

SEQUESTER SIDE EFFECTS

IMPLICATIONS OF ACROSS-THE-BOARD CUTS ON MASSACHUSETTS

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INTRODUCTION

On January 1, 2013, Congress passed the *American Taxpayers Relief Act*, legislation that protects virtually all taxpayers from massive tax hikes while temporarily postponing more than a trillion dollars in spending cuts to vital programs across the federal government, from our military to medical research, job training, food safety, and national parks. The legislation, which President Obama signed into law the following day, allowed the top marginal tax rate for the wealthiest Americans to revert to the Clinton-era 39.6 percent level while permanently locking in lower tax rates for households earning under \$450,000 a year (\$400,000 for an individual). The law extended emergency unemployment benefits for two million Americans who are still struggling to find work, and it delayed by two months the so-called “sequester” -- massive, automatic, and across-the-board spending cuts required by the *Budget Control Act of 2011* that are now scheduled to take effect on March 1, 2013.

Enactment of the *American Taxpayers Relief Act* averted some of the most damaging aspects of the “fiscal cliff,” the combination of \$500 billion in tax increases and spending cuts that otherwise would have gone into effect, disproportionately hurting middle-class families and further rattling financial markets. Yet the reprieve provided by this law is fleeting, and our economy is already suffering as a result of the potential spending cuts scheduled to take effect in a few short weeks. In anticipation of shrinking budgets, federal agencies have been forced to reduce spending drastically, withhold promised funding, and cancel contracts. The private sector is suffering from the lack of certainty as well, with companies unable to make long-term investments or hiring decisions without a resolution of the budget situation in Washington. A number of economists point to the 22 percent reduction in spending by the Pentagon and military contractors as a primary reason for the recent announcement that the economy contracted in the last quarter of 2012. Without Congressional action to avert the cuts, these sequester side effects will only worsen.

Adding to the urgent need for action, the Treasury Department has determined that the nation will hit its borrowing limit on May 18, 2013. This requires Congress to lift the so-called debt ceiling and ensure the nation’s ability meet its financial obligations – or else risk a downgrade of the U.S. credit rating. Furthermore, the current appropriations resolution provides funding for the federal government only through March 27, 2013, raising the possibility of a government shutdown if spending authority is not extended.

In this second round of “fiscal cliff” negotiations, Congress has an important opportunity to re-evaluate its policy priorities and determine the best path forward for creating jobs and rejuvenating the economy. Sensible deficit reduction that balances increased revenue, improvements to entitlement programs, and careful discretionary

spending cuts should be the basis of our nation's strategy for building a bright future for all Americans. Still, despite economists' warnings about the devastating impact that deep, arbitrary discretionary cuts could have on our economic recovery, many Republicans continue their demands that deficit reduction efforts include *only* spending and entitlement program cuts. This one-sided approach fails to include the other elements needed for a comprehensive plan for fixing our economy, such as closure of corporate tax loopholes, elimination of billions of dollars in subsidies that benefit Big Oil, and strategic investments in high-growth sectors. A deficit reduction plan should be balanced, including a combination of tax revenue and smart spending cuts while protecting the entitlement programs upon which so many Americans rely.

How Congress and the President address this crisis is particularly critical for Massachusetts, which greatly benefits from federal funding that supports our booming biotechnology and research sectors and our world-class education and health care institutions. Massachusetts has deployed federal funding to make targeted investments in these and other critical sectors. As a result of the Commonwealth's strategic, forward-thinking plan, the Massachusetts economy has remained relatively resilient compared to other states, with an unemployment rate 1.1 percent lower than the nationwide average. Still, the recession – combined with state income tax cuts put in place more than a decade ago – has strained our state's budget and threatened our ability to invest in the people that form the basis of our economy: our students, researchers, doctors, entrepreneurs, educators and every worker in the Commonwealth whose daily efforts help power our economy. According to the Massachusetts Budget and Policy Center, the state is already facing a \$1.28 billion budget gap in FY 2014. Slashing federal funding for fundamental government services – including research funding, transportation, education, local infrastructure, and health care – would undermine the state's ability to invest in these vital areas.

The Markey Plan offers a progressive, pro-middle class, pro-growth proposal that achieves more than \$1.2 trillion in deficit reduction in accordance with the mandate in the *Budget Control Act* without sacrificing medical research, food safety, Medicare, Medicaid, Social Security and other critical programs. The Markey Plan is comprised of four basic components: a pro-Middle Class tax policy; smart and targeted defense cuts; termination of taxpayer-funded subsidies to Big Oil; and the expansion of innovative health care programs that improve quality and patient satisfaction while lowering costs.

THE MARKEY PRO-GROWTH, PRO-JOBS PLAN

The *American Taxpayers Relief Act* made a down payment on Democrats' commitment to a progressive tax code in which all Americans pay their fair share, but it fell short of achieving long-term deficit reduction. The legislation allowed the top tax rate for households earning above \$450,000 to rise back to 39.6 percent, locked in lower tax rates for those making less than that threshold, and permanently resolved problems with the Alternative Minimum Tax. These changes approved by Congress increased national revenues by \$620 billion.

Given the minimal spending cuts included in the *American Taxpayers Relief Act*, many Republicans in Congress are demanding that any additional deficit reduction comes from spending cuts and entitlement reform (i.e., changes to Medicare, Medicaid, and Social Security) and not from increased revenue. This approach ignores three points. First, Congress already cut nearly \$1 trillion in discretionary spending under the *Budget Control Act of 2011*. These cuts have yet to be fully felt as they will increase in severity in the coming years. Second, lawmakers have already implemented significant entitlement reform by making changes to Medicare spending in the healthcare reform law, or the *Affordable Care Act*, which the President signed into law in 2010. These changes improved benefits for seniors and saved the program \$716 billion by ending unnecessary subsidies to private insurance companies and reducing overpayments for certain Medicare services. Finally, this approach ignores the warnings of leading economists that sharp reductions in discretionary spending could cause the U.S. economy to fall into a second recession. The impact of these pending cuts is already constricting economic growth as federal agencies, particularly the Pentagon, curtail spending in anticipation of sequestration.

The Markey Plan offers more than \$1.2 trillion in balanced deficit reduction that eliminates the need for the ill-conceived, across-the-board cuts required by the *Budget Control Act*. It represents a significant down payment on our deficit while ensuring we continue to make investments in the areas that will promote economic growth and job creation in the 21st century.

Advance a Pro-Middle Class Tax Policy: Closes corporate tax loopholes, end unnecessary deductions, and crack down on offshore tax evasion.	\$1,011.5 billion
Implement Smart and Targeted Defense Cuts: Stop wasting billions of dollars on unnecessary nuclear weapons that were designed for the Cold War, not the security challenges or threats we face today.	\$105 billion
End Taxpayer-Funded Subsidies to Big Oil: End the billions of taxpayer dollars that are wasted on unnecessary subsidies to oil and gas companies	\$40 billion
Build on Cost-Saving Medicare Proposals: Expand on the many Medicare cost-containment measures included in the <i>Affordable Care Act</i> .	\$187 billion
TOTAL	\$1,338.5 billion

PROMOTE A PRO-MIDDLE CLASS TAX POLICY

The Markey Plan calls for a **more progressive tax code** that closes corporate tax loopholes, ends unnecessary deductions, and cracks down on offshore tax evasion. Without these changes, deficit reduction would force middle-class families to pay more and force draconian cuts to vital programs including research funding, food safety, and education. The Center on Budget and Policy Priorities (CBPP) analyzed the impact of requiring that *all* further deficit reduction come from spending cuts, as many Republicans advocate. According to CBPP, such an approach would “spare the broad category of tax deductions, exclusions, credits, and other tax preferences known collectively as ‘tax expenditures’ — which disproportionately benefit well-to-do Americans and which Alan Greenspan has termed as ‘tax entitlements’ — while putting the onus entirely on spending programs, which disproportionately benefit middle- and lower-income Americans.”¹

Focusing deficit reduction efforts on spending cuts is not only unfair, it is economically unjustified. Corporate taxes as a percentage of profits are already at record lows, falling to 12.1 percent in FY 2011 – the lowest since 1972. **Meanwhile, up to \$700 billion dollars in revenue could be generated over a decade by closing corporate loopholes and stopping offshore tax evasion.**² To promote a progressive tax code and recover money from tax dodgers to pay down the deficit, the Markey Plan includes a bill co-sponsored by the Congressman known as the *Stop Tax Haven Abuse Act*.

