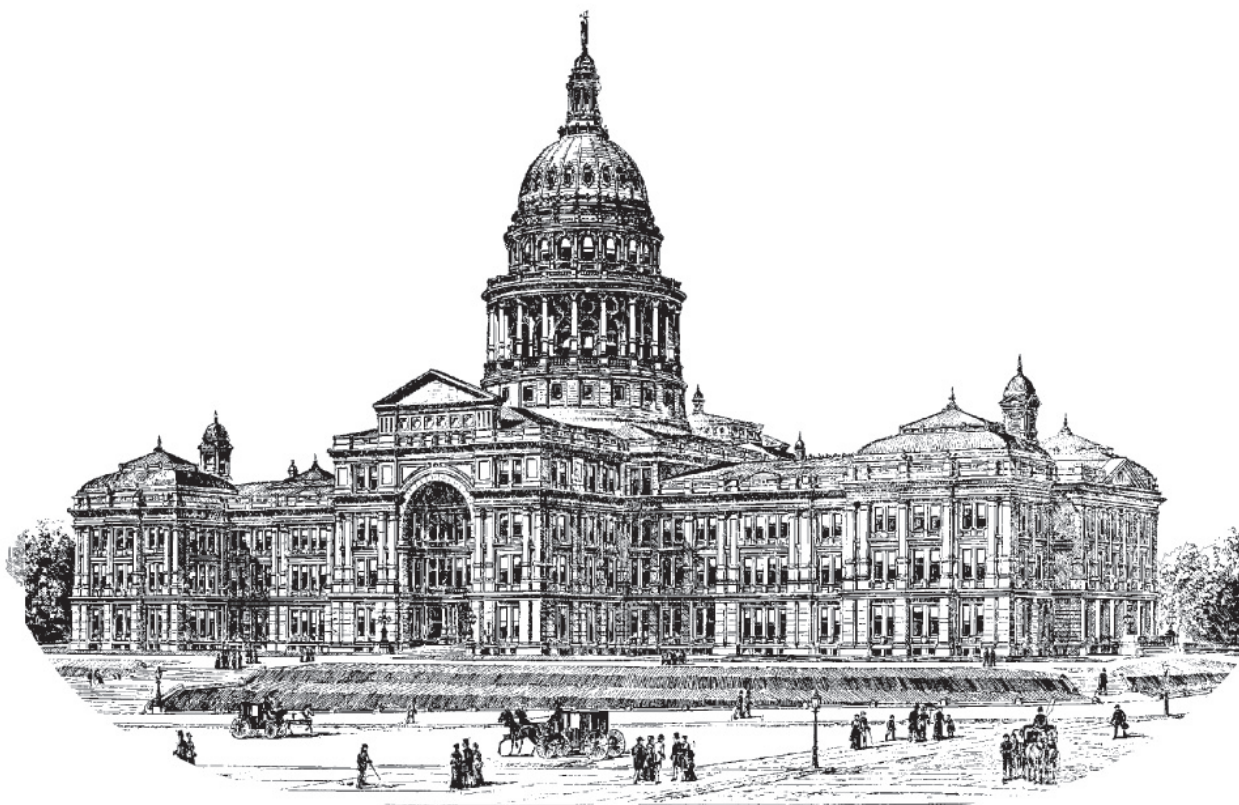




INTERIM REPORT

TO THE 83RD TEXAS LEGISLATURE



HOUSE COMMITTEE ON
TEXAS RESPONSE TO FEDERAL SEQUESTRATION
JANUARY 2013

**HOUSE COMMITTEE ON TEXAS RESPONSE TO FEDERAL SEQUESTRATION
TEXAS HOUSE OF REPRESENTATIVES
INTERIM REPORT 2012**

**A REPORT TO THE
HOUSE OF REPRESENTATIVES
83RD TEXAS LEGISLATURE**

**LINDA HARPER-BROWN
CHAIRMAN**

**COMMITTEE CLERK
TAURIE RANDERMANN**



Committee On
Texas Response to Federal Sequestration

January 18, 2013

Linda Harper-Brown
Chairman

P.O. Box 2910
Austin, Texas 78768-2910


The Honorable Joe Straus
Speaker, Texas House of Representatives
Members of the Texas House of Representatives
Texas State Capitol, Rm. 2W.13
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

The Committee on Texas Response to Federal Sequestration of the Eighty-second Legislature hereby submits its interim report including recommendations and drafted legislation for consideration by the Eighty-third Legislature.

Respectfully submitted,


Linda Harper-Brown

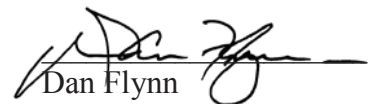

Mike Villarreal, Vice Chair

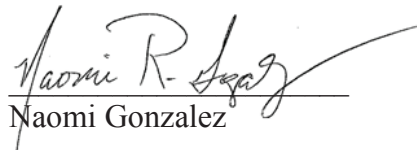

Cindy Burkett

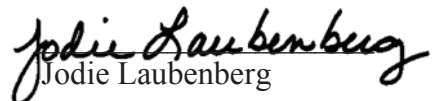

Brandon Creighton

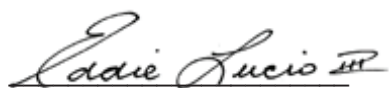

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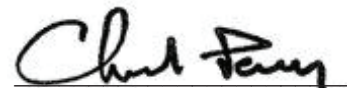

Craig Eiland


Dan Flynn


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Mike Villarreal
Vice-Chairman

Members: Cindy Burkett, Brandon Creighton, Dawanna Dukes, Craig Eiland, Dan Flynn, Naomi Gonzalez, Jodie Laubenberg, Eddie Lucio III and Charles Perry.

