

# **The Federal Budget Debate:** *Implications for California and its Communities and Families*

---

---

March 15, 2005

California Budget Project: The Changing Face of  
California

Judith Solomon

Center on Budget and Policy Priorities

[www.cbpp.org](http://www.cbpp.org)

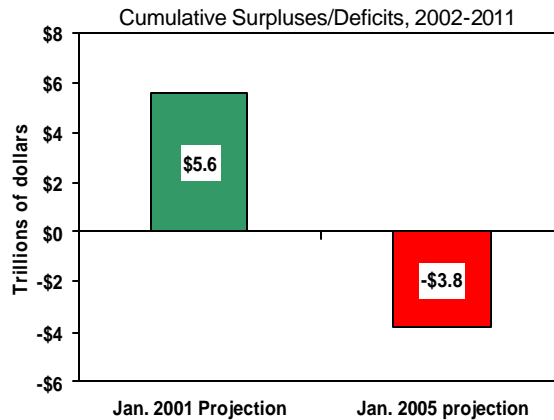
## **Backdrop to this Year's Federal Budget Debate**

---

---

- Concern over large federal budget deficit
- Interest in extending tax cuts and possibly enacting further tax cuts
  - No Administration/Congressional leadership support for raising revenue
- Administration and Congressional interest in “restraining spending”

## Opportunity Lost: \$9.4 Trillion Swing from Surplus to Deficit in Just 4 Years



*Note: The January 2001 projection is the Congressional Budget Office baseline from that time. CBPP's January 2005 projection adds to the current CBO baseline a number of new likely costs, such as the extension of the Bush tax cuts, AMT relief, and funding of the President's budget request for defense. We also adjust the baseline to reflect a continuation and gradual phase-down of operations in Iraq and Afghanistan.*

3

Center on Budget and Policy Priorities; last revised Feb. 18, 2005.

## Revenues Fall to Historic Lows

- As a share of the economy, federal revenues in 2005 are projected to be lower than the average level in the 1950s.
  - In the 1950s, Medicare, Medicaid, Food Stamps, EITC, and many other public services *did not exist*.
- Revenues are expected to grow modestly over the decade. But, even ten years from now, federal revenues are projected to remain lower than the average levels in the 1960s, 70s, 80s, and 90s, assuming the tax cuts are extended.

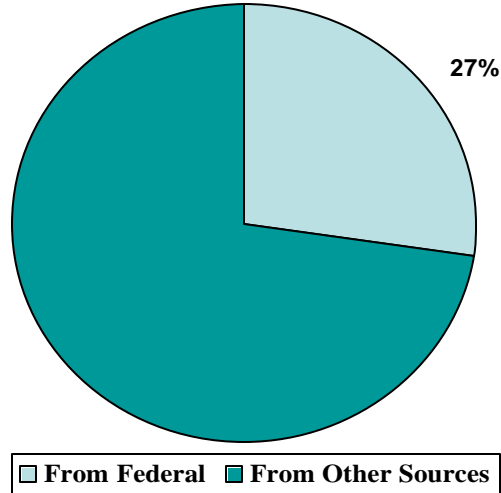
*Source: Projections based on data from the Congressional Budget Office.*

4

Center on Budget and Policy Priorities; last revised March 2, 2005.