The *Stop Tax Haven Abuse Act* would:

- Authorize special measures to stop offshore tax abuse by allowing the Treasury Secretary to take action against foreign jurisdictions or financial institutions that interfere with U.S. tax enforcement.
- Prevent companies whose management and control is primarily in the United States from claiming status as a foreign corporation and using that status to hide assets.
- Stop U.S. bankers, accountants, and other professionals from devising and using abusive tax shelters abroad
- Enact tougher disclosure, evidentiary, and enforcement consequences under the Foreign Account Tax Compliance Act for U.S. citizens who do business with foreign financial institutions that reject disclosing accounts.

¹ <http://www.cbpp.org/cms/index.cfm?fa=view&id=3884>

² <http://www.crs.gov/pages/Reports.aspx?PRODCODE=R40623&Source=search>

In addition, the Markey Plan **closes the carried interest loophole** that compensates executives by providing them ownership stakes in a company that is taxed as a capital gain – and at a lower rate – rather than regular income. Taxing carried interest at the same rate as ordinary income, a change long championed by President Obama, would generate an additional **\$23.5 billion** over 10 years. The Markey Plan also closes additional tax loopholes that benefit millionaires and billionaires, including one that provides a windfall for owners of corporate jets and yachts. Together, these long overdue changes to the tax code would generate \$95 billion in revenue over 10 years.

Finally, the Markey Plan reinstates and extends Superfund taxes, increases the Oil Spill Liability Trust Fund financing by extending the tax to other forms of crude oil,³ and closes other loopholes outlined in the President’s Budget for a combined \$189 billion in new revenue over 10 years.⁴ These measures make great strides towards ensuring a fairer tax code while sparing Medicare, Medicaid, and Social Security from unnecessary and unwise cuts that will hurt seniors, children, and the disabled.

The Markey Plan’s pro-middle class tax provisions include:

- Close corporate tax loopholes and stop other forms of overseas tax evasion (\$700 billion)
- Close the carried interest loophole by taxing executive compensation in the form of ownership stakes as traditional income (\$23.5 billion)
- Close loopholes for jets and yachts (\$4 billion)
- Close corporate deductions for stock options loophole (\$25 billion)
- Reduce corporate meal and entertainment deduction to 25% (\$70 billion)
- Implement other revenue raisers, including an increase in the taxes that oil companies pay toward the Oil Spill Liability Trust Fund (\$189 billion)

³ The Oil Spill Liability Trust Fund is a source of funding to ensure that individuals, businesses, and communities that suffer damages as a result of oil spills are not left uncompensated. The Fund is financed by a per barrel tax imposed on oil companies.

⁴ <http://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2013-Tables.pdf>

IMPLEMENT SMART AND TARGETED DEFENSE CUTS

The nearly \$500 billion in across-the-board defense cuts would, as Secretary of Defense Leon Panetta has said, take a “meat ax” approach to our defense budget and force spending cuts that could weaken our national security and military readiness. However, the Pentagon’s budget has increased by a staggering 46 percent since 2001, including greater spending on weapons systems we no longer need to keep us safe. Congressman Markey recognizes that real savings in our defense budget can be achieved through targeted cuts without having to compromise America’s military preparedness. Lawrence Korb, former Assistant Secretary of Defense, has pointed out, “We can reduce strategic nuclear forces we no longer need, help close the budget deficit and reduce Russia’s incentive to maintain a larger nuclear arsenal in the bargain. And we’ll still have a nuclear arsenal vastly superior to any other and retain a deterrent capacity second to none.”⁵

The Markey Plan includes a reasonable level of savings from the defense budget through reductions in our bloated and outdated nuclear weapons arsenal. More than twenty years since the Berlin Wall fell, our nation continues to spend hundreds of billions of dollars on new nuclear bombs and delivery systems, weapons that are designed to fight a war we already won -- the Cold War -- and do little to improve our nation’s safety. This excessive spending shortchanges our 21st century security needs, such as cybersecurity and Special Forces, and prevents us from making the investments at home that are essential for our continued prosperity -- healthcare for seniors, quality education, and support for the middle-class.

The Markey Plan includes the Congressman’s *Smarter Approach to Nuclear Expenditures (SANE) Act of 2012*, which cuts wasteful spending in America’s nuclear weapons budget and saves taxpayers **\$105 billion** over the next decade while protecting our national security. America is long past due for modernizing our nuclear arsenal to meet today’s threats – not the threats we faced decades ago that are no longer relevant.

⁵ http://www.cleveland.com/opinion/index.ssf/2011/11/target_nuclear_weapons_budget.html

The SANE Act will:

- Cut the current fleet of nuclear submarines from 12 operational at sea to eight operational at sea (\$3 billion savings)
- Delay the purchase of new nuclear submarines (\$17 billion savings)
- Reduce the number of Intercontinental ballistic missiles (ICBM) (\$6 billion savings)
- End the nuclear missions of air bombers (up to \$17 billion savings)
- Delay new bomber program (\$18 billion savings)
- Cancel medium-range missile defense (\$13 billion savings)
- Retire unnecessary nuclear warheads rather than refitting them (\$16 billion savings)
- Cancel new, wasteful nuclear weapons facilities (\$15 billion savings)

This list of defense cuts is not meant to be exhaustive. The Markey Plan recognizes that while modernizing our nuclear weapons arsenal is a good down payment on defense cuts, there are more reductions that could be made immediately to reduce defense spending while protecting the country's national security.

END TAXPAYER-FUNDED SUBSIDIES TO BIG OIL

Ending the wasteful, taxpayer-funded subsidies to the oil industry would save taxpayers roughly **\$40 billion** over five years. To generate those savings, Congressman Markey introduced **H.R. 5187, *Investing to Modernize the Production of American Clean Energy and Technology Act*** or the “IMPACT Act.” It eliminates subsidies that have added to the deficit, weakened our nation’s energy security, and undermined our ability to drive investment in sources of renewable energy. This legislation should be included in any balanced deficit reduction plan, since the biggest companies no longer need 100 year-old subsidies to sell \$100 dollar per barrel oil to make nearly \$100 billion a year. Instead, we should use those funds to extend key incentives for renewable energy, like the Production Tax Credit for wind, the 1603 renewable energy grant program, tax credits for clean energy manufacturing facilities, investment tax credits for offshore wind, and incentives to support natural gas and electric vehicle deployment. These will create good jobs in America.

