reviewed carefully. An upcoming OLO report on the status of the County's structural budget deficit will be helpful in this regard.**

As noted above, the current projections for agency uses in FY16-19, which are even more distant, are for increases of 4.4%, 3.6%, 4.4%, and 4.1%. These increases are in line with those for FY13-14, following the grueling budgets of FY10-12, but they are well below the pre-recession historical growth rates that the agencies, the workforce, and the community came to expect. What is clear for the County, and for other governments, is that **until employment rebounds even more strongly, along with consumer spending and housing, governmental revenues will remain subpar and budgets will remain under pressure.**

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[2] MOE for MCPS, which was $1,413.7 million in FY14, is currently projected to be $1,437.0 million in FY15 (up $23.3 million), while the pension cost shift, which was $34.5 million in FY14, will be $37.8 million in FY15 (up $3.3 million). The total required County contribution to MCPS is thus projected to rise from $1,448.2 million in FY14 to $1,474.8 million in FY15 (**up $26.6 million**). MOE for the College in FY15 would be the same as in FY14.

[3] The writedown for the sequester is $45 million in FY14 and $65 million in FY15. The writedown for the Wynne case is $15 million in FY14 and $85 million in FY15. See ©5-6 for David Wessell's useful analysis of the current and projected impact of the sequester. The Wynne case *(Maryland State Comptroller of the Treasury v. Brian Wynne, et ux.)* stems from the Maryland tax code provision that allows a credit for income taxes paid to other states with respect to the state income tax, but not the county income tax. The Court of Appeals ruled on January 28 that "failure to allow a credit with respect to the county income tax for out-of-state income taxes paid to other states on 'pass-through' income earned in those states discriminates against interstate commerce and violates the Commerce Clause of the federal Constitution." The Court declined to reconsider its ruling but stayed its enforcement to permit the Attorney General to file a petition for certiorari with the U.S. Supreme Court. Given the many unresolved issues at this point, the size and timing of the fiscal impact cannot be determined, but it could be substantial.

Resolution No.: __________
Introduced: June 18, 2013
Adopted: __________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Government Operations and Fiscal Policy Committee

SUBJECT: Approval of the County's Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program

Background

1. Section 302 of the County Charter states in part: *The County Executive shall submit to the Council, not later than March 15 of each year, comprehensive six-year programs for public services and fiscal policy. The six-year programs shall require a vote of at least five Councilmembers for approval or modification. Final Council approval of the six-year programs shall occur at or about the date of budget approval.*

2. Over the last two decades the Council's Government Operations and Fiscal Policy Committee (known until December 2010 as the Management and Fiscal Policy Committee) has collaborated with the Office of Management and Budget and the Department of Finance to develop and refine County fiscal projections. The result has been continuous improvement in how best to display such factors as economic and demographic assumptions, individual agency funds, major known commitments, illustrative expenditure pressures, gaps between projected revenues and expenditures, and productivity improvements. This work has also increased the County's ability to harmonize the fiscal planning methodologies of the four tax supported agencies. Each version of the fiscal projections, or six-year fiscal plan, is a snapshot in time that reflects the best estimate of future revenues and expenditures as of that moment, as well as a specific set of fiscal policy assumptions.

3. On June 29, 2010 the Council approved policies on reserve and other fiscal matters in Resolution No. 16-1415. Action clause 5 states: *The County should adopt a fiscal plan that is structurally balanced, and that limits expenditures and other uses of resources to annually available revenues. The fiscal plan should also separately display reserves at policy levels, including additions to reserves to reach policy level goals.* On November 29, 2011 the Council clarified and strengthened these policies in Resolution No. 17-312, which retained the fiscal plan language and replaced the earlier resolution.

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4. On June 29, 2010, pursuant to these polices, the Council approved the Tax Supported Fiscal Plan Summary for the FY11-16 Public Services Program in Resolution No. 16-1416. On June 28, 2011 the Council approved the Tax Supported Fiscal Plan Summary for the FY12-17 Public Services Program in Resolution No. 17-184. On June 26, 2012 the Council approved the Tax Supported Fiscal Plan Summary for the FY13-18 Public Services Program in Resolution No. 17-479.

