

The Federal Budget Outlook: *Implications for States, Communities, and Low-Income Families*

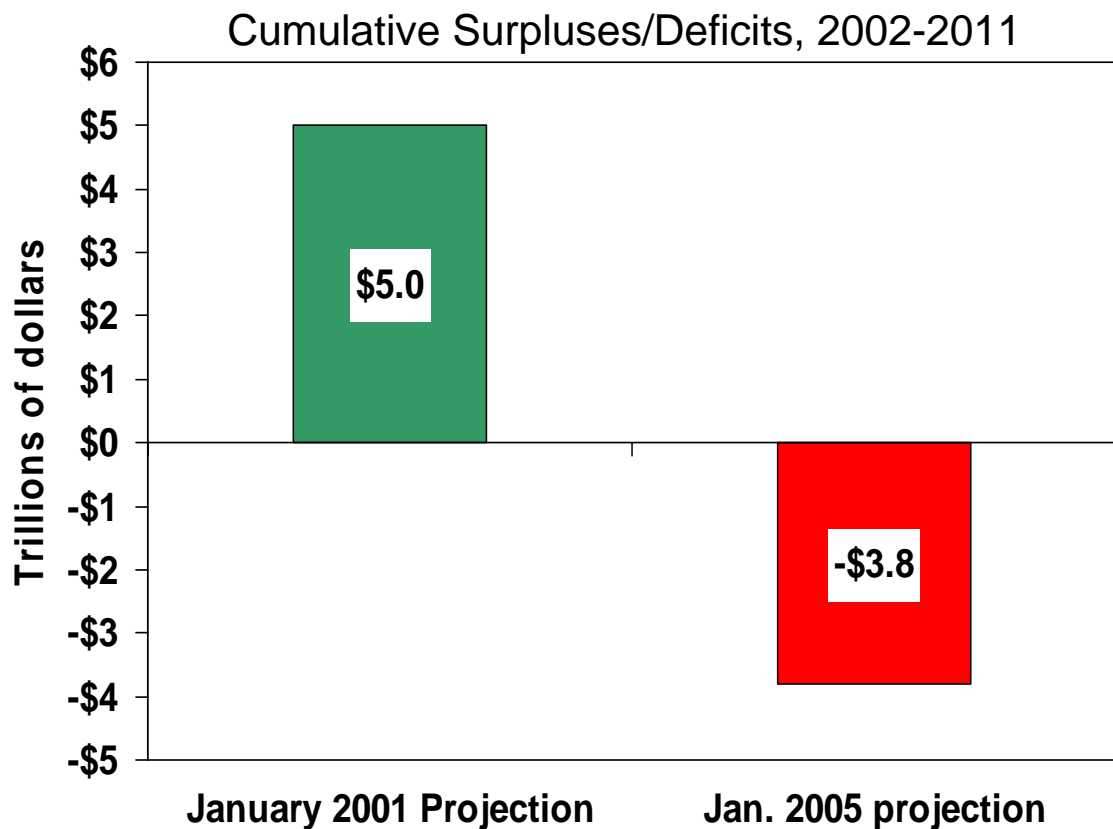
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Backdrop to this Year's Federal Budget Debate

- 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”

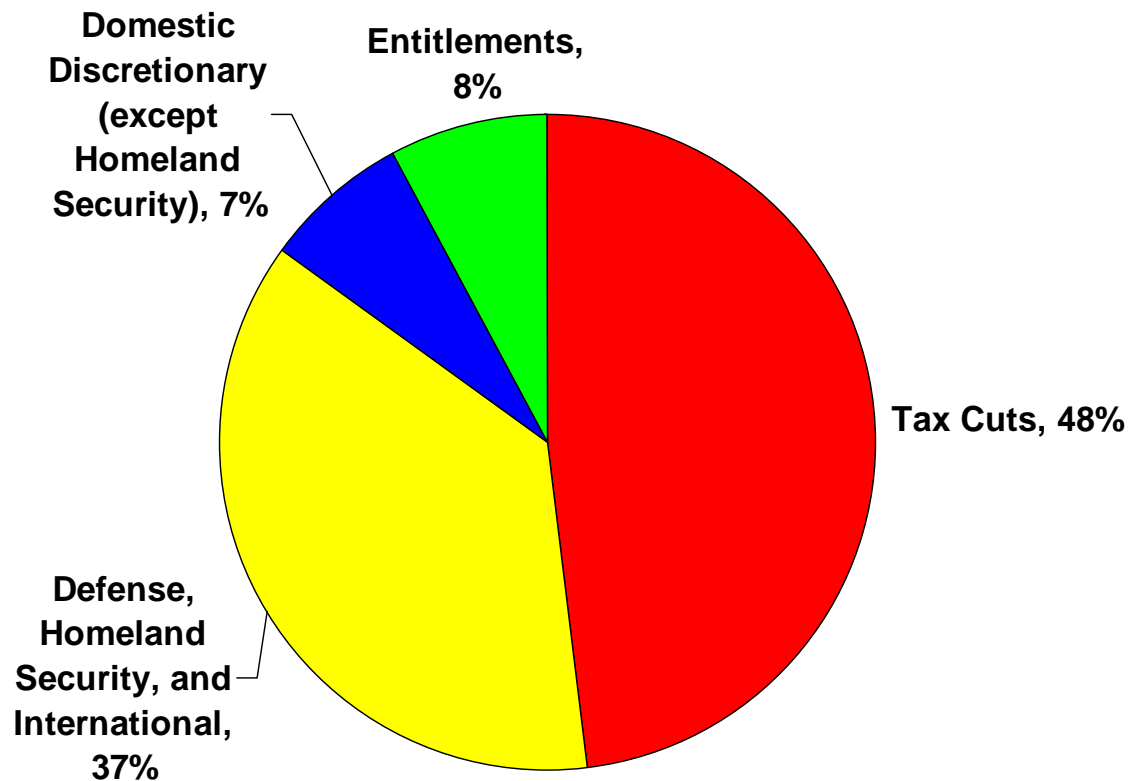
Opportunity Lost: \$8.8 Trillion Swing from Surplus to Deficit in Just 4 Years