The IMPACT Act will:

- End \$44.8 billion in subsidies for the largest oil companies by eliminating six tax breaks.
- Extend for eight years the Production Tax Credit for wind, solar, geothermal, biomass, landfill gas, hydropower, and marine and hydrokinetic power production. The wind industry alone has said that 37,000 jobs will be lost next year without this extension.
- Extends for two years the 1603 Renewable Energy Grant Program. The National Renewable Energy Laboratory estimates this expired program, which began under the Recovery Act, has created more than 75,000 direct jobs.
- Supports the construction of the first 3,000 megawatts of U.S. offshore wind facilities.
- Gives new tax credits for the construction of new and modified American facilities for manufacturing clean energy technologies.
- Increases incentives to purchase all-electric cars to reduce oil use and pollution.
- Extends expired tax credits for 50 percent greater energy efficient homes for the manufacture of high-efficiency appliances.
- Pushes for the development of more fuel pumps serving electric, natural gas, and fuel cell vehicles.
- Extends expired tax credits for natural gas trucks that can use American fuel to deliver goods to Americans.

BUILD ON COST-SAVING MEDICARE PROPOSALS

The *Affordable Care Act of 2010* makes significant improvements to Medicare by strengthening benefits, such as closing the gap in prescription drug coverage known as the “donut hole”. The law saved \$716 billion by spending our limited Medicare dollars in a smarter way and by ending unnecessary subsidies to private insurance companies that did nothing to improve care for beneficiaries. The law also reduced overpayments for certain Medicare services. Combined, these changes extended the life of the program by 12 years. In addition, Medicare will start reimbursing health care providers for the quality – not just the quantity – of services they provide.

The law also included new, innovative payment models that have the potential to result in significant cost containment for the Medicare program. Congress should **support and expand these new, cost-saving payment models, such as one authored by Congressman Markey known as “Independence at Home.”** Under Independence at Home, homebound or frail seniors are able to receive coordinated primary care services in the comfort of their own homes. A team of doctors and nurses is responsible for coordinating their treatment plan, making sure the patient’s needs are met, and monitoring their condition and compliance. If the team provides high-quality care while successfully lowering the cost of care for the patient, it is eligible to share the savings with Medicare. Independence at Home has the potential to transform how we care for our most vulnerable, complex, and costly seniors while saving as much as **\$30 billion** that is currently wasted through fragmented and duplicative care.

Independence at Home is currently limited to a demonstration program in only a few states, including Massachusetts, and has just started to operate. Independence at Home is one of the many promising, innovative payment models included in the health care law that have yet to take full effect. In fact, healthcare experts estimate that one-third of healthcare spending – or \$910 billion per year – is a result of poor care delivery, excessive prices, or fraudulent practices that do not result in better health outcomes. Instead of focusing on cuts to benefits or scaling back eligibility, Congress should focus on expanding the promising cost-containment measures included in the *Affordable Care Act* and generate savings for the program by providing higher-quality, more coordinated care.

Further savings can be found by improving Medicare’s system for purchasing prescription drugs. The federal government is the largest purchaser of prescription drugs, but it fails to use its purchasing power to negotiate the best purchase prices for drugs purchased through Medicare’s prescription drug benefit, known as Part D. Prior to the creation of Medicare Part D, low-income Medicare beneficiaries (known as dual eligibles, since they also

qualify for Medicaid) received drug coverage under Medicaid. Manufacturers are required by law to provide a significant rebate to drug purchases under Medicaid – either the “best private price” or a price about 23 percent below the average manufacturer price, whichever is lower.

With the implementation of Medicare Part D, the government began purchasing drugs for these dual eligibles through Medicare rather than Medicaid and thus lost the ability to purchase these drugs at the reduced Medicaid prices. Under Medicare, the price is negotiated by the private prescription drug plans (PDPs) that have significantly smaller market share, making them a less effective negotiator than the federal government.

Low-income Medicare beneficiaries are among the sickest and most medically complex seniors, and their healthcare costs reflect that reality. According to the Congressional Budget Office (CBO), requiring manufacturers to extend the rebate provided for Medicaid drugs to drugs purchased for low-income Medicare seniors would significantly reduce the cost of these drugs for the federal government by **\$137 billion** from 2013-2022.

THE AMERICAN TAXPAYER RELIEF ACT— WHAT IT MEANS FOR MASSACHUSETTS

Late at night on New Years Day 2013, Congress sent a bill to the President's desk that avoided the worst consequences of the so-called "fiscal cliff". The *American Taxpayer Relief Act* prevented large tax increases on all Americans except the wealthiest and temporarily postponed the draconian, across-the-board budget cuts mandated by the *Budget Control Act of 2011*. Taken together, the tax increases and spending cuts would have delivered a \$500 billion fiscal blow to the economy, potentially driving it back into recession.

Massachusetts Impact

Had Congress not passed the American Taxpayer Relief Act, a family in Massachusetts making the state's median income (approximately \$101,500 for a family of four) would have faced an additional **\$4,600 in taxes per year**.⁶ That amounts to a 4.5 percent tax increase as a percentage of income – a major problem for families trying to save for college, purchase a car, or afford a down payment on a home.

The central provisions of the *American Taxpayer Relief Act* include:

Extension of Bush Income Tax Cuts for 99 Percent of Americans: Tax rates for families with income above \$450,000 and individuals above \$400,000 will rise permanently to Clinton-era levels, with a top marginal tax rate of 39.6 percent. The marginal income tax rate structure of 10, 15, 25, 28, 33, and 35 percent for taxable income below those levels remain in place.

Massachusetts Impact

Without the agreement to avert tax increases on middle-class and lower income families, the average family in Massachusetts would have faced an additional **\$1,516 in taxes**⁷ due to the expiration of the Bush income tax cuts and other tax cut extensions.⁸

⁶ Kasprak, Nick. "How Would the Fiscal Cliff Affect Typical Families in Each State?" *How Would the Fiscal Cliff Affect Typical Families in Each State?* Tax Foundation, 12 Nov. 2012. Web. 16 Jan. 2013.

⁷ Ibid.

⁸ For purposes of this report, an "average family in Massachusetts" refers to a family of four earning \$101,500 – the median income in the state.

Stimulus Tax Credits: In 2009, Congress expanded the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC),⁹ two of the most effective anti-poverty initiatives in the nation. Each year, five million children are kept out of poverty thanks to these tax credits. Without the *American Taxpayer Relief Act* to avert the fiscal cliff, the 2009 improvements -- as well as those made in 2001 and 2003 -- would have expired, slashing benefits for low-income children and working families. According to FirstFocus, more than 14 million working families with incomes less than \$50,000 would have been subjected to a \$1,000 tax increase.¹⁰

Massachusetts Impact

Expiration of the CTC expansions would have cost median-income Massachusetts families that claim the credit an additional \$2,000 in taxes per year. Thousands of Massachusetts families that previously benefited from the CTC expansions would have received a reduced benefit or lost the tax credit entirely.

The 2009 expansion of the EITC and CTC alone provided critical help to **165,000 working Massachusetts families** and **299,000 kids**. Families in the state **saved an average of \$687** a year.

Though the average median-income family in Massachusetts is not eligible for the EITC, thousands of low-income working families in Massachusetts would have **lost their EITC or seen a reduced benefit**. Allowing the EITC to fall back to its 2001 levels would have hurt the household budgets of many of the **378,000 working families** in Massachusetts that receive an average EITC benefit of \$1,898 per year.¹¹

Alternative Minimum Tax (AMT): Congress implemented the AMT thirty years ago as a base income tax level to ensure that the wealthy could not avoid paying any taxes by claiming enough deductions to offset their entire income. Because the AMT was not indexed to grow with inflation, it now threatens to affect solidly middle-class Americans with an excessively high tax rate. The *American Taxpayer Relief Act* includes a permanent fix to the AMT that avoids raising taxes on the middle-class.

