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Congress Enacts Medicaid and Education Aid Urgently Needed by States

In the final days before adjourning for August recess, the Senate overcame opposition and passed a \$26.1 billion bill to provide needed aid to states for education and rising Medicaid costs. The House interrupted its recess to approve the measure on August 10, which was signed by the President the same day. The measures included in the bill are drawn from a series of proposals Democratic leaders have been working to pass this year to help prevent further job losses and spur economic growth. This task, despite continued high levels of unemployment and a still faltering economy, has proven difficult.

On August 5 the Senate passed H.R. 1586 by a vote of 61-39. The two Republican Senators from Maine, Susan Collins and Olympia Snowe, joined all Democrats in voting for the measure. The bill provides \$10 billion for education jobs and \$16.1 billion to extend for six months the increased federal Medicaid matching rate provided to states through the American Recovery and Reinvestment Act (ARRA). Without the extension the increased Medicaid matching rate would have expired on December 31, 2010. The additional aid to states comes at a critical time. A recent analysis by the Rockefeller Institute of Government shows that for the first time total employment by state governments has dipped below its

level at the start of the Great Recession (see full analysis: http://www.rockinst.org/newsroom/data_alerts/2010/08-10-govt_employment.aspx). A total of more than 300,000 state and local government jobs have been lost since August 2008, reports the Economic Policy Institute (EPI). H.R. 1586 is expected to help restore some of these losses. EPI estimates that the Medicaid funds will save 158,000 jobs, but more than half of these will be in the private sector. (See EPI paper: http://www.epi.org/economic_snapshots/entry/state_and_local_job_losses_threaten_recovery/.) The Department of Education estimates that the \$10 billion for education will save 161,000 educators' jobs. For a breakdown of education jobs saved by state see: <http://edlabor.house.gov/blog/2010/08/teachers-jobs-saved-by-hr-1586.shtml>.

To the dismay of advocates, H.R. 1586 is paid for in part by cutting short a boost in SNAP (food stamp) benefits provided in ARRA. Families would begin receiving reduced SNAP benefits in April of 2014. According to the Food Research and Action Center (FRAC) a family of four can expect its benefits to drop about \$59 a month. ARRA had been written to avoid a precipitous drop in SNAP benefits from one month to the next. The increased benefits were to continue until the automatic annual inflation adjustments in regular SNAP benefits increased their value to match the ARRA levels. Although originally it was estimated that this would occur in 2014, lower than expected inflation delayed the point at which the regular benefits would meet the ARRA levels to 2018. Stopping the ARRA SNAP levels generated \$11.9 billion to pay for H.R. 1586. Other offsets used to pay for H.R. 1586 include closing foreign tax credit loopholes, reducing prices paid for certain drugs by Medicaid programs, and making rescissions from previously appropriated programs. In order to secure the needed 60 votes, this bill changed the nature of the offsets from previous versions of the legislation. Certain tax breaks for corporations were allowed to continue, and cuts to navy spending said to adversely affect Maine shipbuilding were dropped from the bill.

Over 1,400 organizations from around the country have signed a letter to Congress voicing opposition to reducing SNAP benefits to pay for any other legislative priorities, regardless of the merits of those priorities. (See letter with current list of signers: http://frac.org/wp-content/uploads/2010/08/snap_offset_signers.pdf.)

House Speaker Nancy Pelosi reconvened the House, for a special session the week of August 9 to approve the increased Medicaid and education funding for states without delay. The House voted on the measure August 10, 247-161. Although House Members voiced concern over the SNAP cut, the House had no alternative but to vote for the Senate's bill in order to avert tens of thousands of school system layoffs just before the start of the new school year and to prevent Medicaid service and job cuts. Anti-hunger champions including House Agriculture Appropriations Subcommittee Chair Rosa DeLauro (D-CT) and House Hunger Caucus Co-Chair Jim McGovern (D-MA) vowed to seek the restoration of SNAP benefit levels before the cut takes effect.

Other pending job measures advocates hope will pass when Congress reconvenes in September are an extension of the TANF Emergency Fund and funding for jobs for youth. Without an extension the TANF Emergency Fund program, which has allowed states to create more than 240,000 temporary subsidized jobs, will expire at the end of September. A potential vehicle for the remaining job measures is the stalled small business loan fund bill; another is the package of extensions of popular tax cuts that many in Congress would like to revive. However, the future of all these provisions is still uncertain as a minority in the Senate can tie up legislation and the remaining days for action in September are few.