## States Depend on Federal Funding

State General Revenue

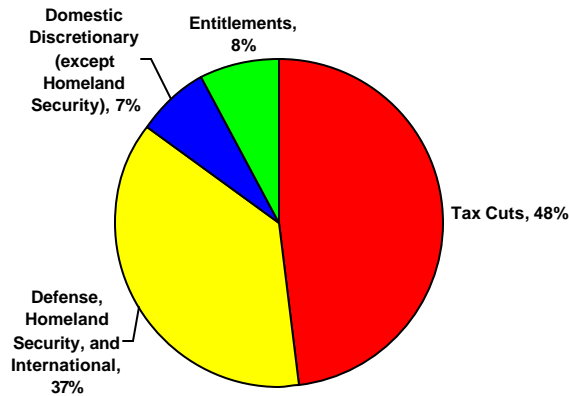


Center on Budget and Policy Priorities; last revised March 2, 2005

5

## Legislation Adding to Deficits: Mostly Tax Cuts & Defense

Cost in 2005 of legislation enacted since January 2001

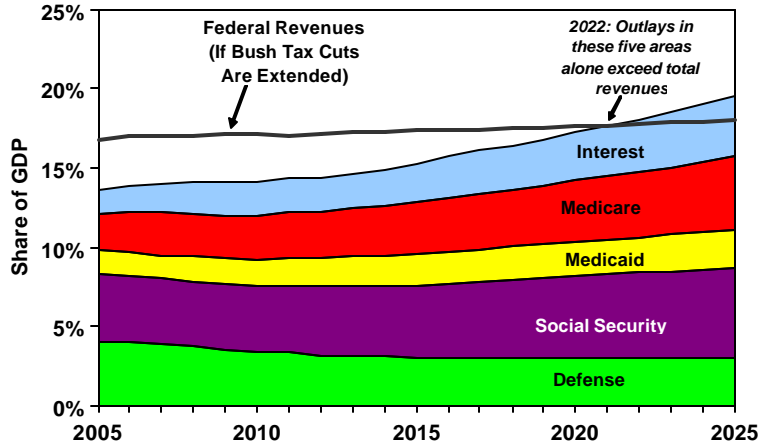


Source: CBPP calculations from Congressional Budget Office data. Reflects costs above an adjusted CBO current services baseline.

Center on Budget and Policy Priorities; last revised Feb. 3, 2005.

6

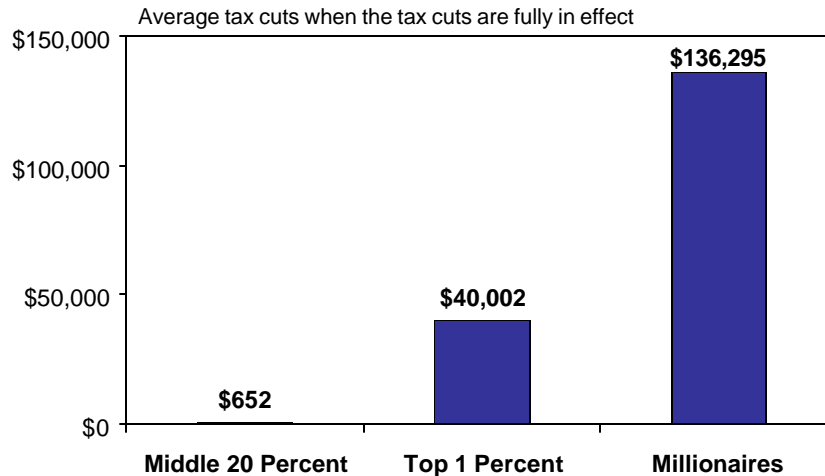
## Most Domestic Programs Could Get Squeezed Out of the Budget



Source: CBPP long-term estimates consistent with September 2004 Congressional Budget Office baseline, as adjusted for continuation of tax cuts, CBO path for phase-down in Iraq and Afghanistan, and full funding of the Pentagon's Future Year Defense Plan.  
Center on Budget and Policy Priorities; last revised March 1, 2005

7

## Who Benefits from the Tax Cuts?



Note: The estimates assume the policies in 2010, when all provisions of the tax cuts are fully in effect, are applied in 2004. Figures are for the middle 20 percent and top 1 percent of all U.S. households.

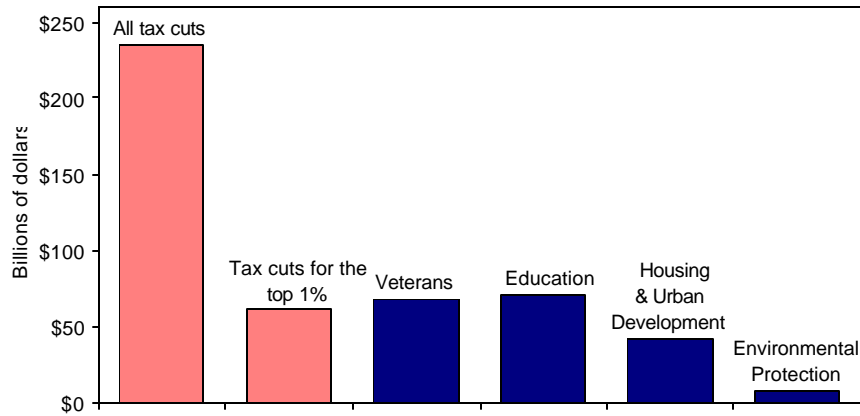
Source: Urban Institute-Brookings Institution Tax Policy Center