Note: CBPP's January 2001 projection is the Congressional Budget Office baseline adjusted slightly for comparability. CBPP's January 2005 projection adds to the 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 phase-down of operations in Iraq and Afghanistan.

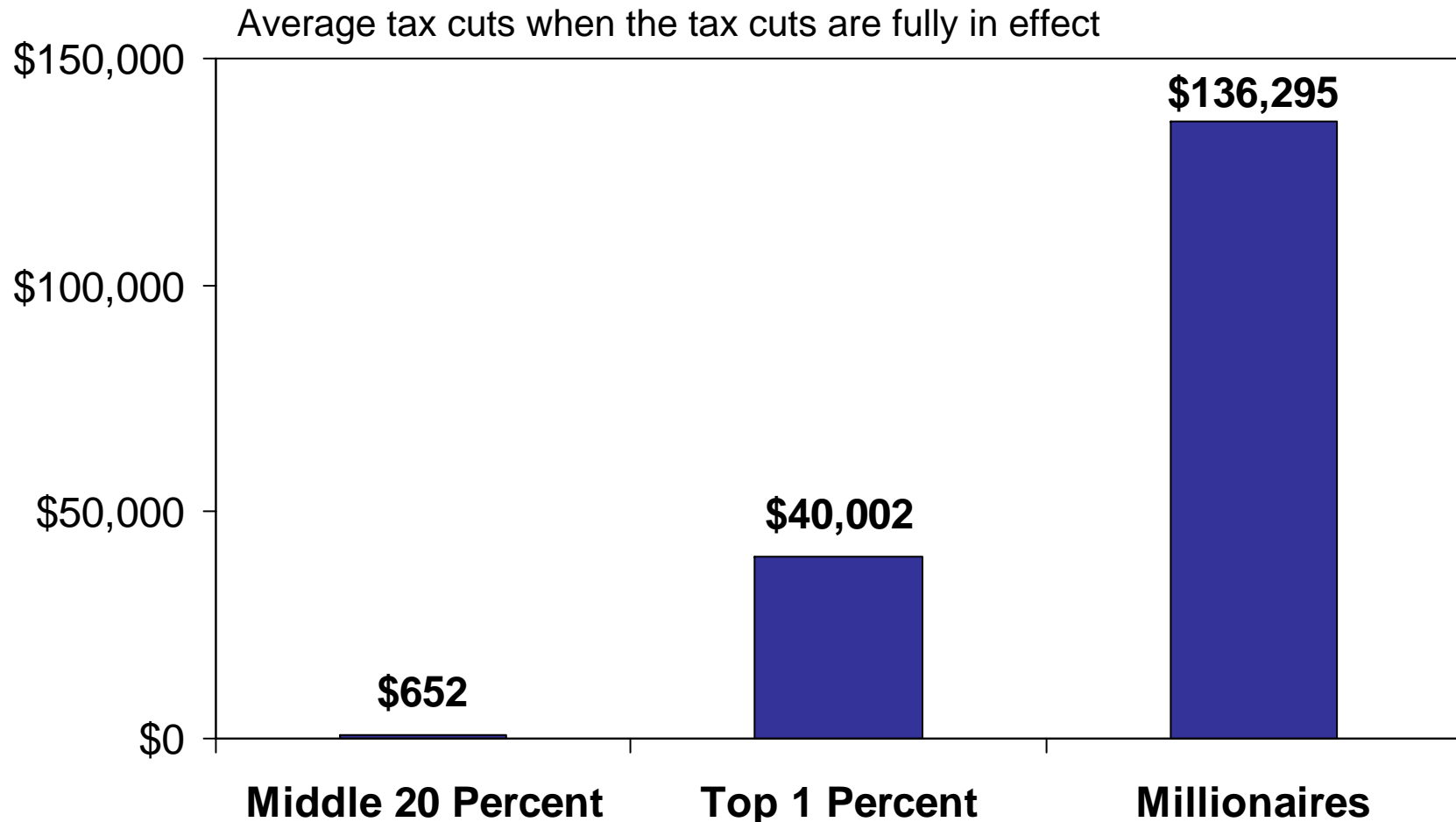
Legislation Adding to Deficits: Mostly Tax Cuts & Defense

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.

