



Federal Sequester Compounds Budget Challenges in North Carolina:

Families, Small Businesses and Communities are Feeling the Pain of Austerity at Federal Level

BY ALEXANDRA FORTER SIROTA

It is not just decisions by state lawmakers that affect North Carolina communities, families and small businesses; decisions by the federal government are causing pain in our state as well. In recent months, North Carolina has had to contend with a series of across-the-board spending cuts required because Congress was unable to pass legislation to generate enough revenue to address the federal deficit, and these are hurting our state.

The federal government provides North Carolina with financial support to help educate our children, protect the public health of our residents, support our troops and build the infrastructure for a strong business climate and safe communities. But across the board cuts by the federal government – often referred to as sequestration – are compounding the pain of state level budget decisions.

Future across-the-board cuts to federal investments should be replaced with a more responsible mix of new revenue and targeted spending cuts so we can address the country's debt while not hurting our economy and communities.

Sequestration resulted from failure to find revenue

In 2011, the Budget Control Act (BCA), a historically unprecedented agreement that mandated more than \$2 trillion in spending cuts over 10 years, was passed in exchange for raising the amount of money the federal government is legally allowed to borrow to pay for its current obligations. This proposal was supported by both Democratic and Republican leaders in Congress and was signed into law by President Obama on August 2, 2011.¹⁹ The Budget Control Act reduces the deficit in two ways:

1. It cuts spending nearly \$1 trillion by capping the “discretionary” portion of the federal budget, which is the part of the budget that is controlled by the annual appropriations process, as well as ongoing funding for states and localities.
2. It created a bipartisan, bicameral Joint Committee on Deficit Reduction (often called the “Supercommittee”) to negotiate a plan to reduce the deficit by at least \$1.2 trillion.

In the event the Supercommittee was unable to achieve its target, the Budget Control Act required that the federal government make across the board cuts –

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known as a “sequester”— to all defense and most non-defense programs by the same percentage in order to meet the goal of cutting the deficit by \$1.2 trillion over the next decade. A few major programs such as Social Security, SNAP (food stamps), Medicaid, and the Supplemental Security Income (SSI) are exempt from the cuts. Because the Supercommittee failed to reach an agreement, the sequestration went into effect in March 2013.

In the debate over the next round of sequestration some members of Congress say they want to find a way to reduce the impact on defense spending. But, without new revenue, a shift of the cuts from defense to other programs would likely hurt the economy and increase poverty and inequality.

North Carolina has been hit by defense and non-defense across-the-board cuts

At the outset, the White House generated estimates finding that North Carolina could experience a reduction in Head Start jobs across the state, fewer child-care subsidies, loss of teachers in the classroom, fewer housing vouchers and meals on wheels programs for seniors and changes to public health and community development programs.²

The reality of what has been cut since sequestration took effect in March 2013 for the fiscal year 2013 and how it has affected the state is difficult to document.³ But there are some examples.

Fewer children can participate in early childhood programs

Head start is one of the federally-funded programs in North Carolina hurt by sequestration. The program helps children from low-income families from birth to age 5 to help make sure they are ready for kindergarten. Among the documented impacts are:

- In Alleghany County, the program ended one week early and reduced staff hours by nearly one month.⁴
- In Durham County, there were 50 fewer spots available to children in early childhood programs.
- At the Coastal Community Action Agency, the Head Start program lost \$300,000.⁵

Less affordable housing help

The Department of Housing and Urban Development funds a number of initiatives that help low-income families' get affordable housing and promote development in low-wealth communities. Sequestration has hurt housing voucher programs, public housing programs and community development block grant funding. Among the negative impacts for North Carolina are:

- Rental assistance to an estimated 2,816 low-income families was eliminated. In Wilmington, 250 families will not receive rental vouchers as a result of sequestration impacting those families and the rental market.⁶
- \$9.1 million was cut from public housing and \$1.4 million was cut from homeless assistance grants.⁷
- \$3.2 million was cut from community development block grant funding for North Carolina, reducing the ability to fund projects that seek to revitalize the state's most distressed communities.

