

WHAT WOULD THE PRESIDENT'S PROPOSED BUDGET MEAN FOR CALIFORNIA?

President Bush released his \$3.1 trillion proposed budget for federal fiscal year (FFY) 2009 on February 4. The proposed budget calls for substantial reductions to domestic “discretionary” programs – those that are funded by annual federal appropriations other than those related to defense and international affairs – as well as cuts to Medicaid and Medicare. The reductions would affect millions of Californians who receive support from a variety of public services. A portion of these reductions would shift costs to the state level, which would worsen California’s already serious fiscal challenges. At the same time, the President proposes to extend tax cuts that would cost substantially more than the savings from his proposed program reductions. As a result, the President’s spending plan would further threaten the nation’s long-term fiscal outlook.

President Proposes Inadequate Funding for Discretionary Programs

The President proposes to fund domestic discretionary programs other than homeland security for FFY 2009 at \$20.5 billion below the FFY 2008 level, after adjusting for inflation.¹ The cuts would affect a broad array of public services including education, environmental protection, child care, and energy assistance for low-income families and the elderly. These proposed reductions come on the heels of multiple years of cuts to many of the same programs. Funding for domestic discretionary programs other than homeland security has fallen as a share of the economy since FFY 2005 and would be among the smallest shares in half a century if the President’s budget is enacted into law.²

Grants to states and local governments also have fallen when measured as a share of the economy. Proposed funding for all grant programs other than Medicaid for FFY 2009, which begins on October 1, 2008, is equal to 1.60 percent of the national gross domestic product (GDP). In contrast, funding for these grant programs equaled 1.99 percent of GDP in FFY 2001 (Figure 1). If FFY 2009 funding for these grant programs equaled the average share of the economy for FFYs 2001 through 2008

(1.94 percent), it would be \$50 billion, or 21 percent, higher than the proposed level.³

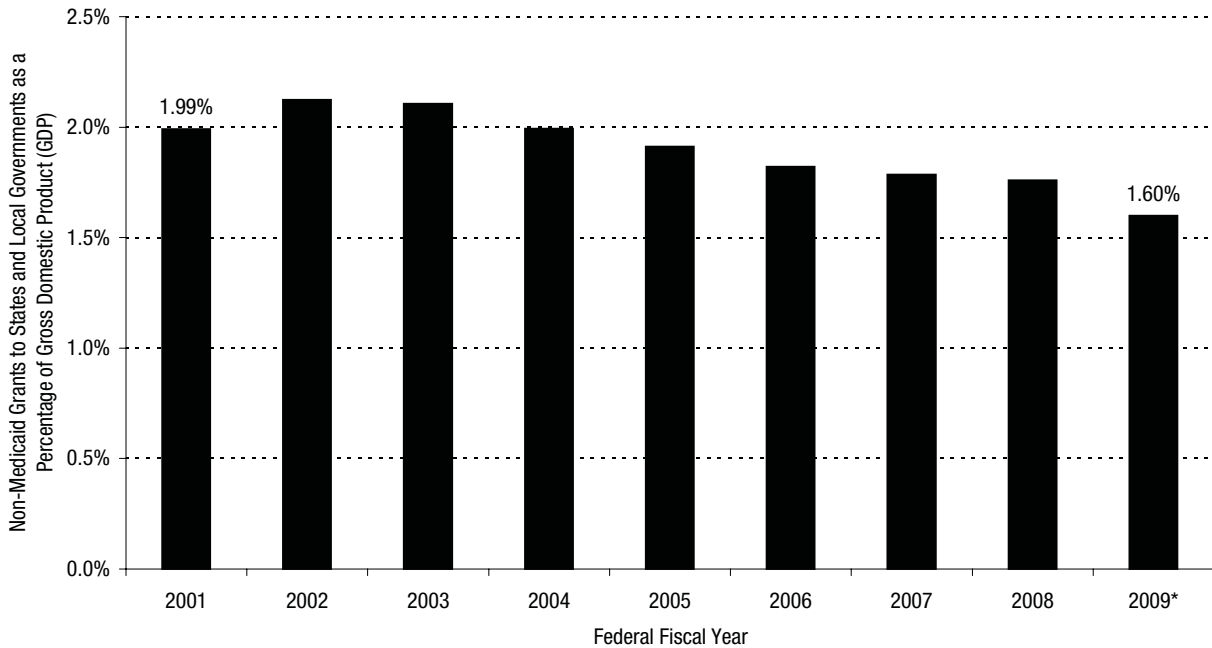
As a result of these cuts, California’s state and local governments would receive \$2.6 billion less in federal grant funding – other than Medicaid – in FFY 2009 than in FFY 2008, after adjusting for inflation. Grant funding received by California in FFY 2009 – much of which is discretionary – would be \$4.6 billion lower than in FFY 2003, after adjusting for inflation.

