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To: County Welfare Directors Association of California

From: Tom Joseph, Director, CWDA Washington, D.C. Office

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Re: Federal Budget Update: The Administration's FFY 2009 Proposals

Overview: President Bush has released his proposed \$3.1 trillion budget for Federal Fiscal Year (FFY) 2009, which begins on October 1, 2008. The administration projects a near record FFY 2009 budget deficit of \$410 billion. As in past budgets, non-homeland security domestic discretionary spending is proposed to be cut in real terms, with a 0.3 percent increase proposed before inflation is taken into account.

While Congress will reject most of the administration's proposals for FFY 2009, the administration's budget serves as a starting point for this year's process and will place many programs in a defensive posture.

As in recent years, defense is slated for a substantial funding boost. The administration proposes a 7.5 percent increase, to \$515 billion for those functions, plus \$70 billion in partial year funding for the wars in Iraq and Afghanistan. That funding level will likely require Congress to consider supplemental funding later in the year and serves to mask the extent of the deficit. No funding was requested after this year.

The budget also proposes significant policy changes to restrain the growth in Medicare, Medicaid and other entitlement spending. Many of the legislative changes were proposed and rejected in past years. The administration also plans, however, to continue to implement a number of the changes through the regulatory process.

Over \$195 billion in savings over the next five years would be achieved via the administration's Medicaid and Medicare proposals (see Medicaid details below). Medicare growth would be trimmed by \$178 billion while \$17.4 billion in Medicaid costs would be shifted to states and counties over the next five years. Last year, the administration proposed trimming Medicare's growth \$66 billion and Medicaid by \$12 billion over five years. Congress rejected those proposals.

With the freeze on domestic discretionary programs, many of the proposed budget savings would come from federal programs administered by state and county governments. Many of the savings would be achieved by level-funding many discretionary programs.

Below is an initial analysis of some of the major cuts to health and human services programs gleaned so far. There are 1,000's of pages of the proposed budget, so further details and clarifications will be available as they become known.

For additional information, HHS has released a summary document which may be found at: <http://www.dhhs.gov/budget/09budget/2009BudgetInBrief.pdf>

Major HHS Budget Proposals

The President's health and human services budget proposals affecting state and county governments include:

HUMAN SERVICES

TANF: The administration again proposes to eliminate the separate two-parent work participation rate so that it comports with the single-parent rate. The administration states that this 'budget-neutral proposal' would not require any budgetary offsets or new funding. Congress did not act this proposal last year. The FFY 2009 budget includes \$150 million for healthy marriage initiatives, the same level since FFY 2006.

Foster Care Flexible Funding Option: Similar to the last few years, the administration is proposing to provide states with the option of receiving greater flexibility over the use of Title IV-E foster care funds in exchange for having their Federal funding capped over a five-year period. The administration has never forwarded a draft bill to Congress encompassing this proposal nor has any member of Congress introduced a similar bill.

Independent Living Program: The administration proposes to freeze funding at \$140 million. The program has been funded at that level for a number of years.

Promoting Safe and Stable Families (PSSF): The administration proposes a total of \$386 million in entitlement and discretionary grants for PSSF, the same amount funded in FFY 2007 which reflects a \$26 million cut to the program compared to FFY 2006.

Child Care: Despite the increased resources necessary to implement the new work requirements under TANF, the administration proposes to continue to freeze funding at FFY 2006 levels for both the child care entitlement (\$2.9 billion) and for the Child Care and Development Block Grant (\$2.052 billion). There were no child care funding increases last year.

Social Services Block Grant: For the third year in a row, the administration is proposing to cut Title XX by 30 percent, reducing overall funds from \$1.7 billion to \$1.2 billion in FFY 2009. This cut was rejected the last two years. The administration argues that, due to the flexibility in the program, SSBG overlaps a number of other social services programs and there is no assessment of its effectiveness.

Additionally, the administration proposes to eliminate all SSBG funding in FY 2010.

Community Services Block Grant: Once again, the administration is proposing to terminate the \$654 million CSBG program. Previous Congresses have rejected the proposal, and, in fact, increased it by \$24 million last year.

Child Support: As expected, there were no proposals to restore the Deficit Reduction Act cuts.

Food Stamps: The administration again proposes to restrict categorical eligibility for food stamps. About 40 states take advantage of this option enacted under the 1996 TANF law. Congress rejected this proposal the last two years.

The farm bill reauthorization will likely be the vehicle for any changes to food stamps this year. It awaits a House-Senate conference committee to resolve the differences between the two bills. The administration has issued veto threats on both bills, contending that the overall cost of the farm bill exceeds the budget that they have requested.

Employment and Training: The administration proposes once again to consolidate the Workforce Investment Act (WIA) Adult, Youth, Dislocated Worker, and State Employment Service programs into a single consolidated WIA block grant, which would be funded at \$2.8 billion, a 25 percent cut. WIA's authorization expired September 30, 2003. Congress is expected to again reject the administration's proposal, but it may continue to delay WIA reauthorization until next year.

The administration also proposed to cut the Community Service Employment Program for Older Americans by 33 percent, to a level of \$350 million in FFY 2009. Congress is expected to reject the proposal.

