CALIFORNIA BUDGET PROJECT

budget brief

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WHAT WOULD THE CONFERENCE AGREEMENT ON FEDERAL BUDGET CUTS MEAN FOR CALIFORNIA?

In December, a joint House-Senate conference committee reached an agreement on a budget reduction reconciliation bill (S. 1932). The conference agreement would reduce federal spending on a range of "entitlement" programs by $39.7 billion over five years, while avoiding some of the cuts in the House's original budget reconciliation measure. The pending bill could impose costs on California of several hundred million dollars annually and would take a significant toll on programs that assist low-income families and children. Republican leaders have defended the proposed reductions as necessary to reduce the federal budget deficit. However, savings from the pending reconciliation measure are significantly lower than the costs of tax cuts under consideration in both the House and the Senate.

Proposed Spending Cuts Would Not Reduce the Federal Budget Deficit

The cost of tax cuts under consideration far exceeds the savings associated with the budget reductions. In separate bills, the House and the Senate have passed tax cuts that far exceed the savings generated by the proposed spending reductions. The House and the Senate have passed different tax reconciliation bills that cut taxes by nearly $60 billion over five years. The House has passed an additional $38 billion in tax cuts outside the reconciliation process.[1] Thus, the savings from the proposed budget reductions would not reduce the deficit; instead, the savings would partially offset the cost of additional tax cuts.

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

The conference agreement on the budget reductions 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. The impact of six changes alone would total over $680 million per year upon full implementation (Table 1). Major changes are described below.

- **Temporary Assistance for Needy Families (TANF).** The conference agreement reauthorizes the TANF block grant for five years. The bill continues funding for the basic TANF block grant at the current funding level, which has not been increased since 1996. At the same time, states would be required to implement costly new requirements with minimal additional child care funding. The Congressional Budget Office estimates that new requirements would cost states $8.4 billion over five years.[2] The bill also charts new territory by applying work requirements to families receiving assistance funded solely with state maintenance of effort (MOE) funds, a change from current law and prior TANF reauthorization proposals.[3] This new policy would require 90 percent of California two-parent families who receive cash assistance financed entirely with state funds to meet work requirements, a nearly impossible task.

  The bill provides just $1.0 billion in additional child care funding over five years. In contrast, the most recent Senate reauthorization bill increased child care funding by $6 billion over five years. Analysts estimate that the additional child

Table 1: Estimated Impact of Specified Cuts on California's State Budget			
Program	Proposed Change	One-Year Cost at Full Implementation	Five-Year Cost (FFY 2006 – 2010)
TANF	Increase work requirements	Over $400 million*	Over $2 billion
Medicaid	Eliminate California's current provider tax on Medi-Cal managed care organizations	$166.5 million**	$166.5 million
Child Support	Prohibit states from using certain "incentive" funds as a match for federal child support funds	$90 million***	$270 million
Child Support	Assess a $25 per family fee	$5 million****	$20 million
Foster Care	Eliminate federal support for certain children living with relatives	$5 million	$25 million
Foster Care	Limit federal administrative support for certain foster children	$15 million	$90 million
Total		**Over $680 million**	**Over $2.5 billion**

* Estimated net cost in federal fiscal year (FFY) 2007. Reflects increased child care funding.
** Effective FFY 2010.
*** Effective FFY 2008.
**** Effective FFY 2007.
Source: California Budget Project analysis, Center on Budget and Policy Priorities, Center for Law and Social Policy, and Legislative Analyst's Office

care funds are insufficient to keep pace with inflation and that the lack of adequate funding could result in more than a quarter million children losing child care subsidies nationally in 2010 relative to the number of children served in 2004.[4]

The California Budget Project estimates that the new requirements would create potential new costs in excess of $400 million in the first year after the new requirements become effective October 1, 2006.[5] These new costs dwarf California's share of additional child care funding, estimated at $25.7 million per year.[6] In addition, California could be subject to federal penalties if it is unable to meet the new work requirements. The penalties could cost the state approximately $160 million in the first year that the state fails to meet the requirements, escalating to approximately $350 million for a fourth consecutive violation.[7] In addition, the state would have to increase its MOE spending level by $180 million per year if it does not meet the new requirements.[8]