⁹ If a single parent receiving the EITC marries, the new spouse's income can eliminate or reduce the EITC. The 2009 stimulus package increased the income level at which the EITC begins to phase out for couples to \$5,000 above that for single filers, indexed for inflation.

¹⁰ *Fiscal Cliff Could Plunge Millions of Kids into Poverty*. First Focus, Dec 2012.

¹¹ <http://www.ncsl.org/issues-research/labor/earned-income-tax-credits-for-working-families.aspx>

Massachusetts Impact

The average family in Massachusetts would have faced an additional **\$1,085** in taxes if the AMT had not been adjusted to account for inflation.¹²

Unemployment Benefits: Had Congress failed to extend emergency unemployment compensation as part of the *American Taxpayer Relief Act*, more than two million Americans who are actively searching for work would have lost their unemployment benefits. Maintaining unemployment compensation for workers who lost their jobs through no fault of their own not only keeps their families afloat, but it is critically important to our economic recovery. According to Mark Zandi of Moody's Economy.com, "No form of the fiscal stimulus has proved more effective during the past two years than emergency UI [unemployment insurance] benefits." The Economic Policy Institute (EPI) estimates that every dollar spent on unemployment benefits injects \$1.52 worth of stimulus back into the economy, since financially strapped unemployed workers need to spend the benefit quickly.¹³

Massachusetts Impact

Approximately **50,100** unemployed workers in Massachusetts would have lost their emergency unemployment benefits in 2013.¹⁴

Business Tax Credits: Key tax credits for businesses, including the Production Tax Credit (PTC) for wind energy and the Research and Experimentation Tax Credit, were extended through the end of 2013. The PTC provides a significant boost not only to the development of wind and other sources of renewable energy but to the Massachusetts economy as well. The PTC reduces the cost of wind power sold to consumers by providing a tax credit to the owners of wind farms, such as utility companies or independent power plant owners, based on how much wind energy they produce. More than 100 megawatts of wind capacity is currently operating in Massachusetts—more than half of it installed in 2012 alone—and more than 500 additional megawatts are currently in development. In total, approximately 50,000 Massachusetts homes are now powered by wind.

The wind industry has a strong supply chain presence in Massachusetts, with leading wind companies

¹² Kasprak, Nick. "How Would the Fiscal Cliff Affect Typical Families in Each State?" *How Would the Fiscal Cliff Affect Typical Families in Each State?* Tax Foundation, 12 Nov. 2012. Web. 16 Jan. 2013.

¹³ <http://www.epi.org/news/fiscal-obstacle-cliff/>

¹⁴ Department of Labor, November 9, 2012.

like First Wind, FloDesign, Second Wind, Patriot Renewables, Northern Power Systems, Mass Tank, and TPI Composites operating in the state. Boston-based First Wind, for example, is one of the largest wind farm developers and operators in the country, employing 70 permanent workers in Massachusetts and bringing millions of dollars into Massachusetts. Instead of a complete collapse in demand for new wind projects in 2013 as a result of expiration of the PTC, the company anticipates beginning construction of up to 1,000 megawatts of new projects this year.

Massachusetts Impact

The Production Tax Credit is critically important to the Massachusetts economy:

- The PTC supports upwards of **500 jobs** in Massachusetts.
- Massachusetts currently has more than 100 megawatts of wind production online, and wind powers 50,000 homes in the state. With more than **500 megawatts** currently in development, thanks largely to the PTC, that figure is expected to rise dramatically during the coming years.
- Electricity rates in the Bay State are near **ten-year lows**, and the production of wind energy is one reason for the low rates. Every unit of wind power consumed in Massachusetts – whether generated in Massachusetts or elsewhere – is two cents per kilowatt hour cheaper due to the PTC.

Payroll Tax: Because the *American Taxpayer Relief Act* did not include an extension of the temporary payroll tax holiday, a household's first \$113,000 will be taxed at 6.2 percent rather than the previous rate of 4.2 percent.

Massachusetts Impact

The average family in Massachusetts will pay an additional **\$2,030** in Social Security payroll taxes per year.¹⁵

¹⁵ Kasprak, Nick. "How Would the Fiscal Cliff Affect Typical Families in Each State?" *How Would the Fiscal Cliff Affect Typical Families in Each State?* Tax Foundation, 12 Nov. 2012. Web. 16 Jan. 2013.=

Estate Tax: Since 2001, the estate tax has been steadily dropping from 55 percent down to a low of 35 percent on real estate and other inherited assets. The tax-free amount of an inherited estate has also grown from \$1 million to more than \$5 million. The estate tax was scheduled to return to a \$1 million per person exemption with amounts beyond that taxed at 55 percent, but the law locks in the \$5 million exemption with inheritance beyond that taxed at just 40 percent.

Massachusetts Impact

Extending the current tax-free exemption of \$5 million per estate and slightly raising the estate tax to 40 percent benefits the **wealthiest 140 estates** in Massachusetts, or approximately 0.3 percent of estates.¹⁶

Capital Gains and Dividends Tax: Taxes on unearned investment income, such as capital gains and dividends, will rise for the wealthiest households. Families making more than \$450,000 (and individuals making more than \$400,000) will see their unearned income taxed at 20 percent as opposed to the previous level of 15 percent. The rate will remain at 15 percent for households below those income thresholds.

Limits on Tax Exemptions and Deductions: The *American Taxpayers Relief Act* limits the tax deductions and exemptions that wealthy households are able to claim. The Personal Exemption Phase-out (PEP) and the “Pease” deduction, which limits itemized deductions, will be reinstated beginning at \$250,000 for individuals and \$300,000 for families. Couples earning more than \$422,500 will not be allowed to claim the personal exemption at all.

¹⁶ <http://www.cbpp.org/cms/index.cfm?fa=view&id=3850>

SEQUESTRATION

Background

In addition to extending certain tax breaks and allowing others to expire, the *American Taxpayers Relief Act* postponed the start of \$1.2 trillion in major, across-the-board budget cuts until the beginning of March 2013 to give Congress the room to develop a plan to reduce federal spending. Congress mandated a total of \$2.1 trillion in deficit reduction as part of the *Budget Control Act of 2011* (BCA), which will occur in two stages.

Step 1 of the BCA established caps on the amount of money that Congress is legally able to spend through the annual budget process, reducing federal spending on discretionary programs by **\$917 billion** over a decade from FY 2012 – FY 2021. Lawmakers must decide how to operate within these new caps, which are back-loaded to avoid making major spending reductions while the economic recovery is still tenuous. The cuts are placed not on specific programs but on two broad categories:¹⁷

- *Security Spending*: Funding for security related programs that require annual appropriations – the Department of Defense (DOD), Homeland Security, Veterans’ Affairs, National Nuclear Security Administration, and foreign affairs – will be reduced by \$350 billion over a decade.
- *Non-security Spending*: Funding for domestic programs that require annual appropriations will be reduced by \$393 billion.

