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The Federal Budget and Arkansas:

Programs and Priorities

by Kathryn Hazelett

Congress was still in session late in December, 2005 debating the USA Patriot Act, drilling in the Arctic National Wildlife Refuge, and how to fund the federal government for the next fiscal year. Congress is rarely still in session that late in December - a telling sign, not only of the importance of the issues being debated, but of the wrangling taking place about these important issues. How did Congress arrive at this point and what are the likely outcomes for Arkansas? This paper will show why this debate is so important to our state, and list some of its likely outcomes.

The Importance of the Federal Budget

Why should Arkansans care about what happens in this rather complicated federal budget process? The answer is simple. Budget decisions impact our daily lives - the programs on the chopping block impact all Arkansans in some way, whether the program is Medicaid, Veteran's health care benefits, or the setting of student loan interest rates.

Where are we now?

The 2006 fiscal year began back in October, but the wrangling over the federal budget is not yet finished. After inserting a pair of reconciliation directives into the Budget Resolution, Congress ensured that entitlement programs such as TANF, Medicaid, and child support enforcement, would be cut and, as in two previous budget cycles under the current Bush administration, ensured that taxes on our wealthiest citizens would also be cut. Congress opted to separate the reconciliation instruction on taxes from the reconciliation instruction on entitlement programs, providing for a separation of votes both in time and in public perception. (For a detailed explanation about the federal budget process, please see the text box.)

The House and Senate each passed budget reconciliation bills with differing methods to achieve the cut in costs in the entitlement programs required by the reconciliation process. Once these bills passed each chamber, members from each chamber met and produced a reconciliation conference agreement. This agreement then needed to be voted on and passed in both the House and the Senate to become law (it is important to remember that reconciliation bills are unable to be filibustered in the Senate – only 51 votes are needed to pass the bill). The House passed the legislation after a very late unveiling of what was included in the report. The public and House members received the 774-page report after 1 a.m. and House members began voting on it before 6 a.m. There was much confusion about just what the bill contained, but the House passed the legislation that morning.

After deleting several non-substantive portions from the legislation, the Senate also passed it, calling on the Vice-President to break the 50-50 tie. Because of the deleted sections, the legislation must return to the House for another vote so that each chamber has voted on identical bills. It is likely that this vote will take place early in February.

It is also important to note that despite many iterations to the contrary, this cut to entitlement programs does NOT decrease the deficit. On the contrary, these spending cuts will be used to offset part of the cost of the pending tax-cut bills. The overall result will actually be to increase the deficit.

Overall State Budget Impacts of the Reconciliation Agreement[1]

What are the budgetary impacts of this bill on state budgets? The Congressional Budget Office (CBO) estimates that states will lose $5 Billion over the next five years. Arkansas usually accounts for about 1percent of total federal spending at the state level, so it can be roughly estimated that Arkansas would lose $50 Million in funding for programs such as Medicaid, Child Support Enforcement, TANF, and child welfare services.

The $5 Billion is a net number taking into account both increases and decreases in federal funding. The CBO estimates that the loss to states coupled with new federal mandates will cost states $11 Billion; $6 Billion in increased funding would come from other sections of the bill.

The Effects of the Reconciliation Agreement

As shown in the table, there are not only state budget effects from these funding changes, but real, personal effects to be felt by program beneficiaries.

Medicaid – The most wide-spread changes to entitlement programs can be seen by the changes made in the reconciliation agreement to the Medicaid program. By choosing to make spending cuts that would harm beneficiaries and not to exact the cost savings from the pharmaceutical and managed care plans, Congress chose to put special interests ahead of low-income families. The new Medicaid provisions require a birth certificate or passport to be eligible for care, causing administrative burdens as well as preventing many from receiving care as these requirements require everyone to present such documentation without regard to illness, age, or mental capacity.[2] A recent study by the Inspector General of the Department of Health and Human Services (IGO) shows this requirement to be unnecessary - there was no substantial evidence that illegal immigrants were claiming to be citizens and successfully enrolling in Medicaid; the IGO did *not* recommend that everyone should provide documentation.[3] With the new requirements all 673,000 currently on Medicaid, including 352,000 children, would have to provide documentation in order to receive services.

The new legislation also imposes higher premiums and cost-sharing on beneficiaries and gives providers the option not to serve those who can not make their co-payments. Co-payments will also be annually increased by the level of medical inflation, which far outpaces increases in salaries.

Child Support Enforcement – Funding for child support enforcement provides states with the resources to pursue absent parents, establish legally enforceable child support orders, and collect and distribute child support owed to families.[4] The CBO estimates that this cut in funding will result in $2.9 Billion in child support going uncollected over the next five years. Arkansas children will lose what it legally owed to them.