5. On June 18, 2013 the Council introduced a resolution on the Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program. On June 24, 2013 the Government Operations and Fiscal Policy Committee reviewed the Plan Summary.

Action

The County Council for Montgomery County, Maryland approves the Tax Supported Fiscal Plan Summary for the FY14-19 Public Services Program, as outlined on the attached pages. This summary reflects:

(1) current information on projected revenues and non-agency expenditures for the six-year period, which must be updated as conditions change. To keep abreast of changed conditions the Council regularly reviews reports on economic indicators, revenue estimates, and other fiscal data.

(2) the policy on expanded County reserves established in Resolution No. 17-312 and the amendments to the Revenue Stabilization Fund law in Bill 36-10, which the Council approved on June 29, 2010.

(3) other specific fiscal assumptions listed in the summary.

This is a correct copy of Council action.

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Linda Lauer, Clerk of the Council

County Council Approved FY14-19 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

		App FY13	Est FY13	% Chg. FY13-14	App FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19
		5-24-12		App/Bud	5-23-13										
	Total Revenues														
1	Property Tax (less PDs)	1462.2	1,461.4	2.9%	1,504.9	2.6%	1,544.3	2.8%	1,587.8	2.9%	1,633.6	3.4%	1,688.6	3.8%	1,752.7
2	Income Tax	1263.6	1,331.4	2.8%	1,299.2	-1.0%	1,285.7	10.1%	1,415.4	6.8%	1,511.7	6.7%	1,613.6	5.1%	1,695.4
3	Transfer/Recordation Tax	136.6	136.5	4.2%	142.3	2.5%	145.9	5.4%	153.7	7.0%	164.4	8.2%	177.9	6.7%	189.8
4	Investment Income	0.5	1.5	-52.4%	0.2	41.0%	0.3	86.9%	0.6	92.3%	1.2	36.6%	1.6	24.1%	2.0
5	Other Taxes	304.1	286.1	-9.0%	276.6	1.3%	280.2	1.2%	283.6	0.9%	286.2	0.5%	287.7	0.5%	289.3
6	Other Revenues	883.4	891.8	5.5%	932.0	0.7%	939.0	-1.0%	929.7	0.3%	932.4	0.3%	935.3	0.3%	938.6
7	**Total Revenues**	**4,050.4**	**4,108.6**	**2.6%**	**4,155.3**	**1.0%**	**4,195.3**	**4.2%**	**4,370.8**	**3.6%**	**4,529.5**	**3.9%**	**4,704.7**	**3.5%**	**4,867.7**
8															
9	**Net Transfers In (Out)**	**38.7**	**49.1**	**-0.7%**	**38.4**	**-20.2%**	**30.6**	**2.7%**	**31.5**	**3.2%**	**32.5**	**3.5%**	**33.6**	**3.7%**	**34.8**
10	**Total Revenues and Transfers Available**	**4,089.0**	**4,157.8**	2.6%	**4,193.7**	0.8%	**4,226.0**	4.2%	**4,402.3**	3.6%	**4,562.0**	3.9%	**4,738.3**	3.5%	**4,902.5**
