



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

President Bush released his \$2.77 trillion proposed budget for federal fiscal year (FFY) 2007 on February 6. The proposed budget calls for \$183 billion in reductions over five years in “discretionary” spending on programs that are funded by annual federal appropriations, excluding programs related to the Department of Defense, homeland security, or international affairs. The bulk of the cuts would occur in the years after 2007.¹ By 2011, the proposed cuts would total almost \$57 billion (or 13 percent) below the 2006 funding level adjusted for inflation. These proposed reductions are in addition to across-the-board reductions made by Congress in the FFY 2005 and 2006 budgets (0.8 percent in 2005 and an additional 1.0 percent in 2006). These programs support a broad array of public services including education, environmental protection, child care, and food assistance for low-income infants and pregnant women.

The proposed budget does not show how the reductions in federal domestic discretionary spending would affect specific programs after 2007. A new analysis by the Center on Budget and Policy Priorities (CBPP), however, uses available information - including information inadvertently distributed by the Office of Management and Budget (OMB) - to estimate the impact of the proposed cuts on individual states, including California.² The President's proposed budget reduces selected discretionary grants in aid to California by \$3.9 billion between 2007 and 2011 and by \$1.2 billion in 2011 alone as compared to 2006, after adjusting for inflation. These estimates are consistent with the President's proposal to require statutory funding caps to reduce discretionary spending between 2008 and 2011. These statutory caps would lock in substantial cuts in domestic discretionary funding through 2011, although the President's proposed budget does not provide specific details on those cuts.

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:

- Funding for vocational and adult basic education would be cut by \$915.0 million between 2007 and 2011 and by \$194.1 million (74.8 percent) in 2011 alone as compared to 2006, after adjusting for inflation. These reductions reflect a proposal to eliminate the vocational education state grants and reduce funding for the adult education program beginning in 2008. By 2011, funding for adult basic education would be 12.9 percent below the program's 2006 level.
- Funding for elementary and secondary education would be cut by \$729.6 million between 2007 and 2011 and by \$355.2 million (8.5 percent) in 2011 alone as compared to 2006, after adjusting for inflation. This category includes funding for education for the disadvantaged, school improvement, and special education. Special education, for example, would be reduced by \$574.5 million between 2007 and 2011 and by \$178.9 million (13.2 percent) in 2011 alone as compared to 2006.

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

Federal funding for a number of domestic discretionary programs that assist children and families in California also would be reduced substantially under the President's proposed

budget. Grants in aid provide federal funds to states and local governments for a range of public services, including, but not limited to, the programs discussed below. A reduction of this proposed magnitude would require cuts to service levels and/or an increase in state or local revenues to offset the proposed federal reductions.

Domestic discretionary programs for children and families that would be affected by the proposed federal reductions include:

- Funding for the Head Start Program and programs for abused and neglected children, which would be reduced by \$446.1 million between 2007 and 2011 and by \$139.3 million (13.4 percent) in 2011 alone as compared to 2006, after adjusting for inflation. The number of Head Start slots in California would fall by at least 10,100 in 2011 - 11.4 percent of the nationwide reduction - compared to 2006 if all of the programs in this budget category are reduced proportionately.
- Funding for the Child Care and Development Block Grant, which would be reduced by \$114.3 million between 2007 and 2011 and by \$35.0 million (13.7 percent) in 2011 alone as compared to 2006, after adjusting for inflation.
- Funding for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), which would be reduced by \$415.4 million between 2007 and 2011 and by \$129.5 million (13.3 percent) in 2011 alone as compared to 2006, after adjusting for inflation. Under the President's proposal, WIC would serve an estimated 77,300 fewer California children and pregnant and breastfeeding women in 2011 - 16.3 percent of the estimated nationwide reduction - than it currently serves.
- Funding for the Commodity Supplemental Food Program, which provides food packages to certain low-income individuals, would be eliminated in 2007. The cut would affect approximately 44,100 elderly Californians in 2007.
- 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 \$87.5 million between 2007 and 2011, and reduced by \$31.7 million (28.9 percent) in 2011 alone compared to 2006, after adjusting for inflation.
- Funding for the Public Housing Capital Fund, the federal government's main program supporting repairs to public housing, would be reduced by \$100.2 million between 2007 and 2011 and by \$25.1 million (22.9 percent) in 2011 alone as compared to 2006, after adjusting for inflation.
- Funding for the Environmental Protection Agency Clean Water/Drinking Water Revolving Funds, which provide funds to states for construction of wastewater treatment facilities, to improve drinking water infrastructure, and to enhance water

quality, would be reduced by \$135.9 million between 2007 and 2011 and by \$33.8 million (23.8 percent) in 2011 alone, after adjusting for inflation.

