



County Welfare Directors Association of California

925 L Street, Suite 350, Sacramento, CA 95814 (916) 443-1749

Frank J. Mecca, Executive Director

CWDA

Washington, DC Office
Tom Joseph
Waterman & Associates
900 Second Street NE
Washington, DC 20002
(202) 898-1444
tj@wafed.com

To: County Welfare Directors Association of California

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

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Re: Federal Update

While Congress is in recess until after Labor Day, Washington's policy-makers, advocates and the financial markets continue to digest last week's enactment of the debt limit bill, officially called the Budget Control Act of 2011 (S. 365; P.L. 112-25). In return for increasing the amount of money the federal government is able to borrow through calendar year 2012, the new law contains budget savings and legislative processes to achieve them. Nearly all other federal legislative and appropriations activity was set-aside during the debt limit debate.

This update describes how programs serving low-income families may be affected by the debt limit bill and outlines the legislative process which will determine future impacts on domestic programs. A brief update on other federal legislation is provided at the end of the update.

The Budget Control Act

First Round of Cuts -- Federal Spending Caps: The Budget Control Act (BCA) saves over \$900 billion in spending over the next ten years by setting annual statutory limits on the overall amount of federal discretionary funds available to the appropriations committees. By capping program spending, those limits would also reduce interest payments on the federal debt. All entitlements (e.g., Medicaid, SNAP, TANF) are excluded from this first round of cuts.

Given the caps set in law, the cuts are back-loaded in the out years. Total discretionary spending in federal fiscal years (FFY) 2012 and 2013 will be limited to \$1.043 trillion and \$1.047 trillion, respectively, for a total savings of about \$10 billion in the first two FFY's. For those two years, savings are divided equally between domestic (non-security) and defense programs ('security' programs include homeland security, veterans and foreign operations).

Beyond FFY 2013, the legislation does not segregate security and non-security spending.

Recognizing that achieving these savings will be politically challenging, lawmakers included an enforcement mechanism that triggers across-the-board cuts in discretionary accounts if the spending caps are breeched. The reductions would be occur when Congress adjourns for the year and would also apply to programs already cut during the appropriations

process. This tool is similar to the spending “sequesters” that were enacted in the 1985 Gramm-Rudman law (PL 99-177).

Each year, the discretionary caps are raised very slightly, but the caps essentially freeze discretionary spending at current levels, including defense, through FFY 2021. It is very uncertain how the future cuts will be allocated before any additional across-the-board reductions would have to be applied to comply with the spending caps.

Second Round of Cuts -- Joint Congressional Committee Plan: The law also contains a procedure for crafting a package of containing at least another \$1.2 trillion in savings over ten years. A Joint Select Committee on Deficit Reduction (a.k.a. the supercommittee) is tasked with finding these savings, which could come from entitlement and/or discretionary programs, as well as revenues.

The Committee will be comprised of 12 members -- three Republicans and three Democrats from both chambers of Congress. The members of the Committee will be named by congressional leaders by August 16. They will have until the day before Thanksgiving (November 23, 2011) to devise and approve by majority vote a package of recommended savings. That package is then sent to both houses of Congress which must vote it up or down with no amendments and no Senate filibuster by December 23, 2011.

If a package is vetoed by the President and the Congress fails to override the veto or the legislation fails at any point in the process, including failing to receive initial support from at least seven of the 12 Committee members, automatic across-the board cuts are triggered and divided equally between domestic and defense/security spending. The cuts would be spread equally across nine years. If Congress indeed crafts and enacts into law a package of savings less than the \$1.2 trillion target, the remaining savings necessary to meet the target would be applied via an across-the-board cut across all discretionary accounts.

If no agreement is reached, the cuts would begin in January 2013 and amount to about a nine percent annual cut in non-defense and defense programs.

Under the law, entitlements are protected from the automatic triggers. These exempt programs include Medicaid, IV-E foster care and adoption assistance, SNAP, SSI, TANF, child support, and the child care entitlement to states. In other words, unless entitlement savings are specifically outlined in the Committee package, they are protected from cuts.

A BCA legislative timeline is outlined below after the following Budget Observations.

Budget Observations

It is extremely uncertain what will emanate from this process, given the short time frame in which the supercommittee must make its recommendations and the recent brinksmanship experienced reaching an agreement to adopt the new law.

Entitlements: What is known is that it will be nearly impossible to achieve the level of savings necessary through entitlement reforms alone. The package of entitlement cuts tentatively agreed to by President Obama and House Speaker Boehner in mid-July would have achieved about one-half of the \$1.2 trillion in savings envisioned in the new BCA. Those cuts were relatively radical in nature and included raising Medicare’s eligibility age, increasing Medicare co-pays, changing the COLA structure for Social Security and other

benefits, as well as shifting about \$100 billion in Medicaid costs to states by blending into one potentially lower rate the various federal matching rates for the current Medicaid program, the Children's Health Insurance Program and the enhanced Medicaid match for newly-eligible single individuals under health reform. The three programs -- Medicare, Social Security and Medicaid -- are by far the largest federal entitlement programs, consuming about 40 percent of the federal budget.