11															
12	**Non-Operating Budget Use of Revenues**														
13	Debt Service	303.5	297.6	3.2%	313.3	11.2%	348.6	6.4%	370.7	4.2%	386.4	1.3%	391.4	1.4%	396.8
14	PAYGO	29.5	29.5	0.0%	29.5	37.3%	40.5	0.0%	40.5	24.7%	50.5	0.0%	50.5	0.0%	50.5
15	CIP Current Revenue	50.2	49.8	8.0%	54.2	12.6%	61.1	-2.5%	59.6	-2.5%	58.1	18.8%	69.0	0.0%	69.0
16	Change in Montgomery College Reserves	(4.8)	(0.8)	-73.1%	(8.3)	42.6%	(4.8)	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0
17	Change in MNCPPC Reserves	(1.1)	(1.4)	-347.2%	(4.7)	98.1%	(0.1)	235.6%	0.1	3.9%	0.1	29.3%	0.2	-1.3%	0.2
18	Change in MCPS Reserves	(17.0)	1.2	-58.7%	(27.0)	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
19	Change in MCG Special Fund Reserves	20.0	17.8	-132.8%	(6.6)	100.3%	0.0	-29.3%	0.0	650.1%	0.1	-17.0%	0.1	9.6%	0.1
20	Contribution to General Fund Undesignated Reserves	(29.6)	11.2	-103.8%	(60.2)	102.7%	1.6	-29.3%	1.2	650.1%	8.7	-17.0%	7.2	9.6%	7.9
21	Contribution to Revenue Stabilization Reserves	21.2	33.7	3.1%	21.8	1.0%	22.0	3.5%	22.8	3.7%	23.6	3.8%	24.5	3.5%	25.4
22	Retiree Health Insurance Pre-Funding	105.4	105.4	31.0%	138.0	32.2%	182.4	-2.6%	177.7	-2.9%	172.5	-3.6%	166.3	-4.5%	158.8
23	Set Aside for other uses (supplemental appropriations)	0.1	0.0	7.9%	0.1	28125.5%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
24	**Total Other Uses of Resources**	**477.5**	**544.1**	**-5.7%**	**450.2**	**49.1%**	**671.3**	**3.2%**	**692.6**	**4.0%**	**720.0**	**1.3%**	**729.2**	**-0.1%**	**728.6**
25	**Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)**	**3,611.5**	**3,613.6**	**3.7%**	**3,743.4**	**-5.0%**	**3,554.6**	**4.4%**	**3,709.7**	**3.6%**	**3,841.9**	**4.4%**	**4,009.1**	**4.1%**	**4,173.9**
26															
27	**Agency Uses**														
28															
29	Montgomery County Public Schools (MCPS)	2028.9	2,013.4	2.7%	2,084.3										
30	Montgomery College (MC)	218.8	213.3	4.4%	228.5										
31	MNCPPC (w/o Debt Service)	98.9	99.2	5.9%	104.7										
32	MCG	1265.0	1,287.8	4.8%	1,325.9										
33	**Agency Uses**	**3,611.5**	**3,613.6**	**3.7%**	**3,743.4**	**-5.0%**	**3,554.6**	**4.4%**	**3,709.7**	**3.6%**	**3,841.9**	**4.4%**	**4,009.1**	**4.1%**	**4,173.9**
34	**Total Uses**	**4,089.0**	**4,157.8**	**2.6%**	**4,193.7**	**0.8%**	**4,226.0**	**4.2%**	**4,402.3**	**3.6%**	**4,562.0**	**3.9%**	**4,738.3**	**3.5%**	**4,902.5**
35	(Gap)/Available	**0.0**	**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**		**0.0**