Who Benefits from the Tax Cuts?

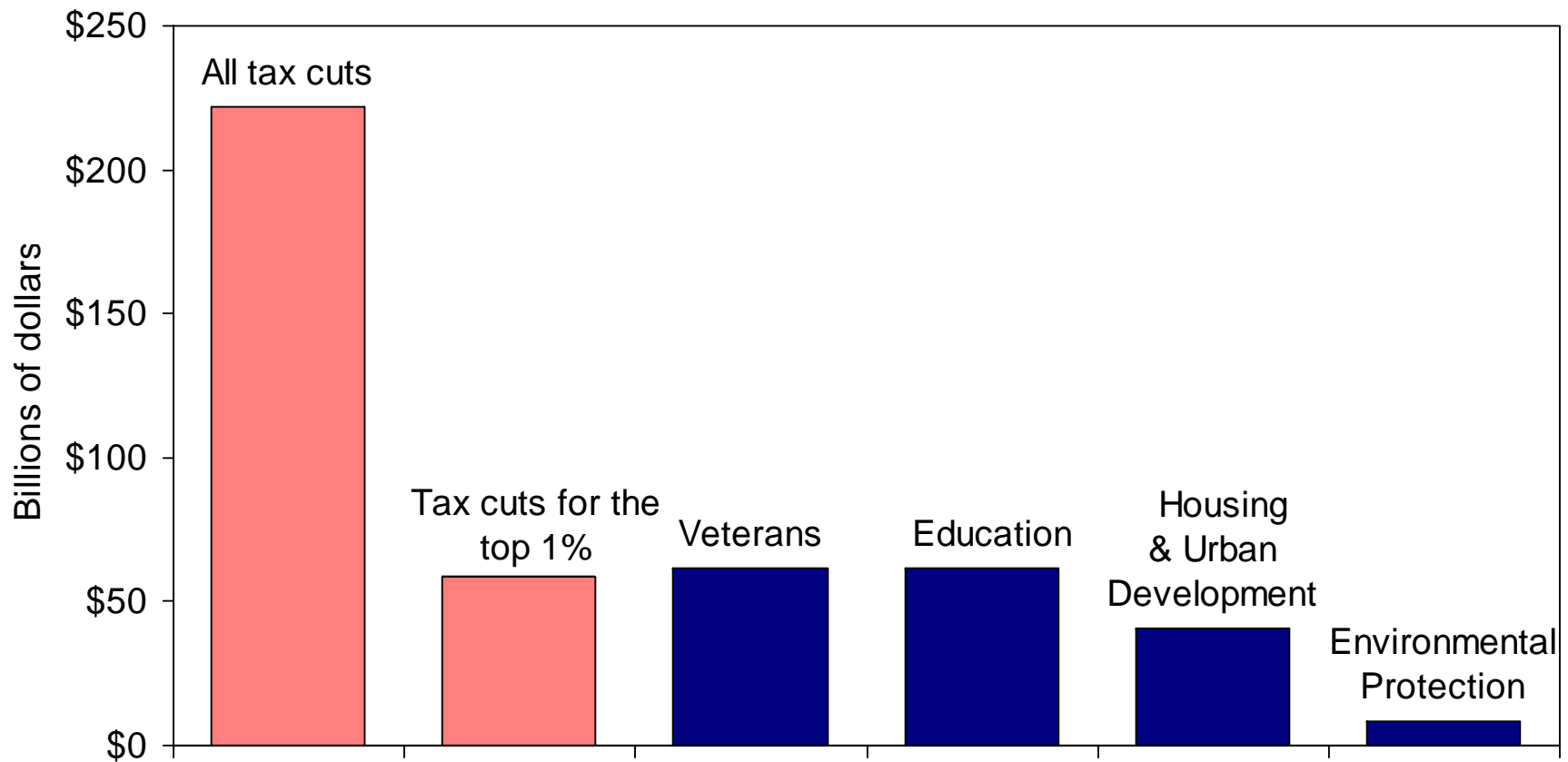


Note: The estimates assume the policies in 2010, when all provisions of the tax cuts are fully in effect, are applied in 2004. Figures are for the middle 20 percent and top 1 percent of all U.S. households.

Source: Urban Institute-Brookings Institution Tax Policy Center

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 2004. Figures for agency budgets represent the annual average, 2003-2005.