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INTRODUCTION

The Honorable Joe Straus, Speaker of the Texas House of Representatives, appointed eleven members to the House Interim Committee on Texas Response to Federal Sequestration on November 12, 2012. The committee membership was composed of: Representatives Linda Harper-Brown, Chair; Mike Villarreal, Vice Chair; Cindy Burkett, Brandon Creighton, Dawnna Dukes, Craig Eiland, Dan Flynn, Naomi Gonzalez, Jodie Laubenberg, Eddie Lucio III and Charles Perry.

During the 82nd Legislative Interim, Speaker Straus tasked the committee with recommending ways that the state can prepare for potential tax increases and spending reductions caused by the impending fiscal cliff. The committee was specifically asked to study how the sequestration process will affect the defense industry in Texas, the state budget, public and higher education and the tax burden on Texas families and businesses.

This report summarizes the testimony provided at the December 11, 2012 hearing and articulates the committee's conclusions. The committee would like to express great appreciation to the Speaker and each member for his or her assistance and efforts throughout the interim. In addition, the committee would like to thank all participants who have provided important testimony and input throughout the process.

HOUSE COMMITTEE ON TEXAS RESPONSE TO FEDERAL SEQUESTRATION

SCOPE OF COMMITTEE WORK

The Interim Committee on Texas Response to Federal Sequestration held a public hearing on Tuesday, December 11 of 2012. The committee heard testimony in regards to Federal Sequestration and its potential impact on public and higher education, the various state agencies, Head Start and the defense industry in Texas.

BACKGROUND

In 2011, Congress passed the Budget Control Act (BCA). The BCA contained four major components.

1. Increased the statutory debt limit.
2. Imposed caps on discretionary programs to reduce their funding by more than \$1 trillion over ten years from 2012 through 2021.
3. Established a Joint Select Committee on Deficit Reduction, also known as the “Supercommittee”, to propose legislation reducing deficits by another \$1.2 trillion from 2012 through 2021.
4. Established “sequestration”, a mechanism to incentivize the Joint Committee to reach a compromise for long-term deficit reduction.

When the “Supercommittee” failed to reach an agreement, the BCA triggered sequestration — a form of automatic cuts that apply largely across the board, which would occur starting January 2, 2013, and span through 2021.¹

Sequestration

A budget sequester “requires the cancellation of budgetary resources, meaning that money that would otherwise be spent under current law is held back and used for deficit reduction.”² The goal of sequestration is to accomplish what the Supercommittee could not — cut \$1.2 trillion through 2021 for a net savings of \$984 billion.³ The sequester consists of equal reductions to defense and non-defense aspects of the federal budget, including both discretionary and mandatory programs.⁴ It will reduce the budgets of most agencies and programs by 8% to 10%. For 2013, the cuts would amount to \$55 billion for defense and another \$55 billion for non-defense programs.

There are two types of programs subject to sequester, mandatory and discretionary programs. While the wide majority of mandatory programs are exempt from sequestration, only a few are exempt on the discretionary side. Mandatory programs that are exempt include Social Security, Medicaid, Federal retirement programs, and many programs that assist those with low incomes. Medicare is subject to sequester but special rules stipulate that its cuts are limited to 2 percent.⁵

The vast majority of the sequestration savings will come from discretionary programs. Only a few discretionary accounts are exempted including Pell Grants, most transportation trust funds,

and all Department of Veterans Affairs programs.⁶ Regarding defense cuts, because very little of their mandatory funding is subject to sequestration, the bulk of their cuts will come from discretionary programs. Cuts to mandatory programs for non-defense will account for roughly one-third of the non-defense because most mandatory spending is exempt. In the end, “most defense savings and about two-thirds of non-defense savings will come from discretionary programs.”⁷ Figure 1 illustrates how the sequester breaks down in dollars for 2013.

2013 Deficit Reduction Sequester In billions of dollars			
	Defense	Non-Defense	Total
Discretionary	54.6	38.0	92.6
Mandatory	0.1	16.6	16.7
Total	54.7	54.7	109.3

Figure 1. Source: U.S. Committee on the Budget

The Fiscal Cliff

The “fiscal cliff” is a term used to describe the financial situation the U.S. government would find itself in at the end of 2012. During this period, not only would sequestration be scheduled to go into effect, but it would also coincide with significant tax increases. Several key tax provisions were scheduled to expire on January 1, 2013 including the temporary payroll tax cuts, certain tax breaks for businesses, and the “Bush tax cuts” from 2001-2003. There would also be changes in the alternative minimum tax and January 1 would signal the beginning of new taxes related to the Affordable Care Act. Together, sequestration and tax increases would have stifled growth and likely catapulted the economy back into a recession thus sending the U.S. over the “fiscal cliff”.

The Congressional Budget Office (CBO) estimated that the provisions that made up the fiscal cliff combined would reduce gross domestic product (GDP) by four percentage points in 2013.⁸ The CBO also predicted that unemployment would rise by almost a full percentage point, with a loss of about two million jobs. In total, it is predicted that 1,090,395 jobs would be lost due to Department of Defense (DOD) budget cuts and non-DOD budget reductions would produce job losses of 1,047,349.⁹ Of all of the states, Texas would be one of the most severely impacted by job losses. Texas would stand to lose 98,979 defense jobs and 60,494 non-defense jobs for a grand total of 159,473 job losses, putting us third behind only California and Virginia with the top job losses per state.¹⁰

An analysis by J.P. Morgan economist Michael Feroli estimated that “\$280 billion would be pulled out of the economy by the sunseting of the Bush tax cuts; \$125 billion from the expiration of the Obama payroll-tax holiday; \$40 billion from the expiration of emergency unemployment benefits; and \$98 billion from Budget Control Act spending cuts. In all, the tax increases and spending cuts make up about 3.5% of GDP, with the Bush tax cuts making up about half of that.”¹¹

Aside from the direct impacts of the fiscal cliff such as a decrease in personal earnings by \$109.4

billion during 2013 and a loss of approximately 2 million jobs, the indirect impacts could be equally damaging. Other collateral impacts would include loss of consumer confidence that could suppress spending and a dampening of business investment and private sector hiring.¹²

Addressing the Fiscal Cliff

Congress had several options to address the fiscal cliff.¹³ First, they could have let us go over the fiscal cliff and allowed taxes to rise on everyone and automatic spending cuts to go into effect. Second, they could have renewed some or all of the scheduled tax expirations and cancelled spending cuts, which would have added significantly more to the federal deficit. These first two options would have had serious implications, with one driving the nation into recession and the other placing us on the brink of utter financial failure. Finally, lawmakers could have taken a middle-of-the-road approach. This is ultimately the course lawmakers chose in crafting the American Taxpayer Relief Act of 2012.