Older American's Act Programs: The administration proposes to freeze funding at FFY 2007 levels for most Administration on Aging programs, including community based nutrition and supportive services. The \$21 million preventive health services program would be eliminated under the president's proposal.

Low Income Home Energy Assistance Program (LIHEAP): The LIHEAP block grant would be cut by 22 percent under the president's proposal. Funding would be reduced from \$2.57 billion to \$2 billion.

HEALTH PROGRAMS

Medicaid Cuts: The administration is again proposing a number of Medicaid administrative and legislative reforms that have been offered in the past. The legislative proposals alone would reduce funding by over \$17 billion over the next five years. Most of these cuts would shift costs to state or county governments. The legislative cuts were rejected by Congress last year and moratoria were placed on a number of the regulatory proposals. Most of the following proposals are described in one or two sentences, so the actual proposal and impact is not always clear at this point.

Match Rate Cuts (Requires Legislation)

Targeted Case Management: In addition to the Targeted Case Management (TCM) limits made by the 2005 Deficit Reduction Act, the administration is again proposing additional curbs to the program, including limiting federal reimbursement of the TCM administrative costs to 50 percent for all states. This proposal would cut TCM funding by \$1.1 billion over five years.

Cost Allocation Changes: The administration again proposes through legislation to change the manner in which administrative costs are allocated under Medicaid. It notes that the 1996 TANF law capped administrative funding under the program, and included administrative costs for Medicaid in that capped grant. Because of that, the administration proposes to reduce Medicaid administrative funding to reflect the costs covered by the TANF block grant. The estimated federal savings is \$280 million in FFY 2009 and \$1.8 billion over five years;

Administrative Reimbursement Cuts: The administration again proposes to 'streamline' administrative match rates to 50 percent for all administrative expenses under the program, saving \$950 million in FFY 2009 and \$5.5 billion over five years.

Family Planning Rates: A new proposal, family planning would be reimbursed at the state's normal matching rate, saving \$570 million in FFY 2009 and \$3.33 billion over five years.

Administrative Cuts: Most of the cuts made by regulations proposed in the administration's budget last year are now assumed to be implemented in the FFY 2009 budget proposal. Despite the moratoria placed on most of them by Congress last year, the administration assumes that those rules will go into effect this year. In their budget submission last year, the administration projected \$12.7 billion in savings over five years through issuing regulations.

Those regulations include:

Public Hospital Cuts: Savings in 2007 estimated at \$3.87 billion over five years. The moratorium expires May 28, 2008.

Rehabilitation Services: The moratorium on this rule expires June 30, 2008. It would cut reimbursement for Medicaid rehabilitation services, with the estimated savings in 2007 at \$2.3 billion over five years.

School-Based Services: The moratorium on this rule expires June 30, 2008. The rule would prohibit using Medicaid to pay for school-based administration and transportation costs of Medicaid-eligible children. The cut was estimated in 2007 to save the federal government \$3.64 billion over five years.

Graduate Medical Education: This moratorium expires May 28, 2008. The administration proposes to eliminate Graduate Medical Education payments to safety net providers, including public hospitals, saving \$1.78 billion over five years. These funds are used by providers to help pay for the costs of treating the uninsured.

Targeted Case Management: Enacted as part of the Deficit Reduction Act, savings are already assumed since the provisions are already effective. The regulation further defining the TCM restrictions place on Medicaid case management services for at-risk populations goes into effect March 3, 2008. About \$1.28 billion over five years is expected to be saved upon the full implementation of the rule.

New Regulatory Savings: The administration is proposing \$800 million in savings over five years via a regulation that would define what savings states are entitled to when implementing managed care waivers under Section 1915 (b)(3).

SCHIP: The administration has nearly quadrupled its request for new SCHIP funding compared to last year's proposal. A total of \$19.3 billion in new funds over five years is requested, compared to the \$5 billion request made last year. The actual effect of that proposal is in question, however, since the budget document also reiterates the August 17, 2007 directive it issued to state health officials which has the effect of prohibiting states from expanding their SCHIP programs.

Mental Health: The Mental Health Block Grant would be frozen at \$421 million in FY 2009, approximately the same level funded by Congress over the past few years.

Substance Abuse Treatment: The federal block grant would receive a \$20 million increase to \$1.779 billion in FFY 2009 under the president's budget. Grant programs for projects of regional or national significance, however, would be cut by 16 percent to \$337 million next year.

CONGRESSIONAL BUDGET PROCESS

The congressional budget process begins with the administration's budget proposals. Over the next few weeks, House and Senate committees will hold hearings on the proposals. At those hearings, administration officials will provide additional detail on their initiatives.

Later this spring, the House and Senate Budget Committees will draft their respective FFY 2009 budget resolutions. Those resolutions are typically very general in nature. The resolution provides broad spending amounts for various functions of the federal budget. Once the House and Senate resolve any differences between their resolutions, the appropriations committees work with the broad allocations and begin to divide and distribute the allocations among all of the various federal departments and programs. While the budget resolution itself does not have the force of law, it serves as a blueprint for the congressional appropriators to follow throughout the year.

While there are internal deadlines for completing the entire appropriations process before the end of the federal fiscal year on September 30, the actual appropriations process is typically not completed until Congress adjourns for the year. Given that it is an election year, the process will either be faster than previous years or, more likely, will be even more chaotic and gridlocked.