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

To balance the budget by 2014 while making the tax cuts permanent, policy makers would have to:

Cut **Social Security** benefits by..... **57%**

or

Cut **defense** spending by **72%**

or

Cut **Medicare** by..... **81%**

or

Cut **every other program** except Social Security, Medicare, defense, and homeland security by.... **38%**

Budget Debate Timeline

- President's Budget: Released Monday, Feb. 7th
- Congress now 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

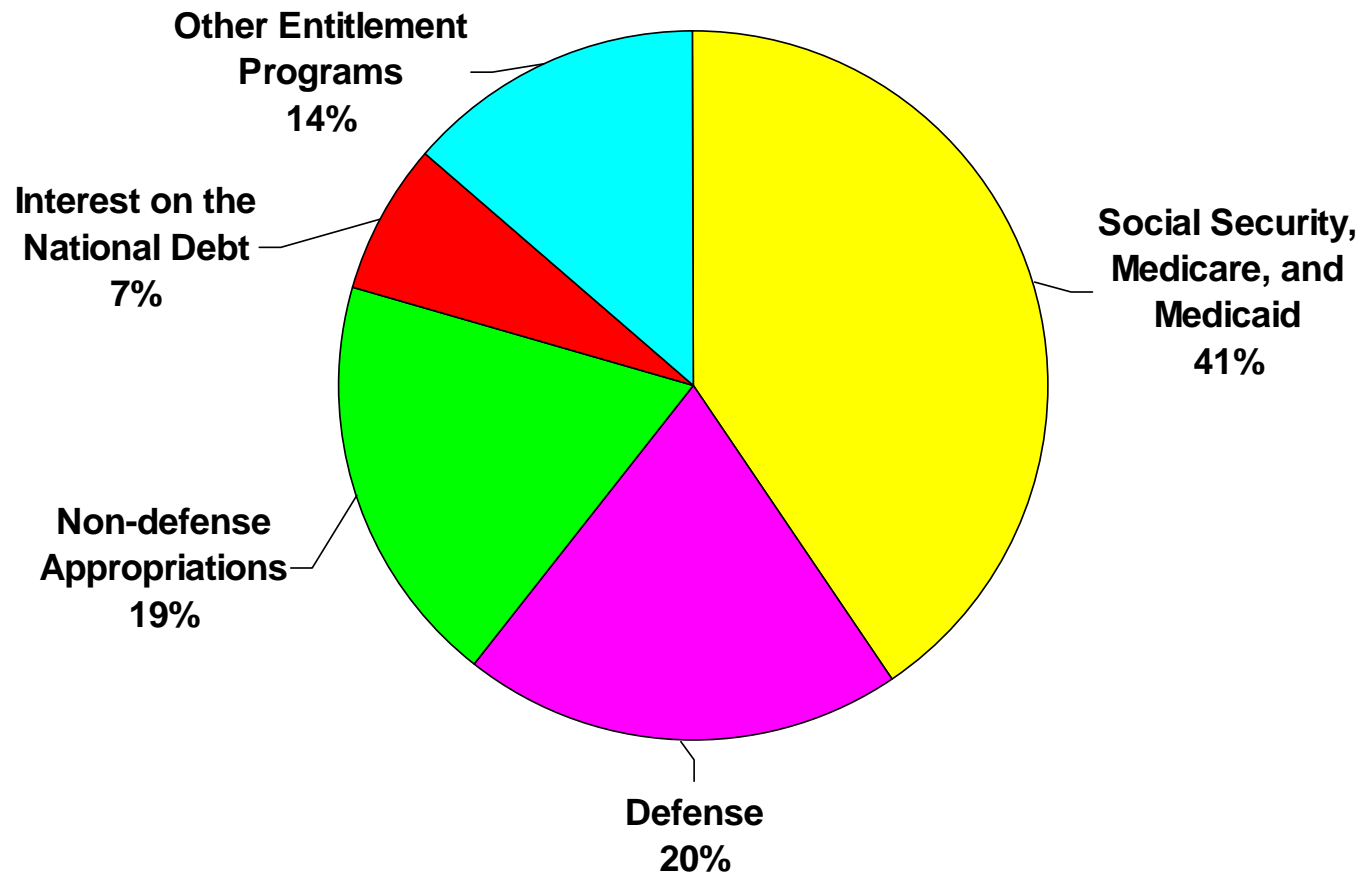
President's Budget

- *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**

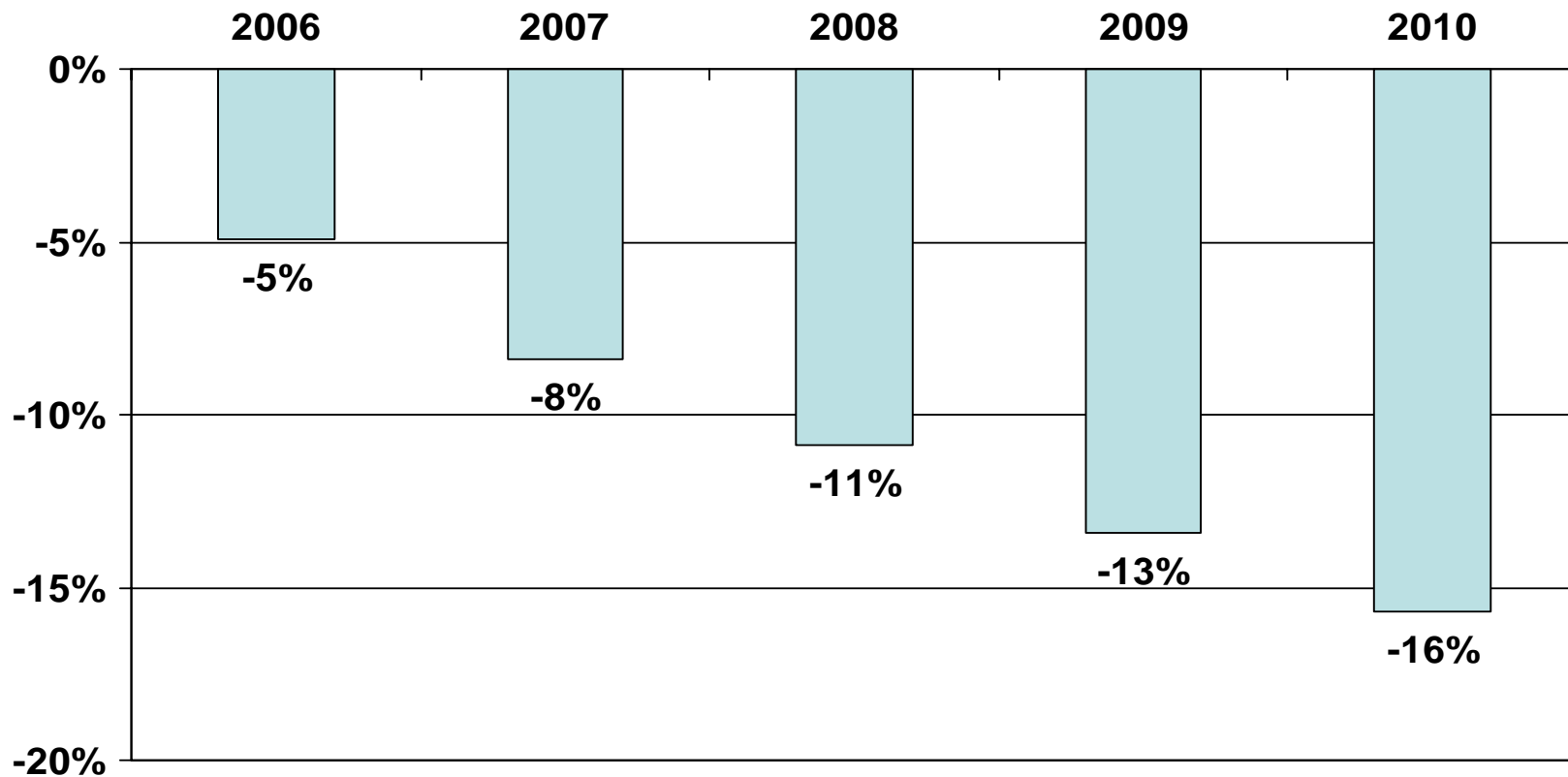
Budget Terms

- *Mandatory or 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
- *Discretionary* Programs
 - Programs whose funding is set through the annual appropriations process and includes much of what the government does outside of entitlements.
 - Examples: Education (including No Child Left Behind), FDA, NIH, Head Start, meat inspections