American Taxpayer Relief Act of 2012

The American Taxpayer Relief Act of 2012 allows the U.S. to avert the tax side of the fiscal cliff but only postpones sequestration. The new law allows the Bush-era tax rates to sunset after 2012 for individuals with incomes over \$400,000 and families with incomes over \$450,000; preserves the alternative minimum tax (AMT); restores many now-expired tax extenders, including the research tax credit and the American Opportunity Tax Credit; and requires a maximum estate tax of 40 percent with a \$5 million exclusion. However, Congress did not extend the payroll tax cut. This means that American workers will see the tax on their paychecks rise to 6.2% from 4.2% last year. For example, someone making \$100,000 per year will pay \$2,000 more in payroll taxes this year than he did in the last.

Although the tax issues appear to be settled for now, the threat of sequestration will remain for another two months. It is important to note that the next sequestration deadline coincides with the debt ceiling deadline. Congress must once again decide whether to raise the debt ceiling and will also be forced to make a decision regarding sequestration.

COMMITTEE FINDINGS

This committee was asked to examine how sequestration would impact the State of Texas. Although there are many unknowns regarding exactly how agencies and programs would be affected, based on the information available the committee identified the entities in Texas projected to be most severely impacted by the cuts. Figure 2 provides a snapshot of many of these entities but is limited to state agencies. The committee also found that institutions of higher education, Head Start, and defense entities would be particularly adversely affected. While only select agencies were asked to offer oral testimony at the December 11, 2012 hearing, data was gathered by each member of the committee on each of the entities listed in Figure 2 (*Appendix A*).

Budget Control Act Across-the-Board Reductions (In Millions)				
Agency Name	Requested			BCA Reduction
	SFYs 2014-15	Exempted	Covered	
Texas Education Agency	\$10,451.4	\$4,138.8	\$6,312.6	(517.6)
Department of State Health Services	2,456.4	245.0	2,211.3	(181.3)
Texas Workforce Commission	1,867.0	657.0	1,210.0	(99.2)
Department of Assistive & Rehabilitative Services	956.7	114.3	842.3	(69.1)
Department of Aging & Disability Services	7,438.0	6,982.3	455.8	(37.4)
Department of Housing and Community Affairs	403.5	0.0	403.5	(33.1)
Department of Public Safety	1,172.5	954.4	218.1	(17.9)
Department of Family & Protective Services	1,447.9	1,246.7	201.2	(16.5)
Department of Transportation	8,348.0	8,147.5	200.6	(16.4)
Department of Agriculture	988.8	840.9	147.9	(12.1)
Health & Human Services Commission	28,950.2	28,814.9	135.3	(11.1)
Office of the Attorney General	394.3	301.5	92.7	(7.6)
General Land Office	1,295.7	1,288.7	6.9	(0.6)
Total	\$66,170.3	\$53,732.0	\$12,438.3	(\$1,019.9)

Figure 2. Source: Texas Legislative Budget Board

The committee learned that while most state grant programs are subject to sequester, most state grant funding is exempt. In fact, 24 percent of state grant programs are exempt and 76 percent is covered. In regards to state grant funding, 82 percent is exempt and 18 percent is covered.¹⁴ Figure 3 illustrates the specific grant areas that are subject to sequester along with their percentage of funding covered.

Budget Function	Funding Covered by Sequester
Agriculture	100%
Employment and Training	100%
Community Development	100%
Justice	100%
Energy, Environment, Nat. Resources	100%
General Gov't	100%
Education (1 exempt)	59%
Income Security and Social Services	20%
Transportation	7%
Health (3 exempt)	3%

Figure 3. Source: Marcia Howard, Federal Funds Information for States

The largest Texas grants are mostly exempt. These grants include, but are not limited to food stamps, Pell Grants, and school lunch (*Appendix B*). The largest non-exempt grants in the state include, but are not limited to Title 1 grants to local educational agencies (LEA), special education, and Head Start (*Appendix C*). Each of these non-exempt grants largely benefits local governments.¹⁵

Public Education

The Texas Education Agency's (TEA) estimated reduction of \$517.6 million is the most significant agency reduction. In their testimony, TEA announced that federal education spending could be cut by approximately \$4.1 billion, nationally and stated that cuts would result in a reduction of all federal grants awards to the state.¹⁶ The agency identified 120 of their 130 federally funded projects that are subject to sequester. The five largest federal programs impacted are NCLB Title I, Part A; Title II, Part A; Title III, Part A; IDEA, Part B, and the Perkins CTE funds. These five formulas, or entitlement, programs would have the greatest impact financially to LEAs.¹⁷

The committee also received invaluable perspective from two school districts regarding what the cuts would mean to their individual ISDs. Austin ISD and Irving ISD both testified that jobs would be lost and critical services provided to disadvantaged and disabled children would be reduced.¹⁸ For example, Austin ISD would stand to lose as much as \$4.8 million in federal entitlement grant funding if sequestration goes into effect.¹⁹ This would translate into a loss of over 106 teaching and other professional positions at AISD and would significantly diminish the District's ability to serve its most vulnerable students.²⁰

