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PRESIDENT'S BUDGET WOULD CUT DEEPLY INTO IMPORTANT PUBLIC SERVICES AND ADVERSELY AFFECT STATES

By Arloc Sherman, Sharon Parrott and Danilo Trisi¹

Introduction

The Administration's proposed budget for 2008 calls for sizable cuts over the next five years in domestic discretionary programs — the programs (other than defense and international programs) that are funded each year through the annual appropriations process. The reductions would start in 2008, when domestic discretionary programs as a whole would be funded below the levels recently enacted for 2007.² The cuts would grow deeper each year after 2008 and would come from nearly every part of the domestic budget.

The largest cuts would come in 2012, when domestic discretionary programs would be cut \$34 billion, or 7.6 percent, below the 2007 funding level, adjusted for inflation. Over the 2008-2012 period, funding for domestic discretionary programs would be a total of \$114 billion below the fiscal year 2007 level, adjusted for inflation.

The cuts would come from a very wide range of areas, including environmental protection, veterans' health care, medical research, assistance for state and local law enforcement efforts, child care, and energy and nutrition assistance for low-income seniors.

¹ The authors would like to thank Matt Fiedler for his invaluable assistance in analyzing the President's funding proposals.

² In this analysis, proposed cuts in 2008 and subsequent years are calculated by comparing the proposed funding levels in the budget for those years with the level just enacted in the full-year continuing resolution for 2007 adjusted for inflation.

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KEY FINDINGS

- **The President's budget would reduce funding for most parts of the domestic discretionary budget below the 2007 funding levels, adjusted for inflation. The cuts would start in 2008 and grow deeper in each of the four succeeding years.**
- **The proposed reductions would effectively shift billions of dollars in costs on to states, requiring them to scale back key public services or raise taxes to plug the holes left by the federal cuts.**
- **The reductions would come from a wide range of areas, including education, environmental protection, community development, and key supports for low-income families.**
- **At the same time, the budget would permanently extend virtually all of the 2001 and 2003 tax cuts. Extending the tax cuts would cost much more each year than all of the proposed discretionary program cuts would save.**

Many of the proposed cuts would come from funds that are provided to state and local governments. In 2008, funding for discretionary programs that provide grants to states and localities would be \$11.2 billion lower than the 2006 funding level, adjusted for inflation, and funding for both discretionary and mandatory programs — but excluding Medicaid — would be \$12.7 billion below the 2006 level.³ (Data on the level grants-in-aid that states will receive in 2007 are not yet available. See Table A for state-by-state estimates of the loss of grants-in-aid in 2008 relative to the 2006 level.)

The cuts in funding for states and localities would deepen after 2008 as the cuts in domestic discretionary programs grow deeper.⁴ The proposed reductions in domestic discretionary programs would have the effect of shifting billions of dollars in costs on to states, requiring them to scale back key public services or raise taxes to plug the holes left by the federal funding reductions.

The Budget's Priorities

At the same time that the budget would reduce domestic discretionary funding, it would permanently extend virtually all of the tax cuts enacted in 2001 and 2003, at a cost of \$317 billion in 2012 alone.⁵ This is several times the amount that would be saved by all of the reductions in domestic discretionary programs that the President's budget proposes for that year.

³ Medicaid is traditionally excluded from this analysis because changes in Medicaid grants largely reflect inflation in health-care costs in the public and private sectors alike. Considering grants other than Medicaid gives a more accurate picture of the relative level of federal funding for state and local services. The President's budget does include cuts in Medicaid relative to the amounts required to maintain the program. The large majority of those cuts would shift costs to states; see "The Administration Again Proposes to Shift Federal Medicaid Costs to States," by Leighton Ku, Andy Schneider, and Judy Solomon, Center on Budget and Policy Priorities, February 2007, <http://www.cbpp.org/2-14-07health.htm>.

⁴ The Administration's budget says that it calls for a one percent *increase* in funding for domestic discretionary programs for 2008, but it derives this percentage figure by comparing its proposed level of funding for domestic discretionary funding in 2008 to an assumed funding level for 2007 that is *below* the amount that was actually enacted. (The full-year continuing resolution had not been finalized when the Administration completed work on its budget.) In addition, in comparing its proposed 2008 level to the level assumed for 2007, the Administration did not adjust the 2007 level for inflation. The overall level of funding the Administration is proposing for domestic discretionary programs in 2008 is \$1.5 billion below the level enacted for 2007 even before inflation is taken into account, and \$12.9 billion below that level after adjustment for inflation.

⁵ This cost reflects the cost of extending the President's tax cuts, assuming Alternative Minimum Tax relief is continued. See Aviva Aron-Dine, "Extending the President's Tax Cuts and AMT Relief Would Cost \$3.5 Trillion Through 2017," Center on Budget and Policy Priorities, January 31, 2007, p. 3.