Showdown on Taxes Looms

When Congress returns from summer recess in September, members will debate the future of the 2001 and 2003 Bush tax cuts which expire at the end of 2010. The stakes are high as Congress must decide which provisions will be allowed to expire, which will be extended and whether the extensions will be permanent or temporary. Perhaps the most contentious issue will be whether to extend tax breaks for the wealthiest two percent of taxpayers. Separating facts from myths about the impact on small businesses will be important. Advocates want to include in the tax bill a permanent extension of improvements in refundable credits critically important to low-income families that were made in the American Recovery and Reinvestment Act (ARRA) in 2009.

The 2001 and 2003 tax cut bills signed into law by President Bush included changes in income tax brackets, capital gains and dividends, the so-called 'marriage penalty,' the estate tax, and the Child Tax Credit (CTC). Key changes were made to the income tax brackets in the 2001 law adding a new 10 percent bracket, maintaining the 15 percent bracket and lowering the 28, 31, 36, and 39.6 percent brackets to 25, 28, 33, and 35 percent respectively. In 2003, the maximum capital gains rate was lowered from 20 to 15 percent and the maximum rate on dividends was lowered from 39.6 to 15 percent. Beginning in 2003, the standard deduction for married couples filing jointly increased from 1.67 times that for single filers to twice as large. Changes made in the 2001 law called for a gradual reduction in the maximum estate tax rate to 45 percent in 2009 with the exemption increasing to \$3.5 million (or \$7 million for a couple). (Note that the *effective* estate tax rate is much less than 45 percent because of tax strategies widely used in planning estates.) As called for in the law, in 2010 the estate tax was allowed to be repealed. Most in Congress believe the estate tax should be retained but agreement could not be reached on the exemption level or the rate. If Congress does not act, in 2011 the estate tax would revert back to the 2001 tax cut law setting the exemption level at \$1 million per spouse and a maximum rate of 55 percent.

The CTC was raised from \$500 to \$600 per child in 2001 and to \$1000 in 2003. The refundable portion of the child tax credit available to low-income families with no or limited income tax liability was increased from 10 percent to 15 percent of earnings exceeding \$10,750 in 2003. But every year the minimum earnings threshold increased based on an inflation adjustment. A substantial change was made in ARRA, allowing all earnings over \$3,000 to be counted in calculating the credit. A family working full-time at the minimum wage with two children currently receives a child tax credit of about \$1750. If Congress does not act to extend the ARRA improvement in its tax bill, the same family will receive less than \$250 because the credit would revert back to being calculated at 10 percent of inflation-adjusted earnings exceeding \$12,850. The child tax credit provides a strong work incentive and reduces poverty. If the improvement expires, 600,000 more children would fall into poverty and, according to the Tax Policy Center, 8 million children would lose their credit entirely and 10 million more would lose some of it.

ARRA also improved the Earned Income Tax Credit (EITC) which is intended to supplement low wages and reduce the tax burden on low-income workers. The law increased the amount available to families with three or more children and reduced the 'marriage penalty' by increasing the amount received by married couples. Currently it seems likely that the change in the marriage penalty will be included in the tax bill, affecting 8.7 million children. There is less of a consensus in Congress around including the additional amount available for families with more than two children, but advocates are working to include the provision.

The estate tax has long been contentious. In recent years attempts by estate tax opponents to repeal the tax or make it even more generous to beneficiaries have failed. At the same time, many advocates prefer a lower exemption than \$3.5 million per spouse as was law in 2009 and a rate higher than 45 percent for very large estates. In June, Senators Harkin (D-IA), Sanders (I-VT) and Whitehouse (D-RI) introduced The Responsible Estate Tax Act, S. 3533, which maintains the 2009 exemption level and rate for estates valued at less than \$10 million and taxes those between \$10 million and \$50 million at a 50 percent rate and estates above \$50 million at a 55 percent rate with an additional surtax of 10 percent for estates worth more than \$500 million (\$1 billion for couples). The legislation also contains provisions to protect family farms and small businesses. Many in the advocacy community have come together to support this compromise approach to taxing wealth that might otherwise totally escape taxation.