Higher Education

Higher Education would be impacted by federal sequestration in two primary areas— research and financial aid. The committee learned about the negative impact the sequester would have on the research enterprise of Texas universities, and was apprised that the universities' ability to assist low-income students through financial aid programs, including grants and work study programs, would be compromised. The University of Texas System predicts that sequestration cuts to research could total anywhere from \$114 million to \$123 million annually across all System institutions whereas financial aid program cuts may total between \$1.3 and \$1.4 million annually.²¹

The committee established that cuts to the National Institutes of Health (NIH) and defense entities alone would account for dramatic reductions in Texas university research funding. Because investment in research and development yields a 20 to 30 percent rate of return to the state in terms of jobs and economic stimulus, a reduction in research funding would affect more than just the university community; it would affect the entire state.²²

Health and Human Services

The Texas Health and Human Services System contains five of the most highly impacted agencies in terms of sequestration: Health and Human Services Commission, Department of Family and Protective Services, Department of Aging and Disability Services, Department of Assistive and Rehabilitative Services and Department of State Health Services. Of these five, the Department of State Health Services would suffer the greatest losses as a result of sequestration. Within these agencies, the approximate number of programs subject to sequester is 59 and roughly 327,000 clients would be impacted.²³

Testimony from the Health and Human Services System revealed that key programs such as Title IV-B Parts 1 and 2-Child Welfare Services/Safe, Stable Families and Special Supplemental Nutrition Program (WIC), and Family Violence Prevention & Services would be subject to sequester (*Appendix D*). The committee determined that funding cuts to each of these areas would inhibit the state's ability to provide for some of its most vulnerable citizens by reducing services and the number of individuals served.

Texas Workforce Commission

The Texas Workforce Commission is unique in that 85 percent of its funding comes from the federal government. Of that 85 percent, over \$50 million is subject to sequester. For this reason the committee finds that sequestration would have an especially damaging impact on this agency. The Commission receives majority of its federal dollars from three entities: Department of Labor, Health and Human Services, and the U.S. Department of Agriculture.

The programs funded by the Department of Labor are of particular importance to the state. Programs such as Unemployment Insurance, Employment Services that provide counseling, and the Workforce Investment Act that provides training to workers would be among those programs hardest hit. A sequester of these programs could result in the closure of up to 15 local workforce centers across the state and a loss of approximately 351 Commission employees.²⁴ This would severely hamper the state's ability to assist workers with obtaining gainful employment and potentially force more individuals into social service programs.

Of all the Texas Workforce Commission programs subject to sequester, the Commission's Child Care Services would see the single, largest reduction of about \$20 million. This program subsidizes child care for low-income families, and enables parents to work or attend workforce training or education activities to become self-sufficient and less reliant on social services.

A final key point to consider is the effect that massive layoffs in all sectors, as a result of sequestration, would have on the state's Unemployment Trust Fund. The Unemployment Trust Fund is supported by employer taxes and reimbursements and while the fund is healthy right now, significant job loss in the state would place immense pressure on it.

Head Start

Much like the Child Care Services program at the Texas Workforce Commission, Head Start enables many families to gain employment without compromising the care of their children while at work. There are 80 Head Start and 30 Early Head Start Agencies in Texas. Together these agencies serve 70,703 children birth to age 5.²⁵ According to a report by Senator Tom Harkin, Chairman, Senate Appropriations Subcommittee on Labor, Health and Human Services, and Education, and Related Agencies, sequestration cuts to Head Start funding would result in a loss of 1,463 Texas jobs as well as 7,022 fewer children served and a reduction of \$43,788,777.²⁶ As a result, Head Start jobs in Texas will be lost, as well as a potential 7,022 parents will lose their jobs due to a lack of child care availability.²⁷ This in turn could force them back onto public assistance and place greater strain on the state's social services.

Defense

Regarding how sequestration will impact military installations and defense contractors, until the DOD releases more information very little definitive impacts are known. What we do know is that the “impact of sequestration to DOD spending is estimated between \$54.7 billion and \$77 billion in reductions annually, totaling between \$470 billion and \$492 billion over nine years. The Defense budget cuts under the Budget Control Act of 2011 equate to a 9.4% across the board cut to defense spending.”²⁸

In Texas, of all of the areas that would be negatively impacted by sequestration, defense is especially concerning. As was previously mentioned, Texas is one of the top three affected states when it comes to job losses as a result of sequestration. The state is home to 15 active duty military installations and hosts thousands of active duty military personnel. Sequestration would not only impact active duty military, it would also affect the thousands of contractors and suppliers in the state. The Aerospace and Defense industry supports 341,937 jobs in Texas. Combined Lockheed Martin, Raytheon, Boeing and UTC, which owns Pratt & Whitney and Sikorsky Helicopters, have 37,000 direct employees in Texas and they have 8,000 suppliers with a combined \$5 billion in contracts.²⁹

Companies like Lockheed Martin and Raytheon will weather the fiscal storm if sequestration occurs; however the impact on their suppliers is less certain.³⁰ For example, over 60 percent of Raytheon’s 1,300 suppliers are small businesses and it is questionable whether these small businesses will be able to absorb the potential cuts. If these entities cannot stay open, then companies like Raytheon, who depend on them, will have a large problem.³¹ Because of the lengthy process there is to obtain the right credentials to make a certain part, it would be virtually impossible for Raytheon to find a new supplier.³² This could mean that entire assembly lines shut down and our defense industry would be left very vulnerable.³³