Federal Spending in 2004

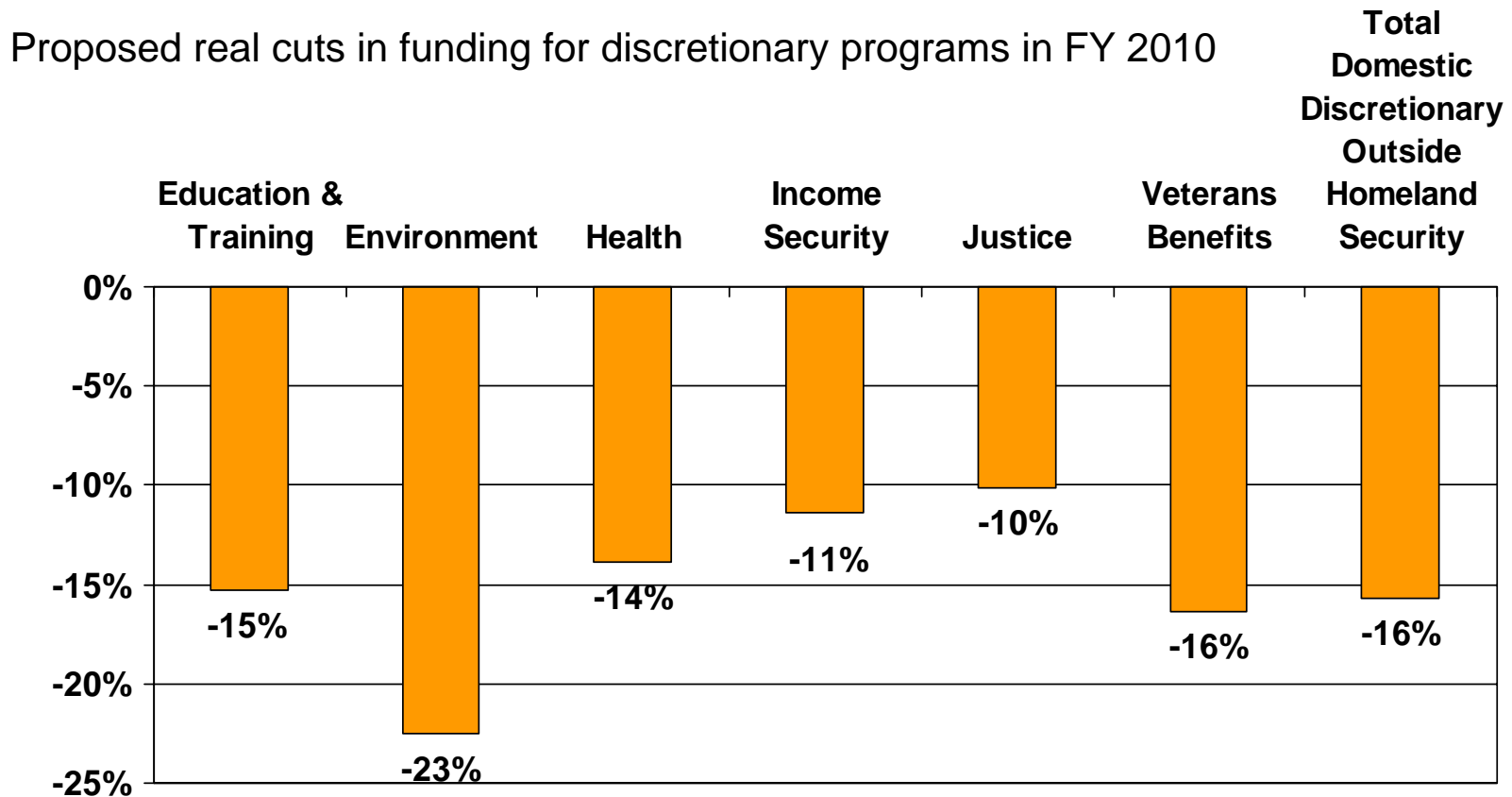


Cuts in “Domestic Discretionary” Programs Get Deeper Over Time



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

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



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

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.

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

President's Budget

Food Stamps and Child Care

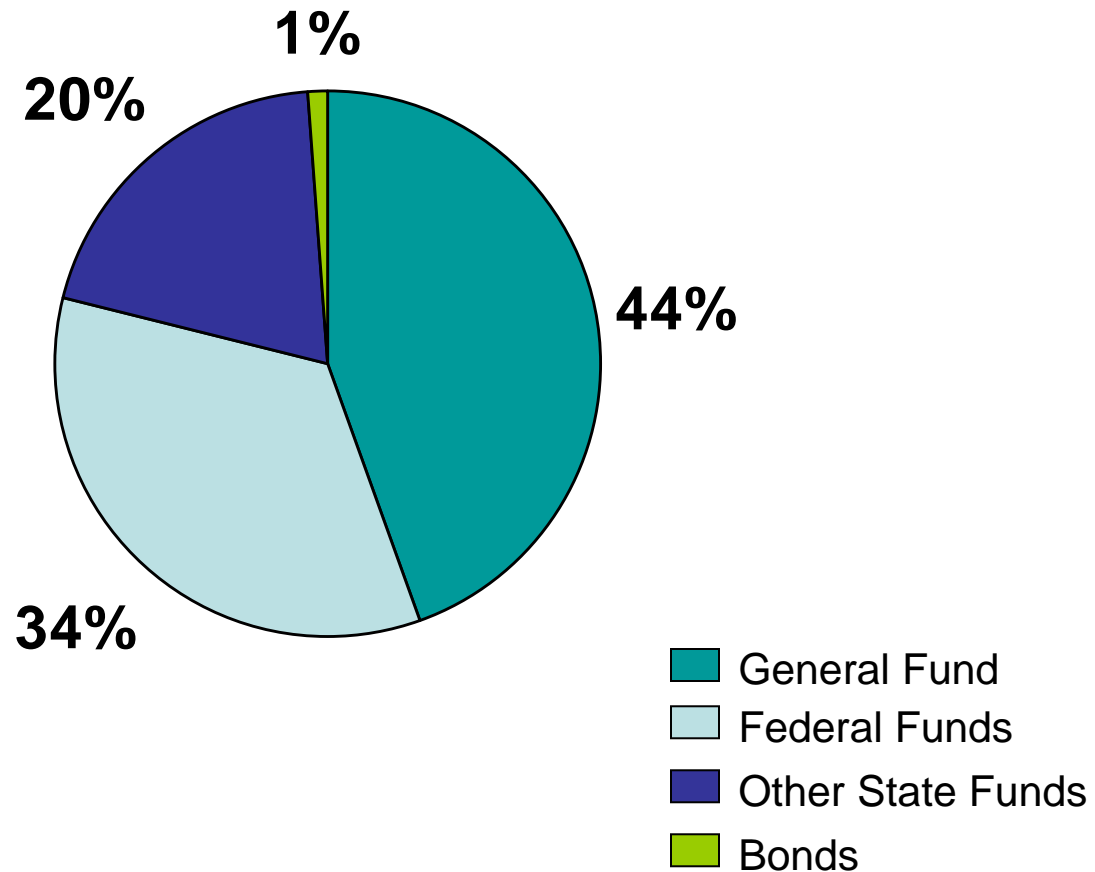
- Food Stamps: Budget proposes changing a state flexibility provision that allows states to align certain eligibility rules in food stamps and TANF funded programs, such as child care.
 - PA has used this flexibility to align rules with child care, education and training, and some additional programs
 - Nationally, provision estimated to terminate food stamps to 300,000 people, most in working poor families.
- 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
 - 500,000 slots lost between 2003 and 2009.

