



What Would the Emerging House Budget Package Mean for California?

Eight House committees have adopted proposals to reduce spending in a range of federal “entitlement” programs, as well as other spending. Net reductions total approximately \$50 billion and affect programs ranging from child support to student loans. House leaders have defended the proposed reductions as necessary to offset the costs of Katrina-related relief efforts and reduce the federal deficit. However, the proposals would take a significant toll on programs that affect low-income families and children, without scaling back the benefits of recent tax cuts that were largely targeted at the wealthy.

Are Spending Cuts Needed to Pay for Katrina Relief Efforts?

The cost of tax cuts under consideration by the House far exceeds the savings generated by the proposed spending reductions. As part of the budget reconciliation process, the House is considering tax cuts that would cost an estimated \$70 billion between 2006 and 2010. The House is also considering an additional \$36 billion in tax cuts outside of the reconciliation process.¹ Thus, the savings from the proposed reductions will not be used to reduce the deficit or finance hurricane relief efforts, but instead will be used to partially offset the cost of additional tax cuts.

Proposed Cuts Would Have a Significant Impact on Californians and the State Budget

The House proposals would have a significant impact on low-income Californians and the state budget, since a number of the proposed cuts would shift costs from the federal government to states and localities. Changes in the House reconciliation bills include:

- **Food Stamps.** The House Agriculture Committee adopted changes that would deny eligibility for food stamps for legal immigrants who have been in the US between five and seven years during federal fiscal years (FFY) 2006 through 2010.

This provision would result in 70,000 people losing food stamps, including approximately 11,000 Californians. Food stamp benefits are fully funded by the federal government. Californians losing federally-supported benefits would become eligible for the California Food Assistance Program (CFAP), a 100 percent state-funded program. This provision would shift \$44 million in food stamp benefit costs from the federal to the state government between 2006 and 2010. Alternatively, if the state denied eligibility to these individuals, they would lose access to assistance.

The US Department of Agriculture recently found that food insecurity – defined as the lack of sufficient food for an active, healthy life – increased between 2003 and 2004.² The increase in insecurity was broad-based and “appears to have affected most regions and most types of households.”³

- **Temporary Assistance for Needy Families (TANF).** The House Ways and Means Committee, chaired by Representative Bill Thomas (R-Bakersfield), incorporated the reauthorization of the TANF Block Grant into the Committee’s recommendations.⁴ The Committee would continue funding for the basic TANF block grant at the current funding level, a level that has not been increased since 1996. At the same time, the Committee’s recommendations impose costly new requirements on the TANF block grant without adequate additional funds. The Committee’s action provides only \$500 million in additional funding for childcare over five

years. In contrast, the most recent Senate reauthorization bill increased childcare funding by a total of \$6 billion over five years. Analysts estimate that the new funds are insufficient to keep pace with inflation and could result in 330,000 children losing childcare subsidies nationally in 2010 relative to the number available in 2004.⁵

The Legislative Analyst's Office has previously estimated that changes similar to those in the Ways and Means recommendations would increase California's costs, primarily for childcare and employment services, by \$375 million to \$450 million per year. The impact on California alone could far exceed the national increase in available funds.⁶

- **Child Support.** The Ways and Means Committee recommendations reduce the federal contribution to child support program costs by 40 percent. Currently, the federal government pays 66 percent of program costs and states and counties pay the remaining 34 percent. Under the Committee recommendations, the federal share would be gradually reduced to 50 percent in 2010 and thereafter, increasing states' and counties' share of costs. The Ways and Means Committee recommendation would also prohibit states from using the funds they receive as performance incentives to match federal funds and would direct states to charge families that participate a \$25 annual fee.⁷ California stands to lose \$3.2 billion in federal funds from the proposed child support program changes between 2006 and 2015.⁸

Studies have documented the cost-effectiveness of the child support program. In 2004, program collections totaled \$21.9 billion, while program costs totaled \$5.3 billion. Estimates suggest that the proposed cuts could reduce child support collections nationally by \$24.1 billion over ten years, including a reduction of \$4.9 billion in California.⁹

- **Medicaid.** The House Energy and Commerce Committee recommendations would allow states to significantly increase co-payments for many categories of beneficiaries and services. The new authority would allow states to impose cost-sharing requirements on children with incomes modestly above the federal poverty line.¹⁰ Studies suggest that imposing higher out-of-pocket costs can restrict low-income individuals' access to needed health services and can increase healthcare costs over time.¹¹ The House recommendations would also allow states to restrict benefits offered under Medicaid including preventive services for many children. For example, states could limit coverage under the Early and Periodic Screening, Diagnosis and Treatment (EPSDT), which provides periodic health exams, screening,

and treatment for identified programs. Under the Committee's recommendations, states could eliminate EPSDT coverage for children 6 or over in families with incomes above the federal poverty level (FPL) and eliminate coverage for all children in families with incomes above 133 percent of the FPL.