Step 2 of the BCA – triggered by the inability of the “Super Committee” during the fall of 2011, to reach a deal on a deficit reduction package – calls for even deeper spending cuts of \$1.2 trillion, compounding the pain caused by the earlier cuts. These cuts were scheduled to begin at the start of 2013 but were delayed two months by the *American Taxpayers Relief Act*. Unlike the first phase, these cuts cannot be back-loaded in later years in order to avoid jeopardizing an already slow economic recovery. Instead, the law places even lower limits on discretionary spending. An additional \$110 billion in spending will be cut each year (over the next nine years):

- *Defense Spending*: Half of the cuts (\$55 billion per year) must come from DOD and the National Nuclear Security Administration.

¹⁷ The remainder of the savings comes mainly from debt service -- money saved by reducing the principal balance on our national debt.

- *Non-defense Spending:* The other half of the cuts (\$55 billion per year) will be drawn from domestic spending, such as the research spending for the National Institutes of Health (NIH) and food safety funding for the Food and Drug Administration (FDA).

The breakdown of the cuts between defense and domestic is shown below:

Table 1
Step 2 Spending Reductions from FY 2013-FY 2021
(in billions)

	Required Cut Per Year	Required Cut Over Nine Years
Defense ¹⁸	\$55	\$495
Domestic	\$55	\$495
<i>Subtotal</i>	<i>\$110</i>	<i>\$990</i>
Savings from Lowered Interest Payments	\$24	\$216
<i>Total</i>	<i>\$134</i>	<i>\$1,216</i>

For domestic (i.e., non-defense) cuts, the law further stipulates that a certain percentage of the cuts come from *discretionary* domestic spending and the rest come from *mandatory* domestic spending.¹⁹ Of the \$55 billion cut from domestic spending per year, approximately \$16 billion will come from *mandatory* domestic programs (e.g., farm subsidies and limited cuts to Medicare providers) and about \$38 billion from *discretionary* domestic programs (e.g., any program that relies on annual appropriations). The new discretionary caps are illustrated in the following chart:

¹⁸ In Step 1 of the debt deal, the cuts were divided between “non-security spending” and “security spending,” which included the DOD as well as foreign affairs, the VA [has this already been defined?], and other programs. However, this round of cuts requires a reduction to “defense,” which now includes just the DOD. Foreign affairs, the VA, and the other departments are now excluded from the definition of “defense” spending, and thus are not able to shoulder the burden with the DOD.

¹⁹ The defense budget is essentially all discretionary spending so this is largely irrelevant to defense spending.

Table 2
Revised Statutory Limits on Discretionary Spending Under Automatic Cuts
(in billions)

Fiscal Year	Caps on Spending After Step 1 (\$917 in Spending Cuts)			Caps on Spending After Step 1 and Step 2 (\$917 + \$1,200 in additional cuts)		
	Total Discretionary	Defense	Domestic	Total Discretionary	Defense	Domestic
2013	\$1,047	\$546	\$501	\$953	\$491	\$462
2014	\$1,066	\$556	\$510	\$973	\$501	\$472
2015	\$1,086	\$566	\$520	\$994	\$511	\$483
2016	\$1,107	\$577	\$530	\$1,016	\$522	\$494
2017	\$1,131	\$590	\$541	\$1,035	\$535	\$505
2018	\$1,156	\$603	\$553	\$1,065	\$548	\$517
2019	\$1,182	\$616	\$566	\$1,093	\$561	\$532
2020	\$1,208	\$630	\$578	\$1,120	\$575	\$545
2021	\$1,234	\$644	\$590	\$1,146	\$589	\$557

Most programs that serve low-income populations are exempt from Step 2 cuts, including Medicaid, Social Security, food stamps, Earned Income Tax Credit, Child Tax Credit, Temporary Assistance for Needy Families, military pay, veterans' benefits, and Medicare benefits.

The Medicare program, which falls under domestic spending, is partially protected. The law prevents cuts to benefits for seniors but it allows a reduction in payments to doctors of up to two percent. The Congressional Budget Office (CBO) estimates that in FY 2013, Medicare providers would experience a cut of \$11 billion. Because Medicare costs are projected to rise, the total amount of the cut will add up to approximately \$123 billion over nine years and could make it harder for seniors to receive the care they need if Medicare providers exit the market due to reimbursement rates they determine to be too low. According to a recent study by the American Hospital Association, an automatic two percent cut would also cost 194,000 jobs nationwide.²⁰

Sequestration in 2013 – Across-the-Board Spending Cuts

The sequestration of discretionary spending is handled differently for FY 2013 than it is for the remainder of the

²⁰ The Negative Economic Impact of Cuts to Hospital Funding: Potential Jobs Loss. Tripp Umbach, Sept. 2011.

years covered by the debt deal, FY 2014-2021. With regard to FY 2013, automatic, across-the-board cuts will be made to whatever funding is provided by Congress for that year. Because the cuts are scheduled to take effect more than one-quarter of the way into the fiscal year, spending authority for federal agencies has already been determined. The Office of Management and Budget (OMB) will thus be responsible for rescinding funding from federal agencies (the process known as “sequestration”) in order to meet the level of cuts required by the debt deal. Because Congress does not have the ability to set spending levels for mandatory programs, the cuts for these programs are automatic and constant throughout the years covered by the debt deal.

According to an OMB report released in the summer of 2012, defense programs were originally scheduled under sequestration to receive a uniform 9.4 percent reduction and domestic programs would receive a uniform 8.2 percent reduction.²¹ For example, each research institute within the NIH would receive an across-the-board reduction of 8.2 percent, though the agency would have some flexibility through personnel decisions and funding transfers to determine which programs would bear the greatest brunt of the cuts. Tax credits included in the health care reform law to help middle and low-income families afford their health insurance deductibles, co-pays, and other cost-sharing expenses will also be reduced because they are not refundable (and, thus, not considered exempt under the law). Only Medicare provider payments and Community Health Centers have a separate cut that is capped at two percent.

Sequestration in the American Taxpayer Relief Act

The *American Taxpayer Relief Act* offset two months of sequestration cuts, thereby reducing the percentage of required cuts for the remainder of FY 2013. In doing so, the law not only paid for \$24 billion worth of cuts but it postponed their start date until March 1, 2013. The \$24 billion offset came half from spending cuts that will have to be determined by Congressional appropriators at a later date²² and half from new revenues gained by changing rules for converting Individual Retirement Accounts (IRAs) to Roth IRAs. However, seven months of across-the-board cuts mandated by sequestration remain. The amount of spending that must be cut in FY 2013 under sequestration (should Congress not take further action) is reduced to about three-quarters of the original amount, from \$109 billion to \$85 billion. We can therefore expect non-defense discretionary spending for the remainder of FY 2013 to be reduced by approximately 5.1% percent and defense spending to be reduced by

²¹ http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/stareport.pdf

²² The \$12 billion in spending cuts to domestic and defense programs will not take effect until at least March 27, 2013 (when the current budget funding the government expires). Where these cuts will fall is entirely unknown at this point; we only know that the first \$4 billion must be cut by September 30, 2013 and the remaining \$8 billion must be cut during FY 2014.

	Cuts Under Prior Law		FY '13 Cuts Under ATRA (beginning March 2013)	
	(in billions)	(% of budget)	(in billions)	(% of budget)
Defense	\$54.7	9.4%	\$42.5	7.3%
Non-defense	\$54.7		\$42.7	
Non-defense discretionary	\$38	8.2%	\$26.4	5.1%
Medicare	\$11	2.0%	\$11.2	2.0%
Other non-defense mandatory	\$5.5	7.6%	\$5.0	5.3%
TOTAL	\$109		\$85	

Budget Cuts in 2014 and Beyond

Spending cuts are applied differently for the remaining eight years covered by the BCA, from FY 2014 to FY 2021. The cuts are no longer applied equally across the board. Instead, Congress is only bound by the discretionary cap placed in law (as shown in Table 2), and while operating within those limits, lawmakers must decide which programs get cut during the regular appropriations process. Only if Congress were to pass appropriations bills that exceed the statutory limitations would automatic, across-the-board spending cuts – sequestration -- be implemented to bring the spending bill below the required cap.