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Reduction in dollars for low-wealth school districts

The federal government provides support to states' investment in public education by investing specifically in programs that seek to make the distribution of resources more equitable across communities. This funding includes Title I grants for low-wealth schools and IDEA grants for students with disabilities. Among the local cuts are:

- A total reduction of funds for North Carolina public schools of \$63 million.⁸ The Hickory Public Schools district, for example, will receive \$300,000 fewer dollars as a result of federal sequestration.⁹
- Funding will also be reduced for programs that support adult basic education at a critical time when many adults are working to complete their GED.

Fewer meals served to seniors

The meals on wheels program is funded with federal dollars and delivers meals to people in need, primarily seniors who would not be able to meet their daily nutrition needs without this support. The Meals on Wheels in North Carolina has been hurt by sequestration cuts:

- In the Piedmont Triad region, 1,050 meals for seniors were eliminated.¹⁰
- In North Carolina, group meal services for seniors at churches or community centers were cut by more than \$1 million.¹¹

In addition, there have been cuts to domestic violence programs¹², state parks and tourism¹³, work-study programs¹⁴, research and development funding¹⁵, and small business contracts¹⁶. Taken together, these federal sequestration cuts are undermining public services in communities across the state and weakening the state's economic recovery and the economic security of families.

National evidence that the sequester is creating an unnecessary drag on the economy

Prior to implementation, various researchers speculated that the sequester would hurt the economy by reducing public employment, eliminating private contracts, eroding the quality and reach of public services and depressing consumption of goods and services by everyday Americans. Today's economic recovery has been much slower than previous recoveries due to significant reductions in government spending as reflected in part by ongoing loss of employment in the public sector. Various economic analyses including by Macroeconomic Advisors LLC, Moody's Analytics, the Aerospace Industries Association and the Congressional Budget Office estimated the impact of the 2013 sequestration would reduce forecasted growth by more than a half a percentage point and cost within a range of 250,000 to 700,000 jobs through the end of 2014.¹⁷

More recent analysis by the Congressional Budget Office has found that cancelling the second round of sequestration would have a positive impact on productivity and employment. By the end of fiscal year 2014, 900,000 more people would be employed and Gross Domestic Product would be 0.7 percent higher.¹⁸

The next round of sequestration cuts should be replaced with new revenue

Recent deficit reduction efforts have primarily focused on spending cuts, rather than

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raising revenues. About 70 percent of deficit reduction to date was from spending cuts while just 30 percent was from new revenue, including ending the Bush era tax cuts on the wealthiest taxpayers.

The economic and human impact of the first round of sequestration cuts in North Carolina suggest just how significant a second round will be to the state's communities. On top of state level budget cuts, the decisions made at the federal level have the potential to stall the state's economic recovery.

As a result, a better, more balanced approach to deficit reduction would include new revenues, rather than additional sequestration.

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3. See here for existing sequestration impact trackers compiled by the Coalition on Human Needs and
4. See news article here: <http://www.wellsvilledaily.com/news/x609795289/Allegheny-County-Head-Start-absorbs-167-000-in-federal-cuts>
5. See news article here: <http://www.publicnewsservice.org/index.php?/content/article/31616-1>
6. See news article here: <http://m.wect.com/autojuice?targetUrl=http%3a%2f%2fwww.wect.com%2fstory%2f22302269%2fdespite-sequester-cuts>
7. Center on Budget and Policy Priorities, March 5, 2013. Estimated Cuts in Federal Housing Assistance and Community Development Programs Due to Sequestration, 2013. Accessed here: <http://www.cbpp.org/cms/?fa=view&id=3892>
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11. Meals on Wheels Program, <http://www.mowaa.org/document.doc?id=530>
12. See news article here: <http://www.digtriad.com/news/article/271094/1/Impact-Of-Sequester-On-North-Carolinians->
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17. Congressional Research Service, Sequestration: A Review of Estimates of Employment Impacts, accessed at: <http://journalistsresource.org/wp-content/uploads/2012/10/R42763.pdf>
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