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

Several federal block grants supporting human service and community development activities provided by state and local governments are proposed for funding reductions or elimination.

- Funding for the Community Development Block Grant (CDBG) would be reduced by \$690 million between 2007 and 2011 and by \$162.2 million (30.9 percent) in 2011 alone as compared to 2006, after adjusting for inflation. The CDBG provides funds to communities for use in community and economic development activities in low-income areas.
- Funding for the Community Services Block Grant (CSBG) would be eliminated in 2007 resulting in reductions of \$304.1 million between 2007 and 2011 and \$63.4 million in 2011 alone. The CSBG distributes funds primarily through community action agencies to provide services for low-income families and individuals.
- Funding for the Social Services Block Grant (SSBG) would be reduced by \$60.7 million in 2007. The SSBG provides states with discretionary funds for human service programs such as reducing dependency and maintaining self-sufficiency for low-income families, preventing or remedying child maltreatment, and providing community-based care for individuals with disabilities. California uses SSBG funds to support services for children and adults with disabilities and Community Care Licensing.

Federal Tax Cuts Reduce California's Revenues

In addition to substantial reductions in federal spending, the President proposes to make the tax cuts enacted since 2001 permanent, which would cost \$3.3 trillion, including related interest payments, over 10 years.³ The President's budget also includes \$156 billion in tax cuts over the next 10 years related to promoting Health Savings Accounts and related high-deductible insurance policies, with the large majority of this money going to more affluent households.⁴ The cost of these tax cuts would equal the combined cost of agency budgets for Agriculture, Labor, Education, Veterans Affairs, Transportation, Housing and Urban Development, Justice, State, Interior, Environmental Protection, and Energy. These tax cuts have led to large federal budget deficits which, in turn, have increased pressure on domestic spending.

The massive tax cuts enacted during the President's first term not only affect resources available at the federal level, but, in some instances, have a direct impact on state revenues as well. For example:

- The phase-out of the federal estate tax will cost California over \$1.1 billion in state fiscal year 2006-07. The 2001 federal tax package phased out the federal estate tax in 2010 and eliminated states' share of the tax beginning in 2005.

However, the President has proposed to make the repeal permanent.

- State measures conforming California's income tax laws to changes in federal law that were enacted between 2001 and 2005 will cost the state \$65 million in state fiscal year 2005-06. The Legislature will consider additional provisions that would further reduce state revenues this year.

David Illig and 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 Spending for discretionary programs must be reauthorized annually, unlike "entitlement" programs, such as Medicaid and Medicare, that are not controlled by annual appropriations.
- ² For an explanation of the methodology behind these estimates, see Sharon Parrott, et al., *Where Would the Cuts Be Made Under the President's Budget? An Analysis of Reductions in Education, Human Services, Environment, and Community Development Programs* (Center on Budget and Policy Priorities: February 22, 2005). The CBPP analysis does not discuss the President's proposed reductions in federal funding for "mandatory" programs, such as Medicaid and the Food Stamp Program, that are not subject to annual appropriations.
- ³ Joel Friedman and Aviva Aron-Dine, *Extending Expiring Tax Cuts and AMT Relief Would Cost \$3.3 Trillion Through 2016* (Center on Budget and Policy Priorities: February 6, 2006). The \$3.3 trillion figure includes the cost of extending Alternative Minimum Tax (AMT) relief.
- ⁴ Jason Furman, *President Greatly Reduced His Health Proposals for Lower-Income Families While Expanding Health Benefits for the More Affluent* (Center on Budget and Policy Priorities: February 8, 2006).