President's Budget

Grants in Aid to States

- 2006 grants to state and local government (other than for Medicaid) are \$10.7 billion less than 2005 grants, after adjusting for inflation
- Pennsylvania would lose an estimated **\$455 million** in federal funding for programs other than Medicaid in 2006 if funding is cut by magnitude President proposes (and if the cuts are distributed the same way that grants in aid to states are currently distributed across states)
- **EXAMPLES**
 - \$2 billion in cuts in community development
 - \$1 billion in cuts law federal enforcement/juvenile justice funding

Federal Funding in Pennsylvania



Source: NASBO, 2003 State Expenditure Report; estimated 2004 total state expenditures

The Congressional Budget Debate

Congress will start with the President's budget, but *will* make many changes.

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

Budget Approach Likely to be *Unbalanced*

- Raising revenues: off the table
- More tax cuts likely to be considered
- 100% of deficit reduction efforts will focus on domestic programs
 - Cuts in entitlements
 - Cuts in domestic discretionary programs
 - Efforts to impose “caps” on entitlement and discretionary programs

The Congressional Budget Debate

Entitlement Cuts Through Reconciliation

- “Reconciliation” is a process Congress can use to force cuts in entitlement programs
- Step 1: Congress sets multi-year deficit targets in the budget resolution and tells *each congressional committee* with jurisdiction over entitlement programs how much it must cut from its programs
- Step 2: Each congressional committee crafts a bill to make benefit, eligibility and other changes to entitlement programs under its jurisdiction to secure required cuts.
- Step 3: The bills making cuts in entitlement programs are folded into one “reconciliation bill.” The bill is considered under special fast-track procedures. (No filibuster is allowed in the Senate.)

The Congressional Budget Debate

Entitlement Cap Proposals

- Entitlement cap proposals generally impose an annual cap on the total cost of most entitlement programs other than Social Security (and perhaps Medicare). Caps would become permanent (or virtually permanent) budget feature.
- The annual caps are set below the projected cost of entitlement programs. Under most proposals, the cap is adjusted each year for inflation and changes in the number eligible for various programs.
 - Largest entitlement programs are health programs, whose costs are growing – in tandem with increases in health care costs across the economy – faster than the general inflation rate.
- Enforcement Mechanisms: Can include automatic cuts or
- Defeated by House last year, but expected to re-emerge and to attract increased support in 2005.