- **Supplemental Security Income (SSI) Program.** The Ways and Means Committee recommendations would make two changes to the SSI program.¹² The first requires additional reviews of applicants determined eligible by the Social Security Administration (SSA) for SSI benefits based on disability. The Congressional Budget Office estimates that some 20,000 individuals would be denied benefits because of the additional review by 2015.¹³ These individuals would also lose automatic or "categorical" eligibility for Medicaid.

The second change would require SSI recipients who are eligible for more than three months' worth of back benefits from SSI to receive those benefits in installments, rather than in a single payment. Eligibility determinations typically take a number of months to complete. Reducing the threshold to three months would force low-income individuals with serious disabilities to wait longer for the benefits they are owed. It also may mean that some SSI recipients could die before receiving the full amount of benefits they are owed.

- **Foster Care.** The Ways and Means Committee recommendations make several changes to the foster care program. Most notably, the recommendations overturn a 2003 9th Circuit Court of Appeals decision in *Rosales v. Thompson*. The *Rosales* decision requires officials to consider the income of the relatives with whom a child is placed, rather than the income of the home from which a child was removed, when determining eligibility for foster care. The new proposal could result in an estimated 5,100 California children losing eligibility for foster care services and a loss of \$23.6 million per year in federal funds.¹⁴ Alternatively, if the low-income family members caring for these children are no longer able to do so, these children would be at risk for placement with strangers at a higher reimbursement rate and thus higher cost to the federal, state, and county governments.

What Happens Next?

The House Budget Committee will compile a comprehensive budget reconciliation package based on the recommendations of individual committees. If approved by the full House, the budget proposals would be reconciled with Senate proposals in a two-house conference committee.

Jean Ross 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 Special rules govern the reconciliation process, the most significant is that reconciliation bills cannot be filibustered on the Senate floor and thus can be passed by a majority vote.
- ² Mark Nord, et al, *Household Food Security in the United States, 2004* (US Department of Agriculture, Economic Research Service: October 2005).
- ³ Mark Nord, et al, *Household Food Security in the United States, 2004* (US Department of Agriculture, Economic Research Service: October 2005), p. 10.
- ⁴ For additional information on the House Ways and Means Committee recommendations, see California Budget Project, *House Ways and Means Committee Approves TANF Reauthorization: Comparison of Key Provisions in TANF Reauthorization Proposals* (October 28, 2005).
- ⁵ Sharon Parrott and Issac Shapiro, *Unshared Sacrifice Who's Hurt, Who's Helped, and What's Spared Under the House Budget Reconciliation Plan* (Center on Budget and Policy Priorities: Revised November 2, 2005), p. 4.
- ⁶ Legislative Analyst's Office, *Analysis of the 2004-05 Budget Bill* (February 2004), p. C-252.
- ⁷ The first \$500 per year collected would be exempt from the fee. Vicki Turetsky, *Ways and Means Committee Approves 40 Percent Cut in Child Support Funds* (Center for Law and Social Policy) downloaded from www.clasp.org on October 27, 2005, and Vicky Turetsky, *The Child Support Enforcement Program: A Sound Investment in Improving Children's Chances in Life* (Center for Law and Social Policy: October 2005) downloaded from www.clasp.org on October 30, 2005.
- ⁸ Vicki Turetsky, *Ways and Means Committee Approves 40 Percent Cut in Child Support Funds* (Center for Law and Social Policy) downloaded from www.clasp.org on October 27, 2005, p. 5.
- ⁹ Vicki Turetsky, *Ways and Means Committee Approves 40 Percent Cut in Child Support Funds* (Center for Law and Social Policy) downloaded from www.clasp.org on October 27, 2005, p. 6.
- ¹⁰ The new requirements would apply to children 6 or over in families with incomes above the federal poverty level (FPL, \$16,090 in 2005) and all children in families with incomes of 133 percent of the FPL (\$21,400 for a family of three in 2005). See Victoria Wachino, *Energy and Commerce Committee Bill Imposes New Costs on Low-Income Medicaid Beneficiaries* (Center on Budget and Policy Priorities: October 28, 2005) downloaded from www.cbpp.org on October 28, 2005.
- ¹¹ See California Budget Project, *Governor's Proposal to Restructure Medi-Cal is Financially Risky and Could Increase State Costs* (July 21, 2004).
- ¹² Congressional Budget Office, *Cost Estimate: Reconciliation Recommendations of the House Committee on Ways and Means* (October 28, 2005).
- ¹³ Congressional Budget Office, *Cost Estimate: Reconciliation Recommendations of the House Committee on Ways and Means* (October 28, 2005).
- ¹⁴ County Welfare Directors Association letter to House Ways and Means Committee members (October 25, 2005).