Also on the table will be Republican proposals to cut federal spending under the new health care law. The Congressional Budget Office projects that the law will cover 34 million uninsured people by expanding Medicaid, subsidizing private insurance and investing in numerous health providers and public health systems at a cost of \$1.1 trillion over ten years. The Affordable Care Act, however, was fully paid for and total repeal would actually increase the deficit.

Revenues: Although the vast majority of Republicans are adamant about not increasing revenues, it is hard to achieve the level of savings necessary without them in order to avoid across-the-board cuts that would also apply to defense programs. There are a number of policy alternatives available. Without legislative intervention, the Bush tax cuts will expire on January 1, 2013, saving up to \$3.8 trillion alone in the next decade. In addition, 'tax expenditures,' which include individual and corporate tax credits and deductions, amount to more than \$1 trillion annually. All three recent bipartisan budget deficit committees identified tax expenditure reform as a significant source available for deficit reduction.

Next Steps: There will be intense lobbying by all interest groups and industries to protect their stakeholders from cuts proposed by the supercommittee. Advocates in Washington await the appointment of the 12 members of that committee and will be activating their grassroots. CWDA is monitoring developments closely and will continue to participate in national low-income advocate calls and meetings.

For CWDA's part, it will be important to weigh in with the California congressional delegation, regardless of the supercommittee membership. A big target for low-income savings will be Medicaid, given the size of the program. As noted earlier in the update, President Obama has already proposed cutting Medicaid by about \$100 billion through blending the federal matching rates for Medicaid, CHIP and the new Medicaid match under health reform.

SNAP may also be a target, given its increased budget over the past few years due to the recession. Other entitlements, including TANF and IV-E are relatively small items in the federal budget, so finding savings in them will produce a very small amount of deficit reduction. However, the supercommittee could still identify savings through cost shifts by reducing federal matching rates or increasing penalties for poor programmatic performance. Additionally, there will likely be fewer advocacy groups protecting them, compared to Medicaid and other huge entitlements.

Timeline for the Budget Control Act

August 2 — President signed the legislation. New statutory caps on discretionary spending are set in law for the next ten fiscal years (FFY's 2012- 2021).

As soon as practicable: The Chair of the Senate Budget Committee must report allocations for FFY 12 to the Appropriations Committee based on the new discretionary caps set forth in the Act.

August 16: The House Speaker, House Minority Leader, Senate Majority Leader and Senate Minority Leader each appoint three members to the Joint Select Committee on Deficit Reduction (the Joint Committee). The Speaker of the House and the Senate Majority Leader each must name a co-chair of the Joint Committee from among the Committee members.

September 16: The Joint Committee shall hold its first meeting.

October 14: Each House and Senate Committee may submit recommendations to the Joint Committee on how to reduce the deficit.

Between October 1 and December 31: The House and Senate must vote on a balanced budget amendment to the Constitution.

By November 23: The Joint Committee shall vote on language to achieve the goal of \$1.5 trillion in deficit reduction covering FFY's 2012-2021. If they reach agreement with at least seven votes, they must craft legislation containing the recommendations by December 2.

December 23: The House and Senate deadline for voting on the agreement without amendments and no Senate filibuster.

One Year Later....

January 2, 2013: Across-the-board cuts of up to \$1.2 trillion through FFY 2021 occur if Congress failed to adopt the Joint Committee bill or, if the President vetoes the bill and the Congress fails to override it, The exact percentage cuts will not be known until the time of the sequester calculations, because it will be based on the final FFY 2012 spending levels.

Other Legislative Updates

FFY 2012 Spending Bills: Due to the last minute agreement on the debt bill, the Senate and House have not taken any action on the Labor HHS FFY 2012 spending bill.

The House postponed its anticipated July 26 markup. The Labor-HHS subcommittee allocation is nearly 15 percent below the FFY 2010 level. The Senate Budget Committee was directed in the new deficit law to make its FFY 2012 allocations to the Senate Appropriations Committee as soon as practicable. It is very unlikely that the final spending bills will be completed by October 1, so short term extensions of funding for federal programs and agencies are expected.

Temporary Assistance for Needy Families Reauthorization: A House Ways and Means hearing on TANF was scheduled in early August but was postponed when the House recessed earlier in the month than anticipated. That hearing is expected to occur in September, CWDA will submit a statement for the record. A full reauthorization is not expected to occur this year.