



**Aug. 28, 2009**

## **An Update on the Tax and Budget System: Federal**

Even during the August recess, Arkansas Advocates for Children and Families has been closely following Congress as it continues to develop legislation that will have a profound impact on Arkansas children and families. Newly released 2009 federal budget deficit projections underscore the need for healthcare reform, which will continue to dominate discussion in both the Senate and the House when Congress resumes. Consequently, movement on climate change legislation has slowed in the Senate as Congress focuses its attention on health reform. This issue of *Moving Families Forward* discusses the latest on these federal issues. We also introduce our latest state tax and budget resource. Read on to learn more.

### **Federal Budget Deficit**

On August 25, 2009, the non-partisan and non-profit Congressional Budget Office (CBO) projected that the federal deficit for 2009 will reach \$1.6 trillion, which is 11.2 percent of the gross domestic product (GDP). On the same day, the Administration's Office of Management and Budget (OMB) projected a deficit of \$1.58 trillion or 11.2 percent of GDP. A key difference among the two forecasts is the CBO's treatment of the 2001 and 2003 tax cuts. CBO assumes that all of the 2001-2003 tax cuts will expire in the next year. This is unlikely to occur as many of the tax cuts have support in the Congress and/or Administration. In fact, the current budget resolution allows for the extension of the 2001-2003 middle-class tax cuts without paying for them. Next year, Congress must instead choose carefully which tax cuts to extend in an effort to increase revenues and balance the tax system. Beyond extending the middle-class tax cuts, Congress must also ensure all other tax cuts are paid for to improve our nation's fiscal health. Both the CBO and OMB agree that the federal government cannot be put on a fiscally sustainable path without slowing the rate of health care cost growth in the long run.

Health care costs are the single largest contributor to the long-run budget problem, and cost growth in Medicare and Medicaid tends to mirror — and is driven to a very large extent by — cost growth in the health care system as a whole, including private-sector health care. If Congress extends the 2001-2003 tax cuts without paying for them and if we fail to reform our health care system, national spending on Medicare, Medicaid, and Social Security will consume 17% of the GDP by 2031. The recent projections re-affirm the need to pass a deficit neutral health reform package that also incorporates changes that will reduce the deficit in years to come.

[Click here to view the Office of Management and Budget Mid-Session Review](#)

[Click here to view the Congressional Budget Office summary of the federal budget update.](#)

## Health Reform

On July 31, 2009, the House released its tri-committee health reform proposal. To pass the bill out of the Energy & Commerce Committee, Chairman Waxman accepted an amendment offered by the Blue Dogs led by Representative Mike Ross that made significant changes to the legislation, including:

- Increasing modestly the overall amount some individuals and families will have to pay for health coverage;
- Reducing the Medicaid matching rate for the Medicaid expansion, dropping the federal contribution from 10 percent in 2015 and beyond;
- Requiring that the government negotiate payment rates in the public insurance plan rather than pay Medicare rates as had originally been proposed; and,
- Exempting more small businesses from the “play or pay” requirements.

The Committee also accepted an amendment by Rep. Diana DeGette (D-Colo.) to ensure that children won't be moved from CHIP to the Health Insurance Exchange until the Secretary certifies that Exchange coverage is comparable to the average CHIP plan.

The House bill is likely to be the high water mark for health reform proposals. It has good subsidies, a generous expansion of Medicaid, and critical benefit standards for children and families in the Exchange. Further significant improvements are unlikely to be made as the three committees' bills are merged.

On August 22, AACF released an analysis of the House health reform proposal and what it means for Arkansas children. [Click here to see a copy of that analysis.](#)

The Senate Finance Committee has yet to release its health reform proposal. The Committee membership, which includes Sen. Blanche Lincoln, remains in negotiation over several aspects of the proposal, chief among them the best method to pay for health reform. Ensuring that health reform legislation is paid for will be critical to providing adequate subsidies for children and families living below 400 percent of the federal poverty line.

The political environment for health care reform has turned increasingly unfriendly, with many of the recent town hall meetings turning ugly and numerous press accounts have shown that Republicans are unlikely to support current reform proposals without major changes, leaving open the possibility that Congressional and Senate Democrats may have to pass a bill without bi-partisan support.

## Climate Change

With health reform consuming much of Congress' attention, climate change legislation remains stalled in the Senate. As new developments occur we will update you in coming editions of *Moving Families Forward*.

## An Update on the Tax and Budget System: State

Arkansas Advocates for Children and Families is pleased to announce the release of a new report: [\*Rules of the Game: An Advocate's Guide to the Arkansas Tax and Budget System\*](#).

This easy-to-digest report explains how our state's tax and budget system works, how it affects all children and families, and what specific steps advocates can take to improve it.

The report's authors, Dr. Jay Barth of Hendrix College and Dr. Ginny Blankenship of AACF, will be presenting the new report across the state over the coming months. If you would like them to speak to your organization, please contact Ginny Blankenship at 501-371-9678 ext. 105, or [gblankenship@aradvocates.org](mailto:gblankenship@aradvocates.org).

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*If you would like more information on the topics discussed above, please contact **Candice Smith**, our federal tax and budget policy director, at [csmith@aradvocates.org](mailto:csmith@aradvocates.org) or **Pat Bodenhamer**, our state tax and budget outreach director, at [pbodenhamer@aradvocates.org](mailto:pbodenhamer@aradvocates.org). If you would like to subscribe to **Moving Families Forward**, which provides updates and alerts on state and federal tax and budget issues, please email [csmith@aradvocates.org](mailto:csmith@aradvocates.org).*