Assumptions:
1. FY14 property tax revenue is at the Charter Limit with a $692 income tax offset credit. The Charter Limit is assumed in FY15-19.
2. May 2010 fuel/energy tax revenue increase is reduced by 20 percent in FY14-19.
3. Reserve contributions are at the policy level and consistent with legal requirements.
4. PAYGO, debt service, and current revenue reflect the Amended FY13-18 Capital Improvements Program.
5. Retiree health insurance pre-funding is increased up to full funding by FY15. FY14 is year 7 of the 8-year funding schedule. The FY15-19 projection reflects the latest actuarial funding schedule.
6. State aid for MCPS and Montgomery College is flat in FY15-19.

County Council Approved FY14-19 Public Services Program

Tax Supported Fiscal Plan Summary

($ in Millions)

#		App. FY13	Est FY13	% Chg. FY13-14	App. FY14	% Chg. FY14-15	Projected FY15	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19
36	**Beginning Reserves**														
37	**Unrestricted General Fund**	168.6	192.9	21.1%	204.1	-29.5%	143.9	1.1%	145.5	0.8%	146.7	5.9%	155.3	4.6%	162.5
38	**Revenue Stabilization Fund**	139.6	155.3	35.4%	189.0	11.5%	210.8	10.4%	232.8	9.8%	255.6	9.2%	279.3	8.8%	303.8
39	**Total Reserves**	308.1	348.2	27.6%	393.1	-9.8%	354.7	6.7%	378.3	6.3%	402.3	8.0%	434.6	7.3%	466.3
40															
41	**Additions to Reserves**														
42	**Unrestricted General Fund**	(29.6)	11.2	-103.8%	(60.2)	102.7%	1.6	-29.3%	1.2	650.1%	8.7	-17.0%	7.2	9.6%	7.9
43	**Revenue Stabilization Fund**	21.2	33.7	3.1%	21.8	1.0%	22.0	3.5%	22.8	3.7%	23.6	3.8%	24.5	3.5%	25.4
44	**Total Change in Reserves**	(8.4)	44.9	-358.1%	(38.4)	161.6%	23.7	1.2%	23.9	34.9%	32.3	-1.8%	31.7	4.9%	33.3
45															
46	**Ending Reserves**														
47	**Unrestricted General Fund**	139.0	204.1	3.5%	143.9	1.1%	145.5	0.8%	146.7	5.9%	155.3	4.6%	162.5	4.9%	170.4
48	**Revenue Stabilization Fund**	160.8	189.0	31.1%	210.8	10.4%	232.8	9.8%	255.6	9.2%	279.3	8.8%	303.8	8.4%	329.2
49	**Total Reserves**	299.8	393.1	18.3%	354.7	6.7%	378.3	6.3%	402.3	8.0%	434.6	7.3%	466.3	7.1%	499.6
50	**Reserves as a % of Adjusted Governmental Revenues**	**7.1%**	**9.1%**		**8.1%**		**8.6%**		**8.8%**		**9.2%**		**9.5%**		**9.9%**
51	**Other Reserves**														
52	**Montgomery College**	6.4	13.1	-25.8%	4.8	-100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
53	**M-NCPPC**	3.8	9.0	13.6%	4.3	-2.1%	4.2	2.9%	4.3	2.9%	4.4	3.7%	4.6	3.5%	4.8
54	**MCPS**	16.3	41.7	-9.7%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7	0.0%	14.7
55	**MCG Special Funds**	1.6	8.5	20.0%	1.9	1.1%	1.9	0.8%	2.0	5.9%	2.1	4.6%	2.2	4.9%	2.3
56	**MCG + Agency Reserves as a % of Adjusted Govt Revenues**	**7.8%**	**10.8%**		**8.7%**		**9.1%**		**9.3%**		**9.7%**		**10.0%**		**10.3%**
57	**Retiree Health Insurance Pre-Funding**														
58	Montgomery County Public Schools (MCPS)	**58.9**	**58.9**		**83.7**		**110.5**		**107.6**		**104.1**		**99.9**		**95.3**
59	Montgomery College (MC)	**1.8**	**1.8**		**2.4**		**3.3**		**3.4**		**3.4**		**3.5**		**3.6**
60	MNCPPC	**3.4**	**3.4**		**3.0**		**2.5**		**2.5**		**2.5**		**2.5**		**2.5**
61	MCG	**41.4**	**41.4**		**48.9**		**66.1**		**64.2**		**62.5**		**60.4**		**57.4**
62	**Subtotal Retiree Health Insurance Pre-Funding**	**105.4**	**105.4**		**138.0**		**182.4**		**177.7**		**172.5**		**166.3**		**158.8**
63	**Adjusted Governmental Revenues**														
64	**Total Tax Supported Revenues**	**4,050.4**	**4,108.6**	2.6%	**4,155.3**	1.0%	**4,195.3**	4.2%	**4,370.8**	3.6%	**4,529.5**	3.9%	**4,704.7**	3.5%	**4,867.7**
65	**Capital Projects Fund**	**65.5**	**91.6**	51.7%	**99.3**	-1.7%	**97.6**	-27.6%	**70.7**	2.7%	**72.6**	-0.8%	**72.0**	0.0%	**72.0**
66	**Grants**	**107.0**	**105.0**	1.1%	**108.2**	2.4%	**110.8**	2.7%	**113.8**	3.2%	**117.4**	3.5%	**121.4**	3.7%	**125.9**
67	**Total Adjusted Governmental Revenues**	**4,222.8**	**4,305.2**	3.3%	**4,362.7**	0.9%	**4,403.7**	3.4%	**4,555.3**	3.6%	**4,719.5**	3.8%	**4,898.1**	3.4%	**5,065.6**

Sequester Headlines Have Been Scarier Than Reality—So Far

By David Wessel, Wall Street Journal, June 5, 2013

It has been three months since the onset of the across-the-board cuts in federal spending known as the "sequester."