Such decisions do not apply to mandatory spending, which is not subject to the annual appropriations process. From FY 2014-FY 2021, *mandatory* programs (i.e. Medicare provider payments, farm price supports) will face automatic, across-the-board reductions. Again, Medicare provider payment cuts will remain capped at two percent.

²³ Kogan, Richard. "Here's How the March 1 Sequester Would Work." Web log post. *Off the Charts*. Center on Budget and Policy Priorities, 22 Jan. 2013. Web. 8 Feb. 2013.

WHAT SEQUESTRATION MEANS FOR MASSACHUSETTS

Massachusetts has more to lose than most states should sequestration cuts be allowed to take effect next month. We are home to world renowned research institutions and biotechnology companies that rely on federal grants from the NIH to uncover medical breakthroughs. Our teaching hospitals trained more than 34,300 of the nation's active doctors and pediatricians, thanks in part to federal funding that supports training programs for medical residents. Our defense companies and universities attract billions of dollars from DOD to conduct research and develop new technologies that benefit both the military and civilian world.

It is this innovative and cutting-edge environment that makes Massachusetts not only the Bay State but the "Brain State." It is the state's economic profile as a high-tech, clean tech, bio-tech hub that forms the foundation of our resilient economy. And yet it also means that Massachusetts and its hospitals, universities, and companies are at a disproportionate risk should these massive budget cuts be allowed to take place. Sequestration would further strain the state's budget and cost 60,497 jobs, including 41,469 due to cuts to the defense budget.²⁴ The following is an explanation of the wide-ranging impact these cuts would have on Massachusetts, its economy, and its people for the remainder of FY 2013.²⁵

²⁴ George Mason University Center for Regional Analysis

²⁵ Unless otherwise cited, the figures below use information from the Federal Funds Information for States (FFIS) database and data from Massachusetts' financial system on funds spent by the Commonwealth in FY 2012, which are then reduced by the amount mandated under sequestration.

SELECT PROGRAMS WITHIN THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)

NATIONAL INSTITUTES OF HEALTH

As the world's preeminent medical research institution, NIH is our best hope for finding cures, improving treatments, and gaining a better understanding of the complex causes of diseases that affect millions of Americans. Funding for NIH is also a shrewd economic investment, as every dollar of funding spent generates \$2.21 in local economic growth. Despite the health and economic benefits that NIH funding offers, maintaining full funding for the agency is a constant battle. For years, Congressman Markey has led the fight in the U.S. House of Representatives to protect and increase NIH funding. In FY 2011, NIH sustained budget cuts of \$317 million, jeopardizing countless research projects that already are underway in Massachusetts. In response, Congressman Markey led a 2011 letter in which 117 of his Democratic colleagues joined, calling for full funding for NIH so that it can sustain its mission of improving health through medical science breakthroughs and maintaining international leadership in biomedical research. These efforts helped lead to Congressional appropriators providing NIH an increase of nearly \$300 million in FY 2012. Rep. Markey led a similar effort in 2012 and, since passage of the *Budget Control Act*, he has fought to protect NIH funding from across-the-board budget cuts.

Under sequestration, the **NIH budget for the remainder of FY 2013 would be slashed by approximately 5.1 percent**, a devastating cut and the consequences of which are difficult to overstate. NIH stands to lose more than **\$1.5 billion** – the largest cut in the agency's history – including approximately \$255 million less for the National Cancer Institute and \$56 million less for the National Institute on Aging, which is currently funding critical research to delay and prevent Alzheimer's disease and other dementias. NIH would be forced to provide approximately **450 fewer medical research grants** because of these cuts.

Massachusetts Impact

Each year, Massachusetts brings in more NIH funding per capita than any other state. Our companies, universities, public, and private research organizations receive approximately **\$2.5 billion** in annual NIH grant funding to conduct groundbreaking research on everything from Alzheimer's disease to Parkinson's, autism, and cancer. Boston alone brought in **\$1.7 billion** through 3,600 NIH grants, **making it the leading city in NIH**

funding for 17 consecutive years.²⁶ In FY 2011, the state's NIH grants spurred venture capital firms to invest another \$1 million in biotechnology. This funding also supports 432,000 jobs nationwide – including more than **35,000 workers in Massachusetts** – and drives the acquisition of goods and services from every state. Though Massachusetts ranks 15th in population, it ranks 2nd in NIH funding.

Failure to avoid sequestration would **cost our state more than \$127 million in critical NIH funding in FY 2013 alone**, jeopardizing ongoing research projects in Massachusetts and throughout the country as the size and number of available peer-reviewed research grants shrinks. For example, at Tufts University in Medford, scientists are working on regenerating bone to fix massive defects caused by injury, illness, or congenital malformations. A company in Malden is also currently investigating the role of prenatal alcohol in Sudden Infant Death Syndrome (SIDS) to improve our understanding of a disease that claims the lives of 2,500 newborns every year. These and other research projects could be shelved if NIH funding is cut.

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)

The Low-Income Home Energy Assistance Program (LIHEAP) provides states with funding for home heating and cooling assistance to low-income individuals and families. The families helped by this funding are those most vulnerable either to extremely hot or cold temperatures. Nearly 40 percent of families receiving LIHEAP assistance have a senior over 60 years old and 45 percent have at least one child. LIHEAP has already suffered significant cuts in recent years, with a \$400 million reduction in FY 2011 and an additional \$1.2 billion cut in FY 2012. In response to these cuts, as well as proposals to cut the program even more deeply, Congressman Markey has led efforts, joined by as many as 136 of his colleagues, to prevent further cuts to LIHEAP. In FY 2013, the program is receiving the same funding as it did in FY 2012 – \$3.5 billion.

Under sequestration, LIHEAP's ability to protect the health and safety of these vulnerable families is restricted, as an additional \$177 million would be cut from the program in FY 2013 alone. A cut of this magnitude would either force struggling families off the program, cut benefits, or leave it up to individual states – already struggling with massive budget deficits – to make up for the shortfall.

²⁶ Melnik, Mark, and Martina Toponarski. *Boston as a Leader in National Institutes of Health Awards*. Rep. Boston: Boston Redevelopment Authority Research Division, 2012. Print.

Massachusetts Impact

In Massachusetts, \$132 million in LIHEAP funding helped approximately 200,000 families heat their homes last winter.²⁷ With the state facing a loss of approximately **\$6.7 million in LIHEAP funding** and the price of home heating oil continuing to rise, thousands of Massachusetts families could be left in the cold by seeing a reduction or loss of this critical support system.²⁸

HEAD START

Head Start provides grants to local organizations that offer comprehensive early childhood services for low-income children and their families. Much of the funding supports high-quality early childhood education, which has a long-lasting benefit for the child and save taxpayers money in the form of reduced welfare, special education, and criminal justice expenses. Already, less than 50 percent of eligible pre-school-aged children and less than 4 percent of eligible infants and toddlers are enrolled in Head Start programs nationwide. Sequestration would further limit the ability of this program to invest in vulnerable children and put them on a path toward a more secure and productive future.