Center on Budget and Policy Priorities; last revised Jan. 27, 2005

8

## Putting the Tax Cuts in Perspective

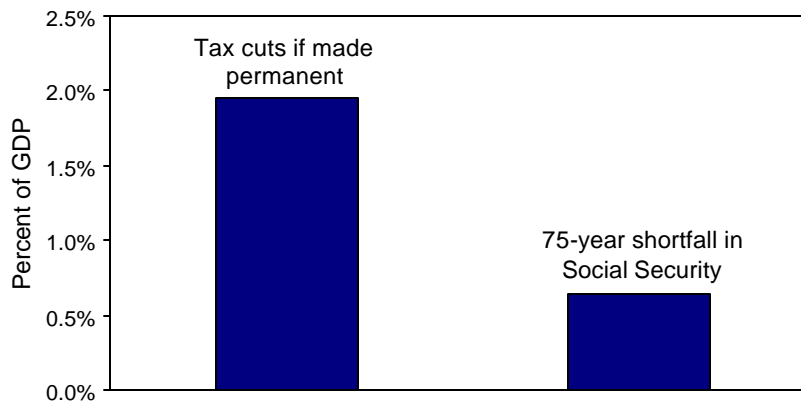
Annual cost of the tax cuts compared with federal agency budgets



Note: The figure for the tax cuts represent the annual cost when fully effective (including AMT relief) of the 2001 and 2003 tax bills, scaled to the size of the economy in 2005. Agency budgets represent outlays in 2005.

Center on Budget and Policy Priorities; last revised Feb. 18, 2005

## The Tax Cuts and Social Security: Costs through the next 75 years



Note: The figure for the tax cuts represents the costs of the 2001 (EGTRRA) and 2003 (JGTRRA) tax bills. Estimates of the tax cuts assume that the tax cuts are extended as proposed by the Administration and include the additional cost AMT relief attributable to the 2001 and 2003 tax bills. The cost of the tax cuts is assumed to grow only with the economy after 2014. The Social Security estimate comes from the 2004 Trustees' Report. All figures are "net present values" of costs from inception through 2078.

10

Center on Budget and Policy Priorities; last revised March 1, 2004

## Budget Debate Timeline

---

- President’s Budget: Released **Monday, Feb. 7<sup>th</sup>**
- Congress has been holding hearings on President’s budget request
- **Early March:** House and Senate will develop their own “budget blueprint” called a budget resolution
  - This will set targets for overall discretionary funding and cuts in entitlements
- **April:** Budget Resolution completed
- **May-July:** “Reconciliation bill” to achieve cuts required in budget resolution
- **Spring/Summer/Fall:** Appropriations process

11

## What Would It Take to Balance the Budget While Preserving the Tax Cuts?

---

*To balance the budget by 2015 while making the tax cuts permanent, policy makers would have to:*

- |  |            |
|--|------------|
| Cut <b>Social Security</b> benefits by.....  | <b>46%</b> |
| <i>or</i>  |            |
| Cut <b>defense</b> spending by .....   | <b>68%</b> |
| <i>or</i>  |            |
| Cut <b>Medicare</b> by.....  | <b>65%</b> |
| <i>or</i>  |            |
| Cut <b>every other program</b> except Social Security, Medicare, defense, and homeland security by.... | <b>31%</b> |

12

## **President's Budget**

---

- Deep *cuts* in domestic “discretionary” programs
  - Education, local law enforcement, community development, environmental programs, HIV/AIDS treatment funds, medical research (*Many of these programs are grants in aid to states.*)
- *Cuts in Medicaid and food stamps*
- Large *cut* in *grants in aid* to states
- Additional “mandatory” cuts and increases in user fees
- New *Tax Cuts*/Permanent Extensions of Already Enacted Tax Cuts
  - \$130 billion over 5 yrs /\$1.6 trillion over 10 yrs
- *Increases in defense/homeland security*
- NO DEFICIT REDUCTION