"These cuts are not smart. They are not fair. They will hurt our economy," President Barack Obama said in February. "They will add hundreds of thousands of Americans to the unemployment rolls. This is not an abstraction. People will lose their jobs. The unemployment rate might tick up again."

Since he spoke, unemployment has inched down from 7.9% to 7.5%. Employers have added more than 635,000 jobs, not counting May, numbers for which arrive Friday.

In a Washington Post/ABC News poll, 63% said they hadn't been touched by the spending cuts; half of those who had been said the impact was "minor."

So what happened to the pain that the dreaded sequester was supposed to bring?

It is biting, but only those affected directly notice.

Federal public defenders across the country, hardly underworked, are facing furloughs of up to 20 days before Oct. 1. The Pentagon has told about 650,000 of its civilian employees to take up to 11 days off without pay between the beginning of July and the end of September. The National Institutes of Health says its clinical center will admit 750, or 7%, fewer new patients this year compared with last, and it will award 703 fewer competitive research grants this year, a drop of about 8%.

A Methodist church in Hyattsville, Md., says federal funding for its Meals on Wheels program was cut from $1,200 a quarter to $1,100 for the entire year. It was about to abandon the 30-year-old effort, but after the Washington Post reported as much, the church was flooded with donations.

The Santa Clara, Calif., housing authority's rental voucher program has lost $16 million, or about 6% of its annual budget. This week, it decided to raise the tenants' share of the rent rather than cut the number of vouchers. For the bulk of the tenants, whose incomes average $16,000 a year, this works out to $50 to $150 a month.

For the U.S. economy, a rebounding private sector has offset some of the federal belt-tightening.

The pace of growth *has* been hurt by the waning of the Obama fiscal stimulus, subsequent spending cuts to which Mr. Obama and Congress agreed and a Jan. 1 increase in payroll taxes.

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The Commerce Department says declining local, state and federal government purchases subtracted nearly a full percentage point from growth in the first quarter, yet the economy grew at a 2.4% pace.

Why? The private sector did well enough to cushion the government cutbacks. Rising house prices and a climbing stock market kept consumers spending going; Americans as a whole are wealthier and they feel better about the economy.

Simple macroeconomic arithmetic suggests growth would be better had the inevitable and necessary pullback in government spending and increases in taxes been more gradual. That is supported by a new analysis by San Francisco Federal Reserve Bank economists, who found that federal fiscal policy has been "a modest headwind to economic growth" since mid-2010.

There is a case that restraining government spending over the long haul can help an economy; there's no good case that, at times of high unemployment, austerity helps in the short run.

"We brought the deficit down faster than would have been optimal, and as a consequence, we've suffered slower growth than we needed to suffer," former Treasury Secretary Lawrence Summers told a Wall Street Journal breakfast this week.

The pain may get worse from here.

Sequester headlines came well before actual furloughs or spending cuts. Those rent increases approved in Santa Clara this week won't hit tenants until September; the housing authority needs to wait for Washington's OK.

Goldman Sachs economists estimate that the sequester alone—on top of all the other tax and spending changes—will shave 0.6 percentage point off growth between the fourth quarters of 2012 and 2013. They figure most of that will show up in the second and third quarter. Most forecasters expect second- and third-quarter U.S. growth to be slower than the first.

Initial estimates of consumer spending for April were weak. Bank of America Merrill Lynch economists expect the sequester's biggest impact on consumer spending to occur this summer. The headline on that San Francisco Fed analysis was: "Fiscal Headwinds? Is the Other Shoe About to Drop?" (To be sure, the analysis blames the tax increases more than the spending cuts.)

Scare stories about how the sequester would devastate the U.S. economy were overstated. But it is beginning to bind. It's nicking government employees and squeezing some of the worst-off Americans.

For the rest of this year, expect a continuing a tug of war between the federal fiscal policy pulling the economy down and, provided housing and stock markets cooperate, the private sector pulling it up. Hope the latter wins.