President Obama is proposing to make permanent the 2001 and 2003 tax cuts that apply to those individuals with earnings under \$200,000 and couples with earnings of less than \$250,000 – 98 percent of all taxpayers – allowing them to continue paying the rates they currently pay on income tax, capital gains and dividends. He would permanently extend the ARRA improvements in the CTC and EITC, and he supports maintaining the 2009 estate tax rate, with the \$3.5 million/\$7 million exemption level adjusted in future years for inflation. Both the House and Senate have adopted a paygo rule which says that tax bills must be deficit-neutral. However, Democrats in both chambers have voted overwhelmingly to waive the paygo requirement for the extensions supported by President Obama, except they would extend the estate tax for two years, not permanently. In addition, they had voted to waive the paygo requirement for EITC marriage penalty relief, but not for the increase for families with more than two children. Like the President, most Democrats support letting the top two income tax brackets revert back to 36 and 39.6 percent and restoring the capital gains and dividend rates for those with earnings exceeding \$200,000/\$250,000. Wealthier taxpayers would, however, also benefit under the President's plan because a portion of their income would be taxed at the lower 10, 15, 25 and 28 percent income tax rates.

Republicans are unified in their opposition to letting any of the Bush tax cuts expire. Their tax proposals over the last several years call for making permanent all of the Bush tax cuts. They have not expressed support for extending the CTC and EITC expansions in ARRA so many low- and moderate-income taxpayers would pay more under the Republicans' plan. In 2011, the richest one percent would still receive a generous tax cut under the President's plan. However, under the Republican plan their average tax cut would be \$54,600 larger. See the analysis by Citizens for Tax Justice which includes state-by-state figures at: <http://www.ctj.org/pdf/bushtaxcuts2010.pdf>. Extending tax cuts for the wealthiest two percent would only exacerbate the ever-widening gaps in income between the wealthiest Americans and everyone else and would add \$700 billion to the deficit over 10 years.

Arguments for maintaining the upper-income tax cuts coalesce around the theme that tax cuts for the wealthy are good for the economy, and that a large percentage of the upper income are small business owners who create jobs. Both arguments are lacking. Wealthy people tend to save rather than invest. Congressional Budget Office has rated extending the high-income Bush tax cuts as far less stimulative to the economy than increased aid to the unemployed, tax credits to create jobs, infrastructure spending, aid to states, and tax cuts for middle- and lower-income which includes 98 percent of taxpayers. The small-business argument is based on a distorted definition of small business owners which, in order to make the case, often includes partners in large firms, hedge fund managers, and even Fortune 500 members who have some business income for rental properties. Citizens for Tax Justice calculates that only 5 percent of taxpayers with the majority of their income from small businesses would be wealthy enough to lose *any* money under the President's plan. Further, small businesses do not pay taxes on wages and benefits paid to workers nor on business expenses, but solely on profits. Their hiring decisions are based on having

customers for the products they make, not on tax brackets. (See Citizens for Tax Justice Report at: <http://www.ctj.org/pdf/holtzeakin2010.pdf> .)

The Senate plans to act first on taxes in September and the House will follow. This quote from President Franklin D. Roosevelt seems apropos to the debate that will ensue, “The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”

**Pressure Mounts to Cut FY 2011 Domestic Appropriations;
Senate Labor-HHS-Ed Bill Approved in Full Committee**

Hopes were high when the President introduced his FY 2011 budget proposal last February. After years of erosion in funding levels for human needs programs, the Obama budget provided above-inflation increases for many education, health, social services, and housing programs, despite a budget that level-funded domestic appropriations overall. But the deficit fever gripping Washington caused the House and then the Senate to set total appropriations levels below the President’s in July. Not satisfied, Senators seeking more reductions threatened to deny the needed 60 votes for upcoming appropriations bills if spending were not further cut. Before the Senate left for the August recess, Majority Leader Harry Reid (D-NV) acknowledged that the funding set by the Appropriations Committee in July would have to be reduced by another \$6 billion in order to secure the votes to enact spending bills later this year.

Total appropriations (aka “discretionary spending”), even with an anticipated lower number in the Senate, will still exceed regular appropriations for FY 2010. However, economic recovery funds worth hundreds of billions of dollars were approved for FY 2010, with far less recovery money expected to be spent in FY 2011. That makes it likely that the federal government will spend less on discretionary items next year than in FY 2010. With many signs that the economy is losing steam, increasing numbers of economists are recommending more federal spending, not less.

Adding together all forms of regular appropriations (not counting economic recovery or emergency funding), \$1.090 trillion is being spent in FY 2010. The President proposed spending about \$46 billion more on comparable items in FY 2011 than in FY 2010. The House would spend \$31 billion more, and the Senate, if it makes the additional cut expected by Majority Leader Reid, will spend \$18 billion more.