13

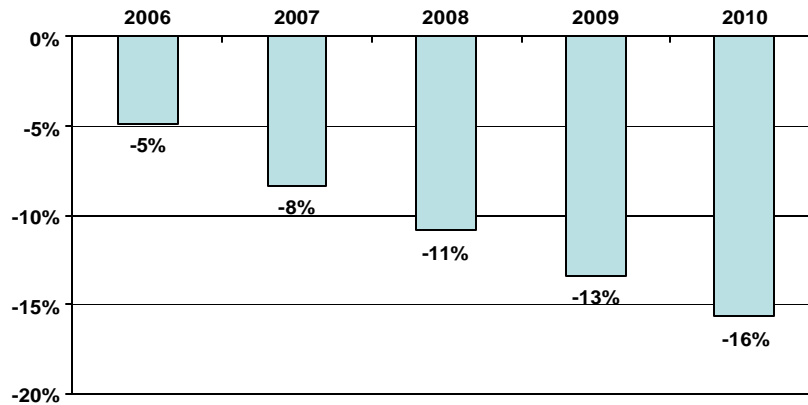
## **Domestic Discretionary Cuts**

---

- President's budget calls for \$214 billion in cuts to “domestic discretionary” programs over 2006-2010 period
  - programs that are appropriated each year, such as funding for education, environmental protection, housing, community development, HIV/AIDS treatment, FDA
- Cuts would grow deeper over time – reaching \$66 billion, or 16%, in 2010.
- Budget tries to conceal how cuts would be made after 2006, but back-up budget materials show that the Administration is proposing significant cuts in a wide array of program areas.

14

## Cuts in “Domestic Discretionary” Programs Get Deeper Over Time



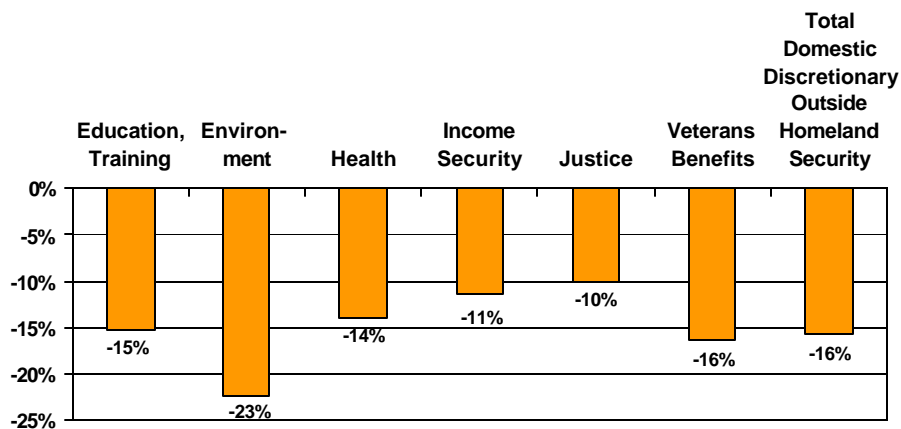
Note: To calculate funding cuts, the FY 2010 proposed funding levels are compared to the FY 2005 funding levels adjusted for inflation.

15

Center on Budget and Policy Priorities; last revised Feb. 8, 2005

## Bush Budget Calls for Deep Cuts in “Domestic Discretionary” Programs

Proposed real cuts in funding for discretionary programs in FY 2010



Note: To calculate funding cuts, the FY 2010 proposed funding levels are compared to the FY 2005 funding levels adjusted for inflation.

16

Center on Budget and Policy Priorities; last revised March 2, 2005

## Domestic Discretionary Cuts, cont.

- Using the back-up budget materials which show the Administration's proposed funding levels for 60 categories of domestic programs through 2010, the Center was able to *project* the level of cuts individual discretionary programs likely would face under Administration's budget plan.
  - Projections based on Administration relative funding priorities in 2006
  - Center computed estimated state-by-state impacts

17

### **Projected Cuts to Key Programs in California**

Program	Projected Cut 2010	Projected Cut 2006-2010
K-12 Education <small>(educ for the disadvantaged, special educ, impact aid, school improvement)</small>	\$523.8 million (12%)	\$1,219.8 million
Community Development	\$260.7 million (36%)	\$1,134.2 million
LIHEAP	\$7.6 million (8%)	\$10.1 million
WIC	\$81.0 million (8%)	\$113.3 million
Head Start & Child Welfare Services	\$143.5 million (13%)	\$415.3 million
<b>Overall Grants in Aid</b> <i>(Domestic Discretionary Programs Only)</i>	<b>\$3,094.8 million</b>	<b>\$10,034.5 million</b>

Source: CBPP Calculations based on OMB Budget documents and the most recent data available on the distribution of program funds by state. See Center report at [www.cbpp.org](http://www.cbpp.org).