The defense affects are not only direct in nature; there are also significant indirect effects. These include declines in revenues for the state and greater vulnerability to Base Realignment and Closure (BRAC). It has been noted “for each \$1 in DOD spending reductions for military equipment, an additional \$2.64 in sales losses will be experienced by other businesses with 71 percent of these lost sales occurring as a result of decreased consumer spending by workers directly and indirectly affected by these DOD spending reductions – workers having lost their jobs and/or experienced salary reductions.”³⁴ The revenue that these workers generate is invaluable to our economy. Fort Hood alone has a \$25 million impact on the state’s economy.³⁵ Cuts to defense could also significantly weaken some military installations to the point that they cannot survive their next BRAC round. As a result of this hearing, the committee understands that “through any base closure or loss/reduction in defense contracts, the state could lose the benefit of sales tax revenue generated by the defense contractors and military workers in a community. Furthermore, ancillary businesses may be negatively affected or even forced to close as a result of a closure to a military base or the loss of defense jobs at a base as a whole.”³⁶

Aside from the economic impact of cuts to defense, there could also be a severe impact on our state’s security. The Texas National Guard is billion-dollar entity; \$800 million of which comes directly from the federal government.³⁷ Majority of the equipment used by the Texas National

Guard is federally owned and maintained. If helicopters, HMVEES, and planes are not properly maintained, the Guard will be unable to effectively protect the state. Due to reduced funding, the Guard may be forced to cut training and missions to save costs.³⁸ This places the entire state in jeopardy. When there is a natural disaster like the Bastrop Fires or a large event like the Super Bowl, the Guard is there to help mitigate the situation. Without proper training and equipment, the Guard cannot adequately serve the state. Sequestration could literally leave us defenseless.

CONCLUDING REMARKS

In creating this committee, Speaker Straus' goal was to be proactive, rather than reactive to a potential federal sequester. Although more details are unknown rather than known at this time in regards to sequestration, the committee accomplished the goal of taking a proactive look at the landscape of our state and how it could be affected. This committee served to shed light on what could not only be a fiscal problem, but what would most certainly be an economic problem. Members learned about both the direct and indirect impacts of sequestration and what they could mean to the State of Texas and her citizens. Due to the postponement of sequestration and a lack of definitive detail regarding cuts at this time, it is the committee's recommendation that each entity potentially impacted by sequestration continue to monitor the federal government's actions and prepare as best they can in the event that the sequester does occur.

In closing, the committee would be remiss if it did not issue a warning regarding the potential pitfalls of becoming too dependent on the federal government. The situation we find ourselves in with sequestration should serve as a cautionary tale to consider carefully how much we expand programs on the state level utilizing federal dollars. As recent events demonstrate, the federal government could pull funding at any time and Texas would be left to deal with the ramifications.

APPENDICES

Appendix A

General Land Office

Program	Federal Agency	Cuts
Coastal Management Program (CMP)	National Oceanic and Atmospheric Administration (NOAA)	\$8,000
Beach Watch	U.S. Environmental Protection Agency (EPA)	\$400,000
Coastal Erosion Planning and Response Act (CEPRA)	U.S. Fish and Wildlife Service (USFWS) and U.S. Army Corp of Engineers (USACE)	FY13 cuts not anticipated; future cuts possible
Texas Coastal Ocean Observation Network (TCOON)	U.S. Army Corp of Engineers (USACE)	FY13 cuts not anticipated; future cuts possible
Veterans Nursing Homes	Department of Veterans Affairs (VA) and Centers for Medicare & Medicaid Services	none
FEMA Disaster Recovery Funding (Project Worksheets)	FEMA	none anticipated
Disaster Recovery	U.S. Department of Housing and Urban Development (HUD)	none anticipated
Coastal Impact Assistance Program (CIAP)	U.S. Fish and Wildlife Service (USFWS)	none anticipated
Gulf of Mexico Energy Security Act (GOMESA)	Bureau of Ocean Energy Management, Regulation and Enforcement	none anticipated

Department of Housing and Community Affairs

Program	Cuts
Providing housing assistance	300 fewer households
Homelessness prevention, utility assistance, weatherization, and other poverty services	134,000 fewer households or persons
Emergency Solutions Program	8,614 fewer persons
HOME Investment Partnerships Program	136 fewer households
Section 8 Housing Choice Voucher Program	180 fewer households
Weatherization Assistance Program	463 fewer households
Comprehensive Energy Assistance Program	24,033 fewer households
Community Services Block Grant Program	101,035 fewer persons
Colonia Self-Help Program	197 fewer households

Department of Agriculture

	Program	Program Description	Requested 2014-15	8.2% Reduction	Impact of Reductions
1	Texas Community Development Block Grant Program (TxCDBG)	Infrastructure grants to non-entitlement cities and counties	118,585,176	(9,723,984)	<p>HUD has reduced funding 26% over previous 2 years. With an estimated \$9 million additional decrease in funds received from HUD for the TxCDBG Program, it is anticipated that approximately twenty (20) fewer grant awards will be able to be made by TDA to rural Texas communities. These projects assist communities to replace aging and deteriorated water and sewer infrastructure, reconstruct streets that pose a threat to public safety, and boost rural economic development and assist counties in their efforts to plan and coordinate infrastructure for their growing low-to-moderate income populations.</p> <p><i>Suggested Action: TDA Rider 33 - Colonia Set Aside provides a set amount (\$2M) that must be set aside for colonia programs,</i></p>

					<i>TDA proposes to adjust the rider to instead require that a percentage be directed to colonia programs to maintain a constant proportion of funds as the fund amount changes.</i>
2	Fresh Fruit and Vegetable Program	Helps schools create healthier environments by providing free fresh fruits and vegetables to students in participating elementary schools. The goal is to improve children's overall diet and create healthier eating habits to impact their present and future health.	16,152,236	(1,324,483)	Decreased funds would result in fewer schools able to offer the program therefore fewer students would receive fresh produce. On average, \$50/student is allotted to operate the program. Based on estimated funding losses, 26,890 fewer Texas students would benefit from the program.
3	Emergency Food Assistance Program	Assists food bank to distribute USDA-donated commodities to emergency feeding organizations such as food pantries, soup kitchens and housing authorities. These organizations supply the commodities to participants through prepared meals that are served on-site and food packages that may be consumed at	12,086,489	(991,092)	Decreased funds would result in fewer goods received by qualified participants. Approximately 2,221,206 fewer pounds of food would be distributed based on an anticipated funding cut of 8.2%.

