CALIFORNIA BUDGET PROJECT

Budget Brief

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

President Bush released his $2.6 trillion proposed budget for federal fiscal year 2006 on February 7. The proposed budget calls for $214 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. 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 funding would affect specific programs after 2006. However, a new analysis by the Center on Budget and Policy Priorities (CBPP) estimates the impact of the proposed cuts on individual states, including California.[1] These estimates are consistent with the President's proposal to cap discretionary spending between 2007 and 2010. These statutory caps would lock in substantial cuts in domestic discretionary funding through 2010, although the President's proposed budget does not provide specific details on those cuts.

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

Federal funding for a number of domestic discretionary programs in California would be reduced substantially under the President's proposed budget, according to the CBPP analysis. Total federal discretionary grants in aid to California would be reduced by $10.0 billion between 2006 and 2010 and by $3.1 billion in 2010 alone as compared to 2005, after adjusting for inflation. 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.

Domestic discretionary programs that would be affected by the proposed federal reductions include:

- Vocational and adult education would be reduced by $694.1 million between 2006 and 2010 and by $151.1 million (58 percent) in 2010 alone as compared to 2005, after adjusting for inflation.

- Community development and community services would be reduced by $1.1 billion between 2006 and 2010 and by $260.7 million (36 percent) in 2010 alone as compared to 2005,

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after adjusting for inflation, if Congress adopts the President's proposal to merge 18 programs into a single block grant with a lower level of funding.

- Children and family services, including the Head Start Program and programs for abused and neglected children, would be reduced by $415.3 million between 2006 and 2010 and by $143.5 million (13 percent) in 2010 alone as compared to 2005, after adjusting for inflation. The number of Head Start slots in California would fall by an estimated 12,900 in 2010 (10.9 percent of the nationwide reduction) compared to 2005 if all of the programs in this budget category are reduced proportionately.

- Aid to elementary and secondary education would be reduced by $1.2 billion between 2006 and 2010 and by $523.8 million (12 percent) in 2010 alone as compared to 2005, 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 $815.8 million between 2006 and 2010 and by $246.5 million (18 percent) in 2010 alone as compared to 2005, after adjusting for inflation.

- HIV/AIDS treatment and services for low-income Californians under the Ryan White Care Act would be reduced by $75.7 million between 2006 and 2010 and by $26.3 million (10 percent) in 2010 alone as compared to 2005, after adjusting for inflation.

- The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) would be reduced by $113.3 million between 2006 and 2010 and by $81.0 million (8 percent) in 2010 alone as compared to 2005, after adjusting for inflation. Under the President's proposal, WIC would serve an estimated 108,700 fewer California children and pregnant and breastfeeding women in 2010 (16.5 percent of the estimated nationwide reduction) than it currently serves.

- 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 $7.6 million (8 percent) in 2010 as compared to 2005, after adjusting for inflation.

- The Section 8 Housing Choice Voucher Program, the federal government's main rental assistance program, would fall short of the funding needed to continue providing the current number of vouchers. Under the President's proposal, an estimated 52,900 fewer low-income California families (14.3 percent of the nationwide reduction) would receive Section 8 vouchers in 2010 than in 2005.

- Federal child care block grants would remain frozen at 2005 funding levels for the next five years, losing ground to inflation. An estimated 29,600 fewer California children (9.9 percent of the nationwide reduction) would receive child care assistance in 2009 than in 2004 if child care funding remains frozen.

Federal Tax Cuts Reduce California's Revenues

In addition to substantial reductions in federal spending, the President proposes new tax cuts, including making permanent tax cuts enacted since 2001 that are due to expire. The President's tax cuts, including the cost of the tax cuts already enacted since 2001, would cost $2.5 trillion over 10 years. 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. For example:

- The phase-out of the federal estate tax will cost California over $1.1 billion in state fiscal year 2005-06. The 2001 federal tax package phased out the federal estate tax and eliminated states' share of the tax beginning in 2005. Under current law, the estate tax would be repealed in 2010, but reinstated in 2011. 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 2004 will cost the state $138 million in state fiscal year 2005-06. The Legislature will consider additional provisions that would further reduce state revenues this year.

Scott Graves 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.

ENDNOTE

[1] 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.