## **Projected Cuts in Program Participants - CA**

*Assuming Funding Shortfalls are Addressed through Reduced Participation*

<b>Program</b>	<b>2010</b>
WIC	109,700
Child Care	29,600
Head Start	12,900
Rental Assistance	52,900

*Source: CBPP Calculations based on OMB Budget documents and the most recent data available on the distribution of program funds by state. See Center report released today at [www.cbpp.org](http://www.cbpp.org).*

19

## **President's Budget *Medicaid***

---

- Reduces federal funds for Medicaid by at least \$45 billion over 10 years
  - \$60 billion in cuts
  - \$15 billion in increased spending in Medicaid/SCHIP
- Cuts include:
  - Tightening how states finance the state share of Medicaid expenditures and a cap on administrative costs
  - Change in prescription drug pricing
  - Changes to policies on asset transfers for nursing home patients
- Budget also includes “modernization” proposal with few specifics
  - May mean that the Administration will support a cap on some Medicaid costs in exchange for state discretion on benefit package/eligibility criteria some beneficiaries, but makes no specific cap proposal.

20

## **President's Budget *Medicaid***

---

- Some proposals may be worth additional consideration.
- But, savings should be devoted to *helping states* meet Medicaid costs. If not, proposal could:
  - Shift *more* costs to states
  - Force states to choose between cutting their programs, raising taxes, or cutting other priorities to meet health care costs
  - *Increase* ranks of the uninsured and under-insured

21

## **President's Budget *Food Stamps and Child Care***

---

- Food Stamps: Budget proposes changing a state flexibility provision that allows states to align certain eligibility rules in food stamps and TANF funded programs, such as child care.
  - CT has used this flexibility to align rules with child care
  - Nationally, provision estimated to terminate food stamps to 300,000 people, most in working poor families
  - Limits CT's flexibility in the future
- Child Care: Administration's own budget documents show funding level will result in large decline in children receiving subsidies.
  - 300,000 fewer children will receive child care assistance in 2009 as compared to 2004 (estimate for CT: 2,000)

22

## The Congressional Budget Debate

---

Congress may:

- Seek *more deficit reduction*
- Seek *more cuts in entitlement programs* like Medicaid, Food Stamps, EITC, SSI, etc.
- Not accept certain cuts/fees Administration has proposed, such as:
  - Cuts in farm subsidies, prescription drug prices in Medicaid, new fees associated with PBGC and agricultural services, cuts in certain discretionary programs such as AMTRAK and veterans' health care
- Consider *caps on entitlement programs* and *discretionary programs* that lead to large cuts in the future

23

## The Congressional Budget Debate

### ~~Cuts to Entitlement Programs~~

---

Threats include:

- **Budget cuts through “reconciliation,”** a process in which Congress sets a multi-year deficit target and moves legislation on a fast track to make cuts in entitlement programs to meet that target. Large deficit reduction targets could lead to large cuts in programs.
- **Entitlement caps (or global spending caps)** that place an overall cap on the cost of a set of entitlement programs. Caps are set below projected costs and, thus, require cuts in a broad range of programs. Voted on by House last year, may be revisited this year in both the House and Senate. Sound benign – part of “reforming the budget process” – but lead to deep cuts in the future.
- **Block granting**, which typically leads to diminished funding over time.

24

Center on Budget and Policy Priorities: last revised Nov. 1, 2004

## **Federal Entitlement Programs**

---

Entitlement programs: Programs whose funding is *not* set each year through the appropriations process. Program costs typically rise and fall based on benefit costs and the number of eligible participants.