- **Medicaid.** The conference agreement contains two major policy changes to the Medicaid Program (Medi-Cal in California). First, it would prevent California's Medi-Cal Program from imposing a tax on Medi-Cal managed care providers only, which would result in an annual loss of approximately $166.5 million in federal funds to California beginning in federal fiscal year 2010.[9] This tax has allowed California to increase reimbursement rates for managed care organizations without additional General Fund spending. California's managed care reimbursement rates have historically been among the lowest in the nation, and studies have linked low reimbursement rates with decreased access to services.[10]

  Secondly, the agreement would allow states to impose or increase cost sharing requirements on many Medi-Cal beneficiaries and restrict benefits provided to children. The new authority would allow states to impose co-payments and premiums on children with incomes modestly above the federal poverty level (FPL).[11] Studies suggest that imposing higher out-of-pocket costs can restrict low-income individuals' access to needed health services and can increase health care costs over time.[12] The bill also allows states to restrict benefits to various groups of beneficiaries. States could also restructure benefits in ways that could result in children effectively losing coverage under the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program, which provides periodic health exams, screening, and treatment for identified problems.[13]

- **Child Support.** The conference agreement would decrease federal child support funds received by California by prohibiting states from using certain "incentive" funds as a match for federal funds. As a result, California stands to lose $270 million in federal funds over five years.[14] The conference agreement would also assess a $25 annual fee on states for each family that does not receive cash assistance but that does receive child support services beginning in federal fiscal year 2007.[15] States would have the option of collecting the fee from affected families. The LAO estimates this would reduce federal funding to California by $5 million per year.[16] Estimates indicate that the proposed cuts could reduce child support collections nationally by $8.4 billion over 10 years, including a reduction of $812.6 million in California.[17] 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.[18] The conference agreement does not contain the provision included in the House budget reconciliation bill that would have reduced federal matching for child support enforcement activities by 40 percent.

- **Foster Care.** The conference agreement makes significant changes to the foster care program. First, the bill overturns 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 reconciliation measure would require states to use the income of the family from which the child was removed. The new proposal would result in some California children losing eligibility for foster care services and could result in fewer children being placed in a relative's home. The LAO estimates that this would result in a loss of $5 million per year.[19] 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. Secondly, the conference agreement limits the amount of administrative funds that states can claim when children are placed in facilities that do not meet federal standards. The LAO estimates that California would lose $15 million to $20 million in federal funds annually and $90 million over five years.[20]

- **Supplemental Security Income (SSI).** The conference agreement 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. The proposed change 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.

What Happens Next?

The Senate version of the conference agreement differed in minor respects from that of the House. The House is expected to take up the Senate version after reconvening on January 31.

David Carroll revised 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. For estimates of the cost of the tax cuts, see Isaac Shapiro, Sharon Parrott, and Robert Greenstein, *Key Questions for Judging the Outcome of House-Senate Reconciliation Negotiations* (Center on Budget and Policy Priorities: December 8, 2005), downloaded from www.cbpp.org on January 5, 2006.

[2] Congressional Budget Office, *Preliminary CBO Estimate, Potential Additional Costs to the States of Meeting Proposed Work Requirements in the Reconciliation Conference Proposal* (December 18, 2005).

[3] County funds are also used to support these families, and these funds count toward the state's MOE requirement.

[4] Sharon Parrott, Edwin Park, and Robert Greenstein, *Assessing the Effects of the Budget Conference Agreement on Low-Income Families and Individuals* (Center on Budget and Policy Priorities: December 20, 2005), downloaded from www.cbpp.org on January 5, 2006.

