

Initial Assessment of the Impact of the President's Proposed FFY 98 Budget on California

February 7, 1997

The President released his proposed fiscal year 1998 budget Thursday. The following briefing summarizes key provisions with a California impact.

Welfare Reform:

The President's budget proposes four changes easing the impact of the provisions of the welfare reform bill affecting legal immigrants;

- Restoring SSI and Medicaid eligibility for immigrants who become disabled after entering the US;
- Eliminating the restrictions on Medicaid and SSI eligibility for "qualified" immigrant children;
- Extending the refugee/asylee exemption from 5 to 7 years; and
- Delaying the implementation of the Food Stamp provisions from April 1, 1997 to September 3, 1997 to allow additional naturalization.

Together, these provisions will cost \$14.6 billion over the next five years and \$1.7 billion in FFY 1998.

A number of new and extended tax breaks for businesses that hire welfare recipients and for businesses in distressed areas are proposed in the budget. These will cost the federal government \$3.3 billion over the next six years.

Medicaid/Medi-Cal

As part of his effort to balance the budget by 2002, the President reintroduces his proposal to impose a per capita cap on Medicaid spending. Few details are currently available regarding this proposal. Prior versions, however, had a particularly severe impact on California. California suffers under a per capita cap since the state's current level of spending per beneficiary is extremely low in comparison to other states. If the cap is imposed based on current state spending, California would be held to a much lower level of spending than would other states. Since California has already taken many of available savings measures (selective contracting, introduction of managed care), the state would have few avenues available to achieve savings if federal spending failed to keep pace with health care inflation.

Tax Changes

In total, the budget includes \$88.2 billion in tax cuts between 1997 and 2002, offset by \$48.7 billion in extensions and revenues anticipated from stepped up enforcement efforts, and \$15.7

billion in corporate 'loophole' closures. The bulk of the revenue loss (\$46.7 billion) comes from the proposed tax credit for families with children up to age 12. A credit of \$300 per child would be allowed for years 1997-99 with a credit of \$500 allowed in future years. The President's education tax provisions would cost an additional \$36.2 billion. The largest single tax increase comes from the extension of the recently expired surtax on airline tickets (\$34.5 billion).

Bay Delta Water Accord

The budget funds the first of three installments pledged to implement the Bay-Delta water accord with proposed funding of \$143 million.

Defense/NASA

The NASA budget is cut by \$209 million over the current budget years, with Defense spending slated for a \$7 billion reduction. This reduction is significantly larger than the cut recommended by the Joint Chiefs of Staff, portending significant controversy on the Hill. California still receives a significant and disproportionate share of defense and NASA procurement dollars.

Education and Training

The budget authorizes \$4 billion in additional spending for K - 12 education, postsecondary education, Head Start, and employment training. Based on current shares of funding, California would receive an additional \$23.7 million in JTPA funds and \$12.2 million in Dislocated Workers Assistance.

Federal Emergency Management Agency (FEMA)

The President proposes \$51.7 million for flood relief and levee upgrades in response to the recent floods throughout the Central and Sacramento Valleys.

Thanks to the National Immigration Law Center, California Institute for Federal Policy Research, and Citizens for Tax Justice. CBP has additional details available on the President's tax proposals and Medicare reductions and will be researching other aspects of the President's proposals over the upcoming weeks.