TANF – The changes to TANF in the conference report are the most extensive changes to TANF in since 1996. The new legislation imposes expensive new work requirements on states (Arkansas would need to increase its work participation rate by 25%, or 1,300 more families, in order to meet the new standards[5]), gives the U.S. Department of Health and Human Services new regulatory authority as to how states operate their welfare-to-work programs, and takes away state flexibility in applying work requirements for programs that are state funded. Most onerously, the legislation imposes fiscal penalties for failing to meet work participation requirements specifically applied to poor two-parent families. Not only are these requirements virtually unattainable,[6] the imposition of penalties could result in the state curtailing assistance to two-parent families, pushing more children into deep poverty.

Child Care – The conference agreement does not include nearly enough funding to meet the increased child care needs due to the new TANF work requirements, nor to keep pace with inflation to maintain the current child care programs in place for those families that are not on TANF. It is estimated that in 2010, 255,000 fewer children in low-income working families not on TANF will receive child care assistance than received such assistance in 2004.[7]

Foster Care – The $300 Million cut to foster care represents a cost shift to the states – states will have to make up this lost revenue in order to ensure that these children receive care.

Tax Cuts – The Senate passed its reconciliation tax cut package on November 18th and the House passed it on December 8th. The House and Senate will begin to resolve the differences in their bills when Congress reconvenes in late January. The reconciliation tax cut bills will likely be limited to $60 Billion dollars (of the $77.5 Billion depicted graphically) due to a complex point of order rule in the Senate. This $60 Billion far outstrips the $40 Billion in cuts to the above-mentioned entitlement programs and clearly demonstrates that the entitlement cuts (to programs that benefit low-income individuals) will be used to subsidize the tax cuts (whose primary beneficiaries are those that earn over $100,000 a year).[8]

The differences in the House and Senate bills are vast. For example, the House bill includes a two-year extension of the capital gains and dividends tax cuts at a cost of $51 Billion, while the Senate bill includes relief from the

Alternative Minimum Tax (AMT) at a cost of $31 Billion. The House passed AMT relief outside of the reconciliation bill while the Senate specifically excluded capital gains and dividend tax cuts from its bill. Likewise, the Senate included revenue-raising offset provisions by closing some corporate tax loopholes, but the House has balked at including these in the final bill.

There is sure to be continuing debate on both the tax cut and entitlement cut provisions when Congress returns in late January. Arkansas Advocates will closely follow both of these important issues as they develop and will post updates and state-by-state information on our website at www.aradvocates.org as they are available.

The federal budget process and outcomes have very real fiscal and personal impacts for the state of Arkansas and Arkansans. Understanding these as the FY 2006 process winds down and as the FY 2007 process begins is necessary to protect programs vital to Arkansas.

Budget Process Primer

Step 1: The President's Budget

The federal budget has been "in process" since last February. Each year in late January or early February, the President lays out priorities for federal programs and signals Congress as to the spending and tax policy changes the President recommends.

The President's budget has three main components: funding for annual discretionary or appropriated programs, changes to mandatory or entitlement programs, and changes to the tax code. Discretionary programs fall under the jurisdiction of the House and the Senate Appropriations Committees. Discretionary programs must have their funding renewed each year in order to continue operating -the President's budget spells out how much funding is recommended for each discretionary program. Discretionary programs include education (including such programs as Head Start), local law enforcement, community development, and environmental programs.

Mandatory or entitlement programs are programs that are <u>not</u> controlled by annual appropriations; rather, they are automatically funded each year and benefits go to anyone who qualifies. Entitlement programs are programs such as Social Security, Medicare, Medicaid, food stamps, federal civilian and military retirement benefits, veterans' benefits, and unemployment insurance.

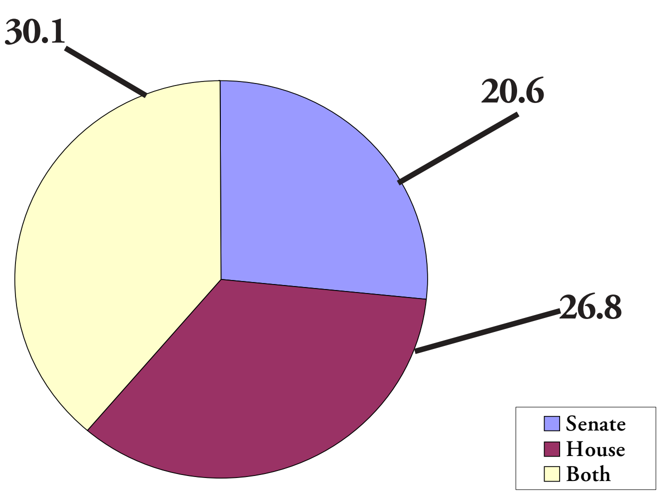
Finally, the President's budget details any increase or decrease in taxes and how the increase or decrease would effect the amount of federal revenue expected to be collected in that year or future years.

Step 2: The Congressional Budget Resolution

Depending on the composition of the House and Senate, the President's budget is either looked on as a guiding document or as one that is tossed aside. The President's budget represents what the President would like to see in the final budget, but it is a recommendation only and is not binding on Congress.