Impact of Kirk Entitlement Cap on Key Programs

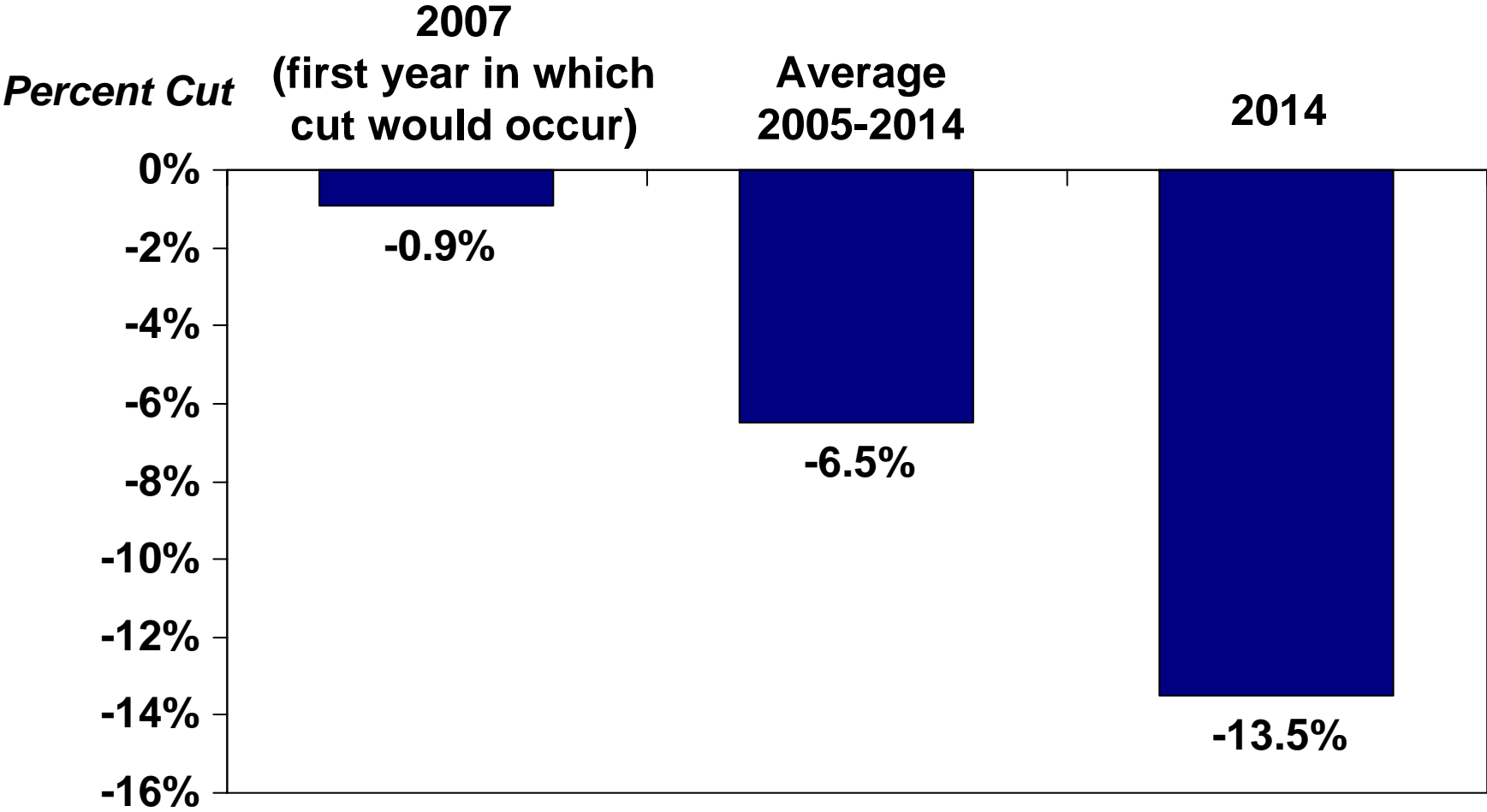
Total Cuts over 10 Years **\$445 billion**

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

Block Grant and Cap Proposals

Medicaid Block Grant/Cap Proposals

- Language in budget materials may mean that the Administration would support a cap of some kind on Medicaid costs for “optional” groups
- Proposal may include:
 - More discretion for states on who they cover and the benefit package they provide
 - Cap on costs
- Problems with Caps:
 - Do not account adequately for unpredictable changes in health care costs, the economy and demographics over time
 - Shift costs/risks to states
 - Over time, resources likely would fall further and further behind the cost of continuing to insure low-income Americans

The Congressional Budget Debate

Medicaid Cap Proposals

- If Congress is trying to make large cuts in Medicaid, lawmakers may find a block grant or cap 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

Other Block Grant Proposals

Food Stamp Block Grant

- House included a 5-state food stamp block grant in past TANF reauthorization bills and is likely to do so again
- House provision freezes funding and gives state flexibility to cut benefits and divert funding away from nutrition assistance
- Strong chance that 5-state experiment would become national down the road

Section 8 Housing Assistance (discretionary program)

- Administration has proposed block grant for past 2 years
- Funding levels would be set well below cost of continuing current program
- Faced with inadequate resources, housing authorities would be forced to raise rents, shift assistance to families at higher income levels, and/or reduce number of families served.

CHANGE IN FUNDING LEVELS FOR VARIOUS BLOCK GRANTS SINCE THEIR CREATION

<i>Block Grant</i>	<i>Year Block Grant Started</i>	<i>Percentage Change in Funding, After Adjusting for Inflation</i>
TANF (Welfare reform block grant)	1998	-22% by 2009
SCHIP (State children's health insurance program)	1997	-20% by 2005
Social Services Block Grant	1973	-84%

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

Consequences of Unbalanced Approach to Deficit Reduction

- Large cuts over time in programs that help low-income families make ends meet
- 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

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