Massachusetts Impact

Under sequestration, Massachusetts faces a loss of approximately **\$6.3 million** in Head Start funding. According to the Senate Appropriations Committee, the state stands to lose an estimated 200 jobs and 930 fewer children will be able to receive Head Start services. The Commonwealth received approximately \$123 million in FY 2012.²⁹

MATERNAL AND CHILD HEALTH GRANTS

Since 1935, the federal government has provided states with funding to support the goal of healthy mothers

²⁷ Executive Office of Housing and Economic Development for Massachusetts. “LIHEAP Household Report - Federal Fiscal Year 2011” July 24, 2011.

²⁸ Sen. Harkin’s Senate Appropriation Subcommittee Report. “Under Threat” July 2012.

²⁹ Ibid.

and, in turn, healthy infants. The grants allow states to ensure that mothers receive medical care before, during, and after pregnancy and that children and adolescents have access to much-needed preventive and primary care, oral healthcare, and injury and violence prevention services. Decades of evidence demonstrate the significant impact this funding has had on reducing infant deaths, increasing immunization rates, and meeting the nutritional and developmental needs of mothers and their children.

Massachusetts Impact

A loss of approximately \$573,000 to the Maternal and Child Health Block Grants will result in thousands of at-risk mothers and their families losing access to critical services that can put them on the road to safe and healthy lives.³⁰

A loss of funding for the Women, Infants, and Children (WIC) Supplemental Nutrition grant would also have a dramatic impact on health services for women and children in Massachusetts. This critical source of funding provides nutritious foods, health care referrals, and nutrition education for low-income pregnant or breastfeeding women, as well as children under the age of five. Sequestration would force a cut in the Massachusetts program in the range of **\$7.2 million**, would affect the Department of Health's ability to service 14,000 women and young children.³¹

FAMILY VIOLENCE PREVENTION AND SERVICES

These grants provide funding to states to prevent domestic violence and offer emergency shelter to victims of abuse. Already, the demand for these services far exceeds the funding. While these grants provide support to 67,000 victims of domestic abuse across the country every day, another 10,000 victims – including 6,700 individuals requesting emergency or transitional housing – have to be turned away.

Massachusetts Impact

Massachusetts stands to **lose \$107,000** in Family Violence Prevention and Service funding, leaving more

³⁰ Sen. Harkin's Senate Appropriation Subcommittee Report. "Under Threat" July 2012.

³¹ Federal Funds Information for States (FFIS). *Special Analysis 12-03 BCA Sequester: Where Things Stand.* Oct. 15 2012 and state data on actual money spent and reimbursed to the Commonwealth in SFY 2012.

domestic violence victims to fend for themselves and allowing an estimated **500 local crisis calls to go unanswered** each day.³²

COMMUNITY SERVICES BLOCK GRANTS

Community Services Block Grants (CSBG) provide a vital lifeline for our nation's low-income households. CSBG funding is the federal government's only comprehensive approach to addressing the needs of vulnerable citizens, helping struggling Americans get the services they need to achieve economic security. Covering 1,065 agencies in 99 percent of U.S. counties, CSBG funding provides critical employment services, education, and housing assistance to as many as 20.7 million low-income, unemployed, or disabled Americans.

However, maintaining funding for CSBG is a constant battle. In 2012, Congressman Markey led a letter that was joined by 85 of his House colleagues urging Congressional appropriators to protect CSBG's existing funding level of \$678 million.

Massachusetts Impact

Under sequestration, Massachusetts could face a loss of **\$857,000** in CSBG funding, which would have a devastating impact on the ability of the program to meet the needs of the 690,000 low-income residents it serves annually. As many as **34,000 Massachusetts residents** could lose access to services funded by CSBG.³³

³² Sen. Harkin's Senate Appropriation Subcommittee Report. "Under Threat" July 2012.

³³ Sen. Harkin's Senate Appropriation Subcommittee Report. "Under Threat" July 2012.

SELECT PROGRAMS WITHIN THE DEPARTMENT OF DEFENSE

CONGRESSIONALLY DIRECTED MEDICAL RESEARCH PROGRAM

The Congressionally Directed Medical Research Program (CDMRP) is a core program within DOD that funds critical medical research and development at universities and research organizations nationwide. In FY 2011, CDMRP provided \$458 million in grants to fund research on a wide range of diseases, including Alzheimer's, autism, and spinal cord injuries.

Massachusetts Impact

Massachusetts researchers received **\$38.6 million in CDMRP grants** in FY 2011. The breakdown of funding, according to the Conference of Boston Teaching Hospitals, is as follows:

FY11 CDMRP Massachusetts Awards		
Awardee	Amount	% of Total
Hospitals	\$ 29,389,239	76.1%
Medical Schools	\$ 3,421,137	8.9%
Other	\$ 5,816,239	15.1%
Total	\$ 38,626,615	100.0%

Teaching hospitals receive roughly three-quarters of this funding. These hospitals includes a group of researchers at Dana-Farber Cancer Institute who are using a \$525,000 grant to understand how breast cancer cells respond to varying doses of progestins. Researchers at Massachusetts General Hospital are using a million dollar grant they received through CDMRP to conduct urgently needed research into finding biomarkers for mild-to-moderate traumatic brain injury (TBI) in military service members. A cut of nearly **\$2.5 million** – the result of sequestration – could devastate the prospects that these and future research projects continue.

DEFENSE SMALL BUSINESS INNOVATION RESEARCH PROGRAM

DOD's Small Business Innovation Research Program (SBIR) awards funding for contracts and early-stage research and development at small businesses around the country. Under the program, 2.5 percent of the total extramural research budgets of all federal agencies are set aside for contracts or grants to small businesses. Last year, DOD awarded \$1.2 billion in SBIR funding nationwide. Congressman Markey has

been a champion of the SBIR program, working consistently to protect the program and ensure that awards go to true small businesses. In 2012, Congressman Markey worked with leadership to ward off efforts to change the program and allow unfettered access to venture capital and private equity companies. His leadership helped ensure that SBIR will continue to help legitimate, true small businesses.

Massachusetts Impact

Under sequestration, Massachusetts – which receives more SBIR funding per capital than any other state – could face a loss of **\$7.3 million** in SBIR award funding, **losing as many as 26 awards** for Massachusetts companies.³⁴ In 2010 and 2011, Massachusetts received 745 awards totaling \$227 million in funding. These programs fund groundbreaking research with implications for industries from national security to healthcare and energy, such as a Woburn-based company that is developing thinner and more flexible solar cells needed to maximize the power generating capability of space platforms.

³⁴ SBIR.gov

SELECT PROGRAMS WITHIN THE DEPARTMENT OF EDUCATION

TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES

Title I funding provides critical financial assistance to local educational agencies and schools that serve high numbers of children from low-income families. In Massachusetts, this funding helps ensure that all children meet our state's challenging academic standards. Through Title I, states receive resources to offer additional academic support and learning opportunities aimed at helping low-achieving children master the challenging curriculum and meet state standards in core academic subjects. States can also use the funding to provide extra instruction in reading and mathematics, as well as special preschool, after-school and summer programs to extend and reinforce the regular school curriculum.

Massachusetts Impact

Under sequestration, Massachusetts faces approximately **\$10.7 million in Title I funding cuts** for the remainder of this fiscal year, a significant portion of the approximately \$210 million the state received in FY 2012.³⁵ Cuts to Title I funding – which provides instruction and materials for nearly 279,000 students in approximately 1,000 schools in 360 districts – would reduce the number of students and staff supported by the program. It will negatively impact the ability of these districts to help low-achieving students and to support professional development for staff.