Examples: Medicare, Medicaid, EITC, farm programs, student loans, SSI, Food Stamps, Veteran's benefits, military/civil service retirement benefits, TANF

*Social Security* is an entitlement program, but special rules protect it from budget cuts that other programs may face this year.

25

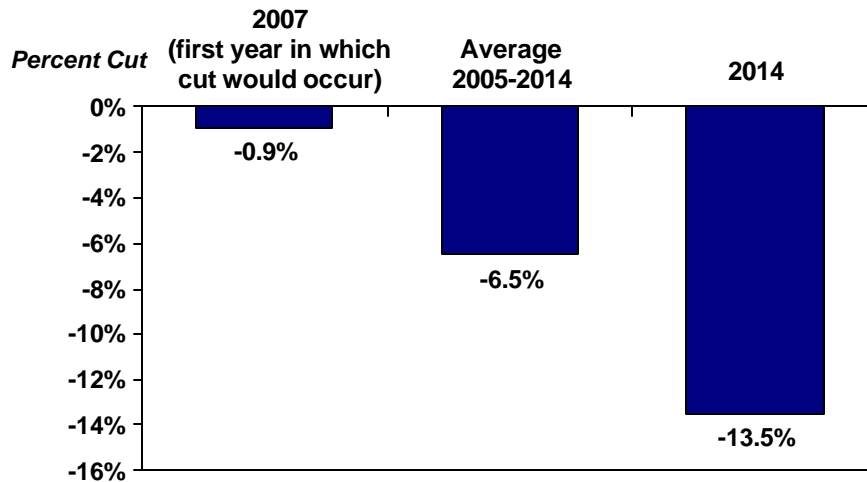
## **Impact of Kirk Entitlement Cap on Key Programs**

---

<b>Total Cuts over 10 Years</b>	<b>\$445 billion</b>
Cuts over 10 years if all entitlements except Social Security and Medicare are cut the same percentage*	
Medicaid	\$175 billion
Military retirement and disability (including retiree health benefits)	\$34 billion
Unemployment benefits	\$30 billion
SSI for elderly and people w/ disabilities	\$27 billion
Veterans' Benefits	\$22 billion
Earned Income Tax Credit/refundable Child Tax Credit	\$21 billion
Food Stamps	\$18 billion
TANF, child care, child support enforcement	\$15 billion
School lunch/child nutrition	\$10 billion
Student loans	\$4 billion
State children's health insurance	\$3 billion

\*Note: Lists cuts for select entitlement programs.

## Compounding Cuts from Kirk Cap (Average Cuts Required by Cap)



Source: CBPP calculations.

## The Congressional Budget Debate Medicaid Proposals

- Medicaid cuts are clearly on the table in the Congress.
- If Congress is trying to make large cuts in Medicaid, lawmakers may find a block grant or cap (perhaps on parts of the program) more attractive than:
  - Specifying which groups should lose Medicaid coverage
  - Specifying cuts to health care providers or drug companies
  - Specifying which health services should be cut
- If Medicaid is weakened, the number of uninsured and under-insured Americans will rise significantly

28

## **The Congressional Debate** ***Domestic Discretionary Programs***

---

- President calling for deep cuts
- Congressional debate:
  - 2006 Overall Funding Level
  - How to slice the “pie” in 2006
    - Some administration proposals (de-funding Amtrak, education cuts, law enforcement) will be unpopular
    - If “pie” is set at President’s levels, then other programs will have to be cut deeper
  - **Discretionary Caps**
    - President has called for 5 year statutory caps set at his proposed discretionary funding levels
    - Caps “lock in” discretionary funding levels

29

## **Consequences of Unbalanced** **Approach to Deficit Reduction**

---

- Large cuts over time in programs that millions of Americans rely upon
- Increases in number of uninsured Americans
- Federal government may be unable to fulfill some core functions such as assuring drug safety, enforcing environmental rules, meeting transportation needs
- More cost shifts to states
  - Health costs
  - Community development
  - Law enforcement
  - Transportation
  - Environment

30

## **The Goal: *Balanced* Approach to Deficit Reduction**

---

- Deficit is a problem and needs to be addressed
- Balanced approach would include revenue increases and spending cuts
- Cuts would not fall disproportionately on low-income programs or states
- Balanced approach was taken in 1990 and 1993 by Presidents Bush and Clinton

31