Congress drafts its own budget in a document called the Congressional Budget Resolution. This document is drafted by the House and Senate Budget Committees and serves as a fiscal blueprint for the federal government. It contains broad spending and revenue targets for the coming

Potential Tax Cuts to be Reconciled: Total: $77.5 Billion



House: Includes Capital Gains and Dividend Tax Cuts (20.6 billion) and other tax cuts (6.2 billion)

Senate: Includes temporary fisxes for the Alternative Minimum Tax (30.5 billion), Charitable Giving (0.5 billion), Revenue Raising Offsets (18.8 billion), other tax cuts (8.4 billion)

Both: Includes Research and Experimentation Tax Credit (9.9 billion), Small Business Expensing (7.3 billion), and other tax cuts (12.9 billion)

Source: Joint Committee on Taxation - where there are similar cuts in both houses, the Senate estimate was used.

years. Once drafted, it goes to the floors of both chambers where it can be amended by a majority vote. It then goes to House-Senate conference to resolve any differences and a conference report is passed by both houses.

The resolution is not an ordinary bill and does not go to the President for signature or veto. It requires a majority vote to pass and cannot be filibustered in the Senate.

Where the President's budget is a lengthy document, the actual congressional budget resolution is a short document listing only the amounts that Congress is allowed to spend in each of 17 spending categories (known as "budget functions")[9], and how much total revenue the government will collect for each of the next five or more years.

Step 3: Enforcement of the Budget Resolution on the House and Senate Floor

If Congress attempts to pass legislation that is not in step with the budget resolution, a single member of the House or Senate may raise a "point of order" asking Congress to stay within the limits set in the resolution. In the House, a simple majority can waive the point of order on a vote on a resolution developed by the Rules Committee (the committee that sets the conditions under which a bill is considered on the floor); but in the Senate, any legislation that exceeds a committee's spending allocation is vulnerable to a budget point of order on the floor that requires 60 votes to waive.

Step 4: Budget Reconciliation

When Congress decides to use reconciliation, a "fast track" budget procedure, the Budget Resolution includes a "reconciliation directive." This directive instructs the various committees to produce legislation by a specific date that meets certain spending or tax targets. If these targets are not met, the Budget Committees will write amendments for those committees in order to meet the budget targets.

Once the process of meeting the targets is completed, the Budget Committees will package the various bills together into a single "reconciliation" bill and present it to Congress for an up or down vote on the floor, with little opportunity for amendment. Unlike the resolution, this bill WILL become law. Again, in the Senate, reconciliation is not able to be filibustered; it will pass with a simple majority vote.

Please visit: http://www.chn.org/pdf/factsheets/Arkansas.pdf for some Arkansas-specific numbers released jut before going to press.

Endnotes:

[1] *State Budgets Would be Squeezed Under Budget Conference Agreement;* Sharon Parrott, Nick Johnson, and Leighton Ku; Center on Budget and Policy Priorities, December 20, 2005.

[2] *New Requirement for Birth Certificates or Passports Could Threaten Medicaid Coverage for Vulnerable Benficiaries;* Leighton Ku and Matt Broaddus; Center on Budget and Policy Priorities, January 5, 2006.

[3] *HHS Office of the Inspector General, "Self-Declaration of U.S. Citizenship Requirements for Medicaid,"* July 2005.

[4] *Assessing the Effects of the Budget Conference Agreement on Low-Income Families and Individuals,* Sharon Parrott, Edwin Park, and Robert Greenstein; Center on Budget and Policy Priorities, January 9, 2006, p.8.

[5] *TANF Work Participation Standards: Revising the Caseload Reduction Credit*, Gene Falk, Congressional Research Service, December 19, 2005.

[6] *Assessing the Effects of the Budget Conference Agreement on Low-Income Families and Individuals*, Sharon Parrott, Edwin Park, and Robert Greenstein; Center on Budget and Policy Priorities, January 9, 2006, p. 9.

[7] *Ibid.*

[8] *Senate and House Reconciliation Tax Packages: Nearly $100 Billion in Tax Cuts are on the Table*, Joel Friedman, Center on Budget and Policy Priorities, January 10, 2006, p.3.

[9] Budget functions include the following spending categories: national defense; social security; income security; medicare; health; net interest; education, training, employment and social services; veterans benefits and services; transportation; administration of justice; international affairs; agriculture; natural resources and environment; community and regional development; general science, space, and technology; general government; commerce and housing credit; energy; and undistributed offsetting receipts.

The State Fiscal Analysis Initiative (SFAI) Project

The mission of Arkansas Advocates is to ensure that all children and families have the resources and opportunities to lead healthy and productive lives and to realize their full potential. The goal of our SFAI project is to improve the economic well-being of the state's families with children by providing timely and credible analysis to policymakers, the media, and the public and promoting a more informed public debate about state tax and budget issues. The views of this report are those of the author and does not reflect that of the funders.

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AACF is a non-profit organization. If you would like to support our work you may donate online at www.aradvocates.org or mail contributions to the address listed below.

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