Proposed Federal Cuts Would Affect Education Programs in California

Federal funding for a number of education-related domestic discretionary programs in California would be reduced substantially under the President’s proposed budget. Specifically:

- Funding for vocational and adult education in FFY 2009 would be cut by \$139.5 million from FFY 2008 or by \$176.2 million from its FFY 2004 peak level, after adjusting for inflation.
- Funding for the Head Start Program would be reduced by \$111.8 million compared to FFY 2002, after adjusting for inflation.

**Figure 1: Non-Medicaid Grants to States and Local Governments Have Fallen
as a Share of the Economy Since 2002**



* Proposed grant levels; projected GDP.
Source: Center on Budget and Policy Priorities

- Funding for K-12 education would be \$786.2 million higher than in FFY 2001 – before No Child Left Behind was enacted – but \$399.6 million lower than the peak level in FFY 2004, after adjusting for inflation.

Proposed Federal Cuts Would Affect Programs That Assist Families and Children in California

Federal funding for a number of domestic discretionary programs that assist families and children in California would be cut substantially under the President's proposed budget. Federal dollars help states and local governments provide a range of public services, including, but not limited to, the programs discussed below. A reduction of the proposed magnitude would require cuts to service levels and/or an increase in state or local revenues to offset the proposed federal cuts.

The President proposes to reduce funding for the following programs that assist California's families, children, and seniors. Specifically:

- Funding for the Child Care and Development Block Grant in FFY 2009 would be reduced by \$4.4 million from FFY 2008 or by \$52.7 million from FFY 2002, after adjusting for inflation. This reduction would make it more costly for California to

comply with the federal work participation requirements for welfare-to-work participants enacted in 2006.⁴

- Funding for the Low-Income Home Energy Assistance Program, which provides home-heating assistance to low-income families and elderly individuals in California, would be reduced by \$17.8 million compared to the FFY 2008 funding level, or by \$80.0 million compared to the peak funding year of FFY 2002, after adjusting for inflation. The reduced funding level could result in 40,500 California households losing assistance in FFY 2009.
- Funding for the Environmental Protection Agency Clean Water State Revolving Fund, which provides funds to states for construction of wastewater treatment facilities and other projects to improve water quality, would be reduced by \$10.5 million from FFY 2008 or by \$78.1 million from FFY 2001, after adjusting for inflation.
- Funding for the Public Housing Capital Fund, which supports improvements to and maintenance of public housing, would be reduced by \$18.8 million compared to FFY 2008 or by \$67.0 million compared to FFY 2001, after adjusting for inflation.
- Up to 14,079 fewer California families could receive rental assistance through the Section 8 Housing Choice Voucher Program due to inadequate funding levels in the President's budget.

Proposed Federal Cuts in Human Service and Community Block Grants Would Affect Children and Families in California

The President would cut funding for several federal block grants supporting human service and community development programs administered by state and local governments. Specifically:

- Funding for the Community Services Block Grant (CSBG) would be cut, resulting in a loss to California of \$59.1 million from FFY 2008 or a \$65.1 million cut below the FFY 2001 funding level, after adjusting for inflation. The CSBG provides funds to community action agencies that support a range of services, including emergency housing, housing assistance, domestic violence services, and other services for underserved populations.
- Funding for the Community Development Block Grant (CDBG) would be cut, resulting in a loss of \$90.1 million compared to FFY 2008 or a \$304.4 million cut compared to FFY 2001, after adjusting for inflation. CDBG funds support a range of community development activities, primarily in local communities, including housing development, homelessness assistance, and economic development.
- Funding for the Social Services Block Grant (SSBG) would be reduced by \$60.5 million in FFY 2009, after adjusting for inflation.⁵ California uses SSBG funds to support Community Care Licensing, services for persons with developmental disabilities, and services for the deaf as well as to assist victims of Hurricane Katrina who reside in the state.