		home.			
4	Specialty Crop Block Grant Program	Increase the competitiveness of specialty crops (fruits, vegs, tree nuts), primarily through grants focused on plant health, value added/industry development, food safety, marketing/education & nutrition.	3,701,553	(303,527)	A reduction in funds would result in ~6 fewer grants funded by TDA.
5	Market Protection and Promotion	This cooperative agreement with USDA-AMS funds the Pesticide Data Program to collect and analyze data on pesticide use and residue levels for selected commodities in the nation's food supply. This program provides statistically based data to state and federal agencies for use in making policy decisions for regulatory and educational purposes.	2,558,525	(209,799)	A reduction in funding would reduce the number of PDP samples (produce at the food distribution level) collected and tested for pesticide residues. This would decrease the amount of food safety monitoring data available to states and federal agencies.
6	Plant & Animal Disease	This cooperative agreement with USDA-APHIS-PPQ provides funding for road station and market blitz inspections of plant shipments and plant products imported into the state from	2,312,071	(189,590)	A reduction in funding would reduce the number of road station inspections conducted of plant shipments into the state, which may increase the potential for introduction of

		other states, in an effort to safeguard the public and agriculture from the introduction and establishment of plant pests and diseases.			harmful plant pests and diseases. Pest introductions could lead to plant pest infestations that may affect homeowners, agriculture and limit export capabilities.
7	Farmers Market Nutrition Program	Allows qualified participants to buy nutritious fresh fruits and vegetables using vouchers from participating farmers' market associations.	2,226,542	(182,576)	Decreased funds would result in fewer vouchers for nutrition foods provided to qualified participants.
8	Small Rural Hospital Program (SHIP)	Pass-through funds from HRSA are distributed to small rural hospitals for assistance in implementing data systems.	2,153,946	(176,624)	A reduction of this size could negatively impact over 100 rural hospitals in their efforts to comply with enhanced electronic record-keeping and reporting requirements due as early as 2014.
9	Pesticide Enforcement Program	This cooperative agreement with EPA funds inspections and other activities to achieve compliance with Texas Pesticide Law, Structural Pest Control Act and the Federal Insecticide, Fungicide and Rodenticide Act. TDA ensures that pesticide users are adequately trained and licensed to attain compliance and maintain the ability to protect people and the environment from any adverse effects of pesticide use while	1,663,594	(136,415)	A reduction in funding would result in fewer pesticide and worker protection inspections conducted to verify compliance with state and federal pesticide laws. Fewer inspections may increase the risk that pesticides are being distributed and/or applied inconsistent with pesticide laws and regulations or that agricultural workers may not be protected

		maintaining the availability of pesticides for beneficial uses.			from adverse impacts of certain pesticides. Also, a reduction in funding would reduce staff participation in federal trainings and meetings with EPA.
10	State Rural Hospital Program (Flex)	Funds provide a variety of services to 81 Critical Access Hospitals to improve quality and access.	1,401,326	(114,909)	Decrease in number of educational programs offered to Critical Access Hospitals, e.g. elimination of online education classes for healthcare professionals seeking to fulfill continuing education/licensing requirements. Presently this program serves over 10,000 healthcare professionals serving in 80 rural hospitals who accessed nearly 31,500 courses.
11	Grants to the state for Operations of the State Office of Rural Health (SORH)	SORH funding assists the state with maintaining a focal point for rural health and helps develop long term solutions to rural health problems such as the following programs: Match state and community dollars to support health professional students who will serve the sponsoring community, provide continuing education to healthcare personnel, and	325,750	(26,712)	In order to maintain certain functions of the State Office of Rural Health, a decrease in this amount would necessitate the elimination of a program that provides on-site training to nurses in rural hospitals focused on the most needed and current nursing techniques, issues, and protocols.

		develop training programs for rural hospitals related to ICD-10 (medical classification standards).			
12	Senior Farmers Market Nutrition Program	Allows qualified participants to buy nutritious fresh fruits and vegetables using vouchers from participating farmers' market associations.	242,600	(19,893)	Decreased funds would result in fewer goods received by qualified participants.
13	State Trade & Export Promotion (STEP)	Competitive grant received by TDA which allows TDA to conduct inbound and out bound trade missions that increase exporting opportunities for Texas products. (EX: Outbound trade mission to China)	219,248	(17,978)	Funding decrease would decrease trade missions and business impacted.
14	Plant & Animal / Fire Ant	This cooperative agreement with USDA-APHIS-PPQ funds inspections and survey activities for the red imported fire ant, a quarantined pest at the state and federal level.	148,011	(12,137)	A reduction in funding would reduce the number of inspections for fire ants at nurseries and the number of areas surveyed for the presence of fire ants in the state. This would increase the potential for the spread of the fire ant to noninfested areas of the state and may affect export certification of plant shipments to other states.

15	Federal-State Marketing	Competitive grant received by TDA to educate and inform producers on best packaging, handling, storage and labeling practices for small-sized producers of meat, egg, dairy, fruit and vegetables in Texas to create uniformity and quality assurance for products sold at farmers markets and local retailers.	85,176	(6,984)	Because this is a competitive grant, the agency has not been awarded funding for 2014/2015 - but a reduction to this program at the federal level would result in fewer funds available for future state awards.
16	Market Access Program	Small business support to assist with international marketing and promotion	30,000	(2,460)	Funding decrease would reduce ability to assist with trade events promoting Texas businesses.
17	Plant & Animal / GYPSY Moth	This cooperative agreement with USDA-APHIS-PPQ funds a pest survey for gypsy moth (a quarantined pest at the state and federal level that damages certain trees) in order to detect the pest if introduced into the state. The goal of the detection survey is to safeguard homeowners and agriculture from the damage caused by gypsy moth through a regulatory response.	26,450	(2,169)	A reduction in funding would result in fewer traps being set and monitored for the detection of gypsy moth in high risk areas of the state - increasing risk of undetected infestation of gypsy moths that cause damage to affected trees in nurseries, forests, and urban landscapes.
18	Market News Reports	Contract with USDA Ag Market News Service to provide reimbursement for a market news reporter in Dalhart, TX. News	22,000	(1,804)	The current funding level supports reporting from 110 auction events over the 2-year period. This cut would likely

	is used for price discovery that would not otherwise be known to all producers.		reduce the number of auctions reported on to 101.
Totals		163,940,693	(13,443,137)