	Total Approps.	Domestic/Internat’l	Military/Security
FY 2010	\$1.090 T	\$462.4 B	\$627.3 B
Obama FY11 Budget	\$1.136 T	\$485.4 B	\$650.6 B
House FY11	\$1.121 T	\$477.5 B	\$643.5B
Senate FY11*	\$1.108 T	\$471.97B	\$642.3B

*The Senate total assumes the further \$6 billion cut to attract 60 votes. But the domestic/international and military/security columns are based on the previous total, \$1.14 billion.

Labor-HHS-Education in the Senate. The full Senate Appropriations Committee approved FY 2011 spending levels for Labor-HHS-Education on July 29. The Committee provides \$169.6 billion for these departments, the amount allocated to them when the total for appropriations was expected to be \$1.114 billion; some share of the \$6 billion cut below this level may have to be subtracted from the amount passed by the Committee. The funding priorities in the Senate Committee bill differed some from the

President's. The Senate provides \$300 million more than the President's request for the Department of Health and Human Services, but \$937 million less than the President for the Department of Education. The Senate bill only provided about half of the President's request for new funding to pay for its Race to the Top education initiative. The House Labor-HHS-Education Subcommittee has finished work on its bill, providing \$176.4 billion, or \$6.8 billion more than the Senate's proposal. The House full committee has not yet acted.

Appropriations (In)Action. The full House has passed two Appropriations bills (Military Construction-VA and Transportation-HUD). The Senate has passed none, although its full Appropriations Committee has approved nine of its bills, while the House full Committee has only finished work on the two appropriations bills it passed. It has long been recognized that Congress will have to pass a Continuing Resolution (CR) with a temporary extension of discretionary funding to allow government programs to continue operating after October 1, the start of the new fiscal year. In the last two election years, appropriations were not finalized for four or five months into the fiscal year, creating long stretches in which programs had to operate with flat funding and program managers could not plan for any new initiatives. This year, the CR may extend into November, where final action on a combined omnibus spending bill would be slated for a lame duck session. However, if the composition of Congress changes substantially in the election, there may be no stomach to take action on a big spending bill until the new Congress takes office, leading to another CR likely to extend for a few months into the new calendar year. Such a scenario would increase the chances of further cuts below the President's budget request.

Senate Passes Child Nutrition Reauthorization Bill

On August 5 just hours before beginning its summer recess, the Senate passed by voice vote the Healthy, Hunger-Free Kids Act of 2010 (S.3307). Since the Agriculture Committee first reported the bill out of committee in May, the stumbling block to moving it forward has been paying for the \$4.5 billion in improvements in the 10-year reauthorization bill. The impasse was broken when Agriculture Committee Chairwoman Blanche Lincoln (D-AR) and Ranking Member Saxby Chambliss (R-GA) agreed to replace the \$2.2 billion cut to the Environmental Quality Incentives Program (EQIP) in the committee bill, opposed by environmental and conservation groups, with a cut to future benefits in the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps). The bill that passed the Senate also eliminated a reduction in WIC funding present in earlier versions. The Senate bill also includes a \$1.3 billion cut in the SNAP nutrition education program to offset the bill's cost.

The \$2.2 billion in SNAP money would reduce SNAP benefits in future years, taking away some of the increase enacted in the American Recovery and Reinvestment Act (ARRA). Earlier on August 5, the Senate also took \$11.9 billion from the ARRA increase in SNAP benefits to help pay for aid to states in a bill that passed the Senate and later the full Congress. (See article in this *Human Needs Report*.) The SNAP cut providing some of the funding for state aid will reduce benefits for a family of four by \$59 in 2014; under the Senate child nutrition bill, the SNAP cut would take effect in 2013. The double hit to SNAP is deeply troubling to anti-hunger advocates.

S. 3307 takes a number of important steps forward to ensure that low-income children have access to child nutrition programs and receive the meals they need. The Child and Adult Care Food Program (CACFP) at-risk afterschool program, currently available in 13 states, would be expanded to all 50 states. The bill also simplifies the application process for free meals for students, and will allow 115,000 more children to qualify for free school meals by certifying them as eligible if they are enrolled in Medicaid.

The legislation increases reimbursement rates for the National School Lunch Program and gives the Secretary of Agriculture the authority to establish national nutrition standards for all food sold on the school campus through the school day, assuring greater food quality. The bill also simplifies administration of the Summer Food Service Program.

On July 15, the House Education and Labor Committee passed its version of the child nutrition reauthorization, The Improving Nutrition for America's Children Act (H.R. 5504), which contains these same provisions and makes a number of other improvements not in the Senate bill. (See article in the July 26 *Human Needs Report*.) The House has not yet identified offsets to pay for the \$8 billion in improvements in its bill.