Proposed Spending Cuts Would Help Pay for Tax Cuts

In addition to substantial reductions in federal spending, the President proposes to permanently extend the tax cuts enacted since 2001. The cost of extending these tax cuts is much greater than the savings from the reductions in domestic programs proposed by the President. Repealing the estate tax alone would cost \$522 billion over 10 years.⁶ The massive tax cuts enacted during the President's first term not only affect resources available at the federal level but, in some instances, also have a direct impact on state revenues. For example:

- The phase-out of the federal estate tax will cost California more than \$1.1 billion in state fiscal year 2008-09. The 2001 federal tax package phased out the federal estate tax by 2010 and eliminated states' share of the tax beginning in 2005.
- State measures conforming California's income tax laws to changes in federal law that were enacted between 2001 and

2007 will cost the state \$94 million in state fiscal year 2007-08. The Legislature likely will consider additional provisions that would further reduce state revenues this year.

Proposed Medicaid Cuts Would Shift Costs to States, Put Vulnerable at Risk

In addition to the cuts in domestic discretionary programs, the President's budget includes reductions to the Medicaid Program. The President proposes \$18.2 billion in total cuts to the Medicaid Program between FFYs 2009 and 2013, primarily by shifting costs to states. This shift would worsen California's budget crisis. In addition to the cuts in the President's budget, the Administration also proposed new Medicaid rules – which would not require Congressional action – that would shift additional costs to states and put access to health care services at risk.

More than half (55.5 percent) of the proposed Medicaid cuts derive from shifting costs to states by reducing federal support for specific services and activities. For example, the Administration proposes to reduce federal matching dollars for family planning and case management services. It also proposes to reduce federal support for state administrative activities. The federal government historically has paid a large share of certain administrative costs – such as the cost of employing skilled medical professionals for Medicaid administration – because these activities are viewed as critical for states to run their Medicaid programs efficiently.

SCHIP Funding Level Is Inadequate to Support Current Enrollment

The President's proposed budget includes an additional \$19.7 billion over the next five years to support the State Children's Health Insurance Program (SCHIP). SCHIP funding supports California's Healthy Families Program, which provides low-cost health coverage to more than 850,000 children. The funding level proposed by the President is lower than the amount necessary to maintain current state programs, let alone cover additional children. Although the additional funding in the President's spending plan is considerably higher than the level he proposed last year, it is far less than the \$35 billion in additional support approved twice by Congress and vetoed by the President.

President Proposes Large Cuts to Medicare

A substantial portion of the cuts proposed by the President are for the Medicare Program. These cuts amount to \$556 billion over 10 years and will primarily affect hospitals and other providers of health care services to Medicare beneficiaries. In contrast, payments to managed care plans through the Medicare

Advantage program are not subject to these cuts. In fact, the President's proposals would continue to overpay these plans – which are currently paid an average of 13 percent higher than it costs to cover beneficiaries under traditional Medicare.⁷

David Carroll prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

- ¹ This *Budget Brief* is based on a paper by Sharon Parrott, et al., *Bush Budget Would Cut Domestic Discretionary Programs by \$20 Billion in 2009 Many Cuts Come on Top of Sizable Reductions in Recent Years* (Center on Budget and Policy Priorities: February 20, 2008).
- ² Sharon Parrott, et al., *Bush Budget Would Cut Domestic Discretionary Programs by \$20 Billion in 2009 Many Cuts Come on Top of Sizable Reductions in Recent Years* (Center on Budget and Policy Priorities: February 20, 2008).
- ³ Iris J. Lav and Phillip Oliff, *Federal Grants to States and Localities Cut Deeply in Fiscal Year 2009 Federal Budget* (Center on Budget and Policy Priorities: February 4, 2008).
- ⁴ See California Budget Project, *California's Response to Recent TANF Changes Should Preserve the Strengths of the CalWORKs Program* (May 2006).
- ⁵ The SSBG is considered a "mandatory" program; however, the President's budget proposes to reduce funding for the program and count the savings toward the discretionary side of the budget.
- ⁶ Robert Greenstein, James Horney, and Richard Kogan, *The Dubious Priorities of the President's Budget* (Center on Budget and Policy Priorities: February 4, 2008).
- ⁷ Medicare Payment Advisory Commission, *Report to the Congress: Medicare Payment Policy* (March 2008).