Since individual school districts will be forced to determine how to manage with less funding, it is difficult to determine the exact impact of the cuts. However, according to the Senate Appropriations report, as many as **155 educators could lose their jobs, 16,500 fewer children will be served, and dozens of schools would lose their grants or see the funding reduced.**³⁶

SPECIAL EDUCATION GRANTS TO STATES

Special Education Grants allow states and local communities to meet the high costs of providing special education and related services to children with disabilities. While the federal government has committed to

³⁵ Sen. Harkin's Senate Appropriation Subcommittee Report. "Under Threat" July 2012

³⁶ Ibid.

matching 40 percent of the cost to states for educating students with disabilities, it currently provides only 16 percent. Cutting this already stretched resource would place an even higher burden on cash-strapped states, forcing them to pare back special education programs and the number of dedicated educators who work in them.

Massachusetts Impact

Massachusetts faces a loss of about **\$14.4 million** in Special Education funding, for which the state received \$210 million in FY 2012.³⁷ That money is currently spent employing approximately 250 special education teachers.

GAINING EARLY AWARENESS AND READINESS FOR UNDERGRADUATE PROGRAMS (GEAR UP):

GEAR UP helps low-income elementary and secondary school students prepare and enroll in higher education through competitive grants to states and networks of local education agencies, postsecondary education institutions, and community-based organizations. Services offered using GEAR UP funds include mentoring, tutoring, campus visits, and financial aid.

Massachusetts Impact

In 2011, Massachusetts received **\$5 million** in GEAR UP funds, which were used to offer critical support to students in high poverty schools, including academic support and activities to make them aware of and interested in higher education. The results in our state underscore the value of this program. Among GEAR UP seniors, two-thirds applied to a four-year college, more than 90 percent were aware of the Free Application for Federal Student Aid (FAFSA), and nearly 75 percent were aware of federal Pell grants and work-study programs. Every middle school with GEAR UP increased their English/Language Arts (ELA) scores and more than half increased their math scores.³⁸

Sequestration cuts jeopardize the college prospects for many of the 7,250 at-risk students who benefit from GEAR UP throughout the Commonwealth. According to the American Student Association, cuts of this magnitude could mean a loss of GEAR UP services for approximately **600 Massachusetts students**.

³⁷ Sen. Harkin's Senate Appropriation Subcommittee Report. "Under Threat" July 2012.

³⁸ <http://www.meoanonline.org/wp-content/uploads/2011/02/MEOA-Factbook-09-10-Final-Version.1-1.pdf>

THE FEDERAL TRIO PROGRAM

The Federal TRIO Program (TRIO) provides competitive grant funding to higher education institutions, public and private organizations, and high schools to help low-income, disabled, and first generation students excel in school and eventually attend college. The grants offer a range of services, including increasing awareness about college enrollment and financial aid, tutoring, guidance in selecting a college, and career counseling. TRIO's funding has already remained flat for several years, meaning that cuts to the program would further erode its ability to offer academic support to underserved communities.

Massachusetts Impact

According to the Massachusetts Educational Opportunity Association, sequestration could cost Massachusetts **\$1.2 million** in TRIO grant opportunities and the ability to serve as many as **1,675 students**.

SELECT PROGRAMS WITHIN THE DEPARTMENT OF LABOR

VETERANS EMPLOYMENT AND TRAINING

The Jobs for Veterans State Grants Program provides formula grants to state workforce agencies to increase the number of jobs available to returning veterans. Some of the funding is used to develop job opportunities for veterans by raising awareness among employers about the availability and benefit of hiring veterans. There is an overwhelming need for effective programs that increase hiring of veterans. As of June 2012, veterans who have served our nation since September 11, 2011, continue to experience an unemployment rate of 9.5 percent -- significantly higher than the national average.

Massachusetts Impact

Under sequestration, Massachusetts could face a loss of \$152,000 in Veterans Employment and Training funding, with hundreds of fewer veterans served.³⁹

WORKFORCE INVESTMENT ACT (WIA) DISLOCATED WORKER STATE GRANTS

In order to stay competitive in the coming decades, American workers must adapt to the jobs of the future, whether that's in the healthcare sector or in the development of alternative energy and clean technology. WIA Dislocated Worker State Grants help states provide low-skilled, disadvantaged, and underemployed workers with job training and job placement assistance to help them find new, meaningful employment. These grants also fund state efforts to assist employers to find the skilled workers they need to compete and succeed.

Massachusetts Impact

Under sequestration, Massachusetts faces a loss of approximately **\$918 million** in WIA Dislocated Worker State Grants funding, with approximately **510 fewer dislocated workers served**.⁴⁰

³⁹ Source: Sen. Harkin's Senate Appropriation Subcommittee Report. "Under Threat" July 2012.

⁴⁰ Sen. Harkin's Senate Appropriation Subcommittee Report. "Under Threat" July 2012.

EMPLOYMENT SERVICE

The Employment Service is a crucial tool for job seekers in Massachusetts. It is the only free exchange that allows for jobseekers to connect with employment opportunities within the local and regional economy. Taking advantage of the One Stop system, disadvantaged populations are able to connect with the services that help them find long term employment. It also serves middle and high skill workers who are unemployed for the first time and need help understanding their regional job market.

Massachusetts Impact

Under sequestration, Massachusetts faces a loss of more than **\$714,000** in Employment Services funding, costing an estimated **19,000 jobseekers** access to these services.⁴¹

⁴¹ Ibid.

CONCLUSION

The looming sequestration cuts are neither inevitable nor beneficial for our country. Rather, the harm that sequestration would cause is unacceptable for the nation, and it would be especially damaging to Massachusetts. The Markey Plan would avoid these deep, indiscriminant cuts and instead promote job creation and the well-being of the middle class without sacrificing the programs that benefit the people of the Commonwealth.

Massachusetts is not only the Bay State. We are the Brain State. Should these across-the-board cuts be allowed to take effect, however, we could quickly become the “Brain Drain” State. Without federal funding to support education – from Head Start to our colleges and universities – Massachusetts could lose the ability to train the next generation of researchers, doctors, and entrepreneurs. Without federal funding to support our teaching hospitals, we could no longer attract thousands of leading doctors and pediatricians who come from across the country to train at Massachusetts General or Children’s Hospital Boston.

Without federal funding to support medical research, our brilliant researchers will have no choice but to search for support elsewhere. America is already losing scientists and other PhDs to China, India, and other nations that recognize biomedical research as a smart long-term investment. Sequestration would cause the United States to lose a generation of researchers and an untold number of medical breakthroughs.

The fundamental role of government is to protect its citizens. Allowing sequestration cuts would violate that commitment. Critical safety net programs that prevent low-income seniors from freezing in the winter, that ensure pregnant mothers have proper care, and that help veterans find employment would be decimated. The FDA’s ability to monitor and ensure the quality of our food will be severely diminished. Even our national security would be put at risk, as the military would be forced to make cuts that former Secretary of Defense Leon Panetta has described as “devastating.”

The impact of these looming cuts is already being felt nationwide, as federal agencies have been forced to withhold funding in anticipation of future budget cuts and companies postpone hiring and expansion due to the overwhelming degree of uncertainty they face. Congressional action is needed to replace sequestration cuts with balanced deficit reduction. There is a better alternative for our country and our Commonwealth. We should implement it now.