Department of Public Safety

Program Name	CFDA Number	12-13 Biennium	'13 FTE's	14-15 Biennium	Assumptions
HS Cluster--Metro Medical Response System (MMRS)	97.067.071	9,675,563		1,000,000	N/A
Impact Statement: Subsequent to 2011, separate funding was not identified for the MMRS program. 13 jurisdictions were eligible for this funding. The program supported the integration of emergency management, health, and medical systems into a coordinated response to mass casualty incidents caused by any hazard. For 2012, this is an allowable expense for SHSP and EMPG funds					
HS Cluster--State Homeland Security Program (SHSP)	97.067.073	70,040,641		39,410,313	10.9% reduction to 2013 award
Impact Statement: No impact to existing awards. Reduction of \$1.7 million from 2012 levels (\$15,820,512 x10.9%). 80% of this grant is passed through to local jurisdictions. The 2012 SHSP funds reflect a 72% reduction from the 2010 levels. Further reductions in these funds erode regional and local jurisdictions ability to sustain/maintain capabilities to prevent, protect from, mitigate against, respond to and recover from man-made, technological and natural threats. Funding is also not available to enhance critical capabilities such as interoperable communications. With the past reductions, Councils of Governments are already finding it difficult to maintain regional planning efforts.					
Rail & Transit Security Grant	97.075	2,239,011		0	N/A
Impact Statement: The 2008 funds were the last transit grant funds that passed through the State. Since then these grants are awarded directly to the transit authorities through a competitive process.					
Buffer Zone Protection Plan (BZPP)	97.078	6,536,379		0	N/A
Impact Statement: Grant program was last funded in 2010. Funding assisted jurisdictions in building effective prevention and protection capabilities that will make it more difficult for terrorists to conduct site surveillance or launch attacks within the immediate vicinity of selected CIKR assets.					
Emergency Operations Centers	97.052	4,685,041		250,821	N/A
Impact Statement: Separate funding for the EOC grant program was discontinued in 2012. This was a competitive program. Expenses are eligible under the EMPG grant.					
Regional Catastrophic Grant	97.111	7,477,871		750,000	N/A
Impact Statement: Separate Funding for Regional Catastrophic Planning was discontinued in 2012. Houston received this grant from 2009-2011 and significantly enhanced planning for prevention, protection, mitigation and response to a catastrophic event as a result.					
H S Border Interoperability Demonstration Program	97.120	1,628,854		0	N/A
Impact Statement: One-time grant awarded for the Rio Grande Valley Border Interoperability Regional Demonstration Projecct. Goals of the project include improving communication along the border by providing expanding coverage, filling gaps and providing seamless coverage; and allowing distribution of text messages via radio to multiple border crossings simultaneously					

Program Name	CFDA Number	12-13 Biennium	'13 FTE's	14-15 Biennium	Assumptions
Interoperable Communications Grant	11.555	11,895,820		0	N/A
Impact Statement: One-time grant awarded 2007; fully expended State Fiscal Year 2012					
Urban Area Security Initiative UASI (non profit)	97.008	1,129,587		150,000	10.9% reduction to 2013 award
Impact Statement: This is a competitive grant program. The amount available for the whole nation was \$10 million for 2012 of which Texas received \$353,253. This grant program funds targeted hardening and other physical security enhancements and activities to nonprofit organizations that are at high risk of a terrorist attack and are located within one of the UASI-eligible urban areas. We anticipate the amount available nationally to be reduced by 10.9%.					
Interoperable Communications	97.055	3,028,001		0	N/A
Impact Statement: Grant program was last funded in 2010. Allowed the state to move forward to address some of the gaps in the statewide interoperable communications.					
Homeland Security Grant	97.067	21,513,165		0	N/A
Impact Statement: Grant Program was consolidated into the Homeland Security Cluster					
HS Cluster--Urban Area Security Initiative	97.067.008	206,695,442		77,961,099	10.9% reduction to 2013 award
Impact Statement: No impact to existing awards. Reduction of \$4.3 million from 2012 levels (\$39,479,214 x 10.9%). 95% of these funds are passed through to 3 Urban Area Security Initiatives (Houston, DFWA, and San Antonio). The 2012 UASI funding reflects a reduction of 51% from 2010 level and a decline of 5 funded UASIs to 3. These 3 UASIs will be unable to sustain the capabilities they have built to prevent, protect against, mitigate, respond to and recover from acts of terrorism. The two UASIs that are no longer funded are already experiencing this challenge.					
HS Cluster--Citizen Corp Program (CCP)	97.067.053	1,642,749		177,826	N/A
Impact Statement: Subsequent to 2011, separate funding was not identified for the Citizen Corp Program. For 2012, this is an allowable expense under SHSP and UASI grant programs					
HS Cluster--Operation Stone Garden	97.067.067	35,257,344		27,880,538	10.9% reduction to 2013 award
Impact Statement: This is a competitive grant program. A total of \$46.6 million was available nationally for 2012 of which Texas was awarded \$15,688,532. This program is not excluded from reductions, so we expect the amount available to be competed to be reduced by the 10.9%. These funds support joint operations along the international border including coastal waters.					