[5] This reflects California's share of the additional families needed to meet the work requirements as estimated by the Congressional Research Service (26 percent), multiplied by the total annual cost for FFY 2007 as estimated by the Congressional Budget Office (CBO) ($1.7 billion), less California's share of additional child care funding. In addition, the CBO estimates that states would spend $800 million prior to the effective date of the new requirements in order to prepare for the implementation date. The Legislative Analyst's Office (LAO) estimates that, based on current state law, the proposed TANF changes would result in net added costs and reduced federal funds of $1.5 billion over five years (the LAO estimate assumes that California would not increase General Fund spending to meet the new requirements and would be assessed federal penalties, which in turn would trigger a required General Fund backfill of the penalties and a required 5 percent increase in the state's MOE spending level). Legislative Analyst's Office, *Fiscal Effect on California: Pending Federal Deficit Reduction Act of 2005* (January 20, 2006).

[6] Congressional Research Service, *Estimated Mandatory Child Care Allocations Under the Deficit Reduction Act of 2005 (S. 1932)* (December 20, 2005).

[7] California Budget Project estimate.

[8] The impacts cited in this paragraph would not necessarily be cumulative, depending on how the state responds to the new requirements.

[9] Based on the amount of federal funding California is expected to receive in 2006-07 from the state's managed care provider tax. Department of Health Services, *Medi-Cal November 2005 Local Assistance Estimate for Fiscal Years 2005-06 and 2006-07*. The state could modify its current tax to apply to all managed care providers and obtain a federal match.

[10] See John Holahan, Suresh Rangarajan, and Matthew Schirmer, *Medicaid Managed Care Payment Methods and Capitation Rates: Results of a National Survey* (The Urban Institute, Occasional Paper 26: May 1999), downloaded January 18, 2006 from http://www.urban.org/UploadedPDF/occa26.pdf and Andrew B. Bindman, et al., *Physician Participation in Medi-Cal, 2001* (Medi-Cal Policy Institute: May 2003), downloaded January 18, 2006 from http://www.chcf.org/documents/policy/MediCalPhysParticipation2001.pdf.

[11] See Sharon Parrott, Edwin Park, and Robert Greenstein, *Assessing the Effects of the Budget Conference Agreement on Low-Income Families and Individuals* (Center on Budget and Policy Priorities: December 20, 2005), downloaded from www.cbpp.org on January 6, 2006.

[12] See California Budget Project, *Governor's Proposal to Restructure Medi-Cal Is Financially Risky and Could Increase State Costs* (July 21, 2004).

[13] See Sharon Parrott, Edwin Park, and Robert Greenstein, *Assessing the Effects of the Budget Conference Agreement on Low-Income Families and Individuals* (Center on Budget and Policy Priorities: December 20, 2005), downloaded from www.cbpp.org on January 5, 2006.

[14] Legislative Analyst's Office, *Fiscal Effect on California: Pending Federal Deficit Reduction Act of 2005* (January 20, 2006).

[15] 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: October 27, 2005), downloaded from www.clasp.org on October 27, 2005.

[16] Legislative Analyst's Office, *Fiscal Effect on California: Pending Federal Deficit Reduction Act of 2005* (January 20, 2006).

[17] Vicki Turetsky, *Families Will Lose $8.4 Billion in Uncollected Support If Federal Matching Funds for Child Support Incentive Payments Are Eliminated* (Center for Law and Social Policy: January 20, 2006), downloaded from www.clasp.org on January 20, 2006.

[18] Vicki Turetsky, *Ways and Means Committee Approves 40 Percent Cut in Child Support Funds* (Center for Law and Social Policy: October 27, 2005), downloaded from www.clasp.org on October 27, 2005.

[19] Legislative Analyst's Office, *Fiscal Effect on California: Pending Federal Deficit Reduction Act of 2005* (January 20, 2006).

[20] The conference agreement also includes $10 million per year in additional federal Safe and Stable Families Funds for child abuse prevention. This amount does not fully offset the loss of federal foster care funding from the other proposed changes. Legislative Analyst's Office, *Fiscal Effect on California: Pending Federal Deficit Reduction Act of 2005* (January 20, 2006).