CALIFORNIA BUDGET PROJECT

budget brief

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

President Bush released his $2.9 trillion proposed budget for federal fiscal year (FFY) 2008 on February 5. The proposed budget calls for sizeable reductions over five years in domestic "discretionary" spending. These cuts would affect programs that are funded by annual federal appropriations, excluding programs related to defense and international affairs. The reductions would begin in FFY 2008, which begins on October 1, 2007, when discretionary programs as a whole would be funded below the level for FFY 2007, adjusted for inflation. By 2012, the proposed cuts would total $114 billion below the FFY 2007 funding level, adjusted for inflation.[1] The cuts would affect programs that support a broad array of public services including education, environmental protection, child care, and food assistance for low-income infants and pregnant women.[2]

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 would be cut by $471.8 million between FFY 2008 and 2012 and by $100.9 million (44.3 percent) in 2012 alone as compared to 2007, after adjusting for inflation. Nearly all of the cuts – 98 percent of the total – would occur in vocational education programs that support secondary school and community college career training programs, an area that Governor Schwarzenegger prioritized in his proposed state budget.

- Funding for aid to elementary and secondary education would be cut by $635.8 million between FFY 2008 and 2012 and by $205.9 million (5.8 percent) in 2012 alone as compared to 2007, after adjusting for inflation. The President's budget would increase funding for Education for the Disadvantaged ("Title I") in FFY 2008, but cut funding for special education, school improvement, and impact aid.[3]

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 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 Head Start Program would be reduced by $306.0 million between FFY 2008 and 2012 and by $79.8 million (8.7 percent) in 2012 alone as compared to 2007, after adjusting for inflation. The reduced funding level could result in up to 10,700 fewer Head Start slots in California in FFY

2008 relative to the funds provided in FFY 2002, adjusted for inflation.[4]

- Funding for the Child Care and Development Block Grant would be reduced by $51.7 million between FFY 2008 and 2012 and by $14.3 million (5.7 percent) in 2012 alone as compared to 2007, after adjusting for inflation. This reduction would make it more costly for California to comply with the work participation requirements enacted in 2006.[5]

- Funding for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) would be reduced by $105.4 million between FFY 2008 and 2012 and by $39.2 million (4.1 percent) in 2012 alone as compared to 2007, after adjusting for inflation. Under the President's proposal, WIC would serve an estimated 55,600 fewer California children and pregnant and breastfeeding women in 2012 –16.6 percent of the estimated nationwide reduction – than it currently serves.

- Funding for the portion of the Commodity Supplemental Food Program that provides food packages to low-income elderly individuals would be terminated in FFY 2008. The cut would affect approximately 51,700 elderly Californians per month in 2008.

- 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 $118.1 million between FFY 2008 and 2012, and reduced by $25.6 million (22.2 percent) in 2012 alone compared to FFY 2007, after adjusting for inflation. The reduced funding level could result in up to 30,300 Californians losing access to assistance in FFY 2008.

- Funding for the Environmental Protection Agency Clean Water and Drinking Water State Revolving Funds, which provide funds to states for construction of wastewater treatment facilities, improvement of drinking water infrastructure, and enhancement of water quality, would be reduced by $184.9 million between FFY 2008 and 2012 and by $40.4 million (26.1 percent) in 2012 alone, after adjusting for inflation. The President's proposed funding level would leave support for these programs 40 percent below FFY 2001 levels, after adjusting for inflation.

- Funding for the Public Housing Capital Fund, which supports improvements to and maintenance of public housing, would be reduced by $102.9 million between FFY 2008 and 2012 and by $22.3 million (20.0 percent) in 2012 alone as compared to 2007, 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 reductions or termination. Specifically:

- Funding for the Community Services Block Grant (CSBG) would be totally eliminated, resulting in a loss to California of $295.5 million between FFY 2008 and 2012 and $61.2 million in FFY 2012 alone relative to FFY 2007 funding levels, 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 $567.9 million between FFY 2008 and 2012 and $125.0 million (26.0 percent) in 2012 alone, relative to FFY 2007 levels, 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 $60.7 million in FFY 2008, 29.4 percent below the FFY 2007 funding level without taking inflation into account (the inflation-adjusted reduction would be even larger). In 2006-07, California is using SSBG funds to support Community Care Licensing, services for persons with developmental disabilities, services for the deaf, and to assist victims of Hurricane Katrina who reside in the state. 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.

Are These Reductions Needed to Balance the Budget?

In addition to substantial reductions in federal spending, the President proposes to make the tax cuts enacted since 2001 permanent, at a cost of $317 billion in 2012 alone. The cost of extending these tax cuts equals several times the savings from the reductions in domestic programs proposed by the President. 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 over $1.1 billion in state fiscal year 2007-08. 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 2006 will cost the state $94 million in state fiscal year 2006-07. The Legislature will consider additional provisions that would further reduce state revenues this year.

President Proposed Medicaid Cuts and Other Health Changes

In addition to the cuts in domestic discretionary programs, the President's budget includes reductions to the Medicaid Program and other health proposals. The President proposes $25.7 billion in total cuts to the Medicaid Program between FFY 2008 and 2012, which would be accomplished by changing program rules. Most of the federal savings from the reductions would shift costs to states by, for example, reducing payments to public hospitals and eliminating payments for certain services for children with disabilities. The President's budget also proposes to reduce federal support for states to administer the Medicaid Program.

A portion of the cuts to Medicaid would offset a modest increase in funding for the State Children's Health Insurance Program (SCHIP). However, this increase would not be enough to support California's current Healthy Families Program, much less an expansion of health coverage to additional children as the Governor and state's legislative leaders have proposed. The President also proposes to scale back federal support for children with incomes above 200 percent of the poverty line.[6]

The President's budget also includes substantial changes in tax incentives for health coverage. The proposal would likely lead to further erosion of job-based health coverage. In addition, individuals would have larger incentives under the proposal to buy high-deductible health coverage coupled with Health Savings Accounts over other coverage arrangements.

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ENDNOTES

1 The reduction in overall domestic discretionary funding proposed in the President's budget is more than twice as deep in FFY 2012 as in FFY 2008. The President's budget documents do not specify funding levels for specific discretionary programs for years after 2008. Breaking with normal budgeting procedures, the Administration has chosen for each of the past three years not to show in its standard budget materials the funding levels that it is proposing for each discretionary program or "budget account" for years after the coming fiscal year (in this case, 2008). However, materials provided to congressional budget committees list the overall funding levels for each year that the President proposes for discretionary programs in each of the 15 categories of programs known as budget "functions" and for each of the 74 sub-categories of more closely related programs knows as budget "subfunctions." These data show that most budget functions and subfunctions would see substantial cuts over the next five years under the President's budget.

2 This paper is based on an analysis prepared by the Center on Budget and Policy Priorities and a related paper by Arloc Sherman, Sharon Parrott, and Danilo Trisi, *President's Budget Would Cut Deeply Into Important Services and Adversely Affect States* (February 21, 2007).

3 Impact aid provides assistance to schools based on the number of students they serve who live on military bases, Indian reservations, or in publicly-subsidized housing.

4 Head Start funding reached its peak during the Bush presidency in FFY 2002.

5 See California Budget Project, *California's Response to Recent TANF Changes Should Preserve the Strengths of the CalWORKs Program* (May 2006).

6 See California Budget Project, *SCHIP Reauthorization: President Proposes Insufficient Funding for Healthy Families* (February 2007).