Department of Transportation

Program	Subject to Cuts (Dollar figures nationwide)**
General Fund transfer to the Highway Account of the Highway Trust Fund in October 2012	\$471M
Federal Highway Administration Budget Authority Exempt from obligation authority (traditionally a portion of Equity Bonus)	\$56M
Federal Highway Administration Emergency Relief Program	\$136M
TIGER program (Discretionary Funds)	\$41M
Federal Transit Administration administrative expenses	\$8M
Federal Transit Administration Capital Investment Grants	\$156M
Federal Transit Administration Research	\$4M

**Based on the historical percentage of funds Texas contributes to federal transportation spending, TxDOT estimates that about 8% of the cuts to FHWA will be taken from Texas. This would be an estimated \$40 to \$50 million cut to the level of federal assistance to Texas in FY 2013.

Office of the Attorney General

CFDA Number	Federal Fund Program Name	Subject to sequestration per Guidance	Comments
16.738.005	Financial Investigation Grant	PROBABLY	No exemption identified in OMB Report.
16.543.002	Internet Crimes Against Children (ICAC)	PROBABLY	No exemption identified in OMB Report.
16.800.000	Internet Crimes Against Children (ICAC) - ARRA	N/A	Grants ends 3/31/13
95.000.023	Money Laundering Initiative - Houston High Intensity Drug Trafficking Area (HIDTA)	PROBABLY	No exemption identified in OMB Report.
95.000.021	Money Laundering Initiative - Southwest Border High Intensity Drug Trafficking Area (HIDTA)	PROBABLY	No exemption identified in OMB Report.
16.609.003	Project Safe Neighborhood Pass Through	N/A	OAG was not awarded new grants in AY2013
93.563.000	Child Support Enforcement	NO	Per Vicki Turetsky, Commissioner of the Federal Office of Child Support on 10/11/12, federal matching and incentive funds are exempt. Also see OMB Report, Appendix A, pg. 72.
93.564.007	Child Support-Help Establishing Responsive Orders to Ensure - Support for Children in Military Families (HEROES)	NO	Per Vicki Turetsky, Commissioner of the Federal Office of Child Support.
93.564.009	Child Support-Urban Fathers Asset Building Project	NO	Per Vicki Turetsky, Commissioner of the Federal Office of Child Support.
93.564.000	Non-Custodial Parent Choices - Parent Education Employment and Responsibility	NO	Per Vicki Turetsky, Commissioner of the Federal Office of Child Support.
93.597.000	Grants to States for Access and Visitation Programs	NO	Per Vicki Turetsky, Commissioner of the Federal Office of Child Support on 10/11/12, federal matching and incentive funds are exempt. Also see FFSI Special Analysis, pg. 10.
16.576.000	Crime Victim Compensation	YES	OMB Report, Appendix B, pg. 86 and FFSI Special Analysis, pg. 8.
93.991.000	Preventive Health Services	YES	OMB Report, Appendix B, pg. 50.
93.136.003	Rape Prevention Education	YES	OMB Report, Appendix B, pg. 50.
93.775.000	State Medicaid Fraud Control Unit	YES	OMB Report, Appendix A, pg. 76.

SOURCES:

1) OMB Report Pursuant to the Sequestration Transparency Act (STA) of 2012, Sept. 2012. NOTE: The OMB Report provides only preliminary estimates and classifications for FY 2013 and actual results could differ based on changes in law and ongoing legal, budgetary, and technical analysis.

2) Federal Funds Information for the States, BCA: Where Things Stand Now, Special Analysis 12-03, October 15, 2012.

NOTE: The OAG analysis provided above is preliminary and is subject to change as new information becomes available.

Appendix B

Program (dollars in millions)	FY 2013 CR
Medicaid – Vendor (E)	\$17,508
Food Stamp Benefits (E)	5,832
Pell Grants (E)	2,523
National Highway Performance (C/E)	1,792
Title I Grants to LEAs (C)	1,395
School Lunch (E)	1,335
Special Education (C)	987
CHIP (E)	968
Surface Transportation Program (E)	824
Medicaid Admin. (E)	694

Appendix C

Program (dollars in millions)	FY 2013 CR
Title I Grants to LEAs	\$1,395
Special Education	987
Head Start	565
WIC	552
FTA – Capital Investment	272
Rehabilitative Services	250
Child Care & Development BG	244
Community Development BG	217
Improving Teacher Quality	201
Public Housing Operating Fund	165

Appendix D

Potentially Impacted Key Programs	
Department of State Health Services	Department of Aging and Disability Services
<ul style="list-style-type: none"> ▪ Special Supplemental Nutrition Program (WIC) ▪ Substance Abuse and Mental Health Block Grants ▪ Public Health Emergency Preparedness ▪ HIV/AIDS Prevention and Services Programs 	<ul style="list-style-type: none"> ▪ Special Programs for the Aging Title III Nutrition and Support Services ▪ Title XX Social Services Block Grant- Guardianship Services and Community Care Services ▪ Title XVIII State Survey and Certification
Department of Family and Protective Services	Department of Assistive and Rehabilitative Services
<ul style="list-style-type: none"> ▪ Title IV-B Parts 1 and 2-Child Welfare Services/Safe and Stable Families ▪ Child Care and Development Block Grant ▪ Title XX Social Services Block Grant- Adult Protective Services 	<ul style="list-style-type: none"> ▪ Rehabilitation Services-Vocational Rehabilitation ▪ Special Education-Grants for Infants and Families- Early Childhood Intervention
Health and Human Services Commission	
<ul style="list-style-type: none"> ▪ Family Violence Prevention & Services 	

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- ⁷ Ibid.
- ⁸ U.S. Congressional Budget Office, (2012). *Economic effects of reducing the fiscal restraint that is scheduled to occur in 2013*. Retrieved from U.S. Congressional Budget Office website: http://www.cbo.gov/sites/default/files/cbofiles/attachments/FiscalRestraint_0.pdf
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