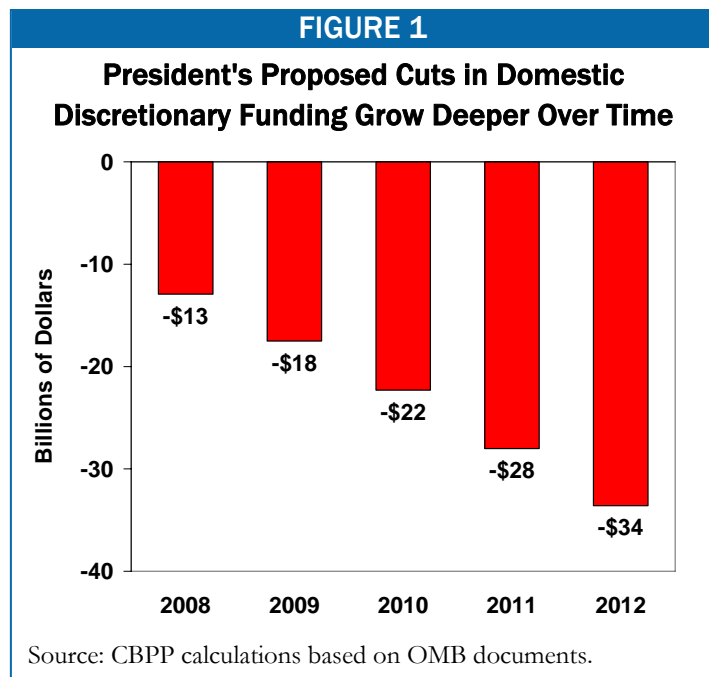
The budget's priorities are clear. Extending the tax cuts, including those for the very affluent, takes precedence over maintaining current levels of investment in education and the environment, in the home energy assistance program upon which many poor seniors depend, in Head Start and child care for low-income children, and in programs that help states and localities combat crime. Extending the tax cuts also takes precedence over fiscal responsibility: the Administration's budget would make deficits larger over the next five years than if current policies were continued,⁶ and permanently extending the tax cuts would significantly worsen the nation's long-term fiscal problems.

Making the tax cuts permanent also would take precedence over action to moderate the trend toward increasing income inequality. Despite recent remarks by President Bush and Federal Reserve Chairman Bernanke highlighting the disturbing growth in inequality, the budget would further widen the gaps between the very wealthy and other Americans. Households with incomes of more than \$1 million would receive tax cuts averaging \$162,000 in 2012 alone (and nearly that much in each of the preceding years), according to estimates by the Urban Institute-Brookings Institution Tax Policy Center. Meanwhile, low-income households would be affected by cuts in areas such as child care assistance, help with home heating costs, and supplemental food packages for the elderly poor, as well as by other parts of the President's budget, such as its failure to provide sufficient funding to enable states to continue insuring the same number of low-income children under their children's health insurance programs.

How Would the Cuts Be Achieved?

The budget documents that the Office of Management and Budget (OMB) released on February 5 spell out the President's proposed funding levels for each discretionary program for fiscal year 2008. For example, the budget documents show that the President is proposing in 2008 to:

- Eliminate the Commodity Supplemental Food Program, which provides modest nutrition packages to 440,000 low-income seniors each month at a cost of \$107 million in 2007.
- Cut funding for the Environmental Protection Agency (EPA) programs that provide funds to states and tribes to improve water safety and reduce water pollution by \$428 million or 22 percent. (Funding for this program would be 20 percent below a *freeze* of the fiscal year 2007 level.)



⁶ A forthcoming Center analysis will discuss this issue in detail.

- Cut funding for vocational and adult education by \$832 million or 41 percent below the fiscal year 2007 level, adjusted for inflation. (Funding for this program, as well, would be significantly below a freeze of the fiscal year 2007 level.)
- Fund the Child Care and Community Development Block Grant at \$39 million below the fiscal year 2007 funding level, adjusted for inflation. This would mark the sixth consecutive year of essentially frozen funding for the program.
- Fund the Head Start program at \$232 million below the fiscal year 2007 level, adjusted for inflation. This would mark the sixth consecutive year that funding for Head Start had not kept pace with inflation.
- Eliminate a set of state and local law enforcement assistance grants, including the State Criminal Alien Assistance program and the Justice Assistance Grants, and replace them with two much smaller competitive grants.
- Reduce funding for the Low-Income Home Energy Assistance (LIHEAP) program by \$420 million, or 19 percent, below the fiscal year 2007 level, adjusted for inflation. (LIHEAP funding would be \$379 million below a freeze of the fiscal year 2007 level.)

Cuts in Fiscal Years 2009-2012

The reduction in overall domestic discretionary funding proposed in the President's budget is more than twice as deep in 2012 as in 2008. The budget documents do not specify funding levels for specific discretionary programs for years after 2008.⁷ Breaking with normal budgeting procedures, the Administration has chosen for each of the past three years *not* to show in its standard budget materials the funding levels that it is proposing for each discretionary program or "budget account" for years after the coming fiscal year (in this case, 2008).

Nevertheless, back-up materials provided to the congressional budget committees list the overall funding levels for each year that the President is proposing for discretionary programs in each of the 15 categories of programs known as budget "functions" and for each of the 74 sub-categories of more closely related programs known as budget "subfunctions." These data show that most budget functions and subfunctions would see substantial cuts over the next five years under the President's budget. For example:

- The environment and natural resources function would be cut by \$20.1 billion over the next five years compared to the fiscal year 2007 funding level, adjusted for inflation. The cuts in this function would grow from 8 percent in 2008 to 15 percent in 2012. Some \$5.5 billion of the \$20.1 billion in reductions would come from the subcategory of programs dealing with pollution control and abatement.
- Employment and training programs, including programs funded under the Workforce Investment Act (such as training for adults and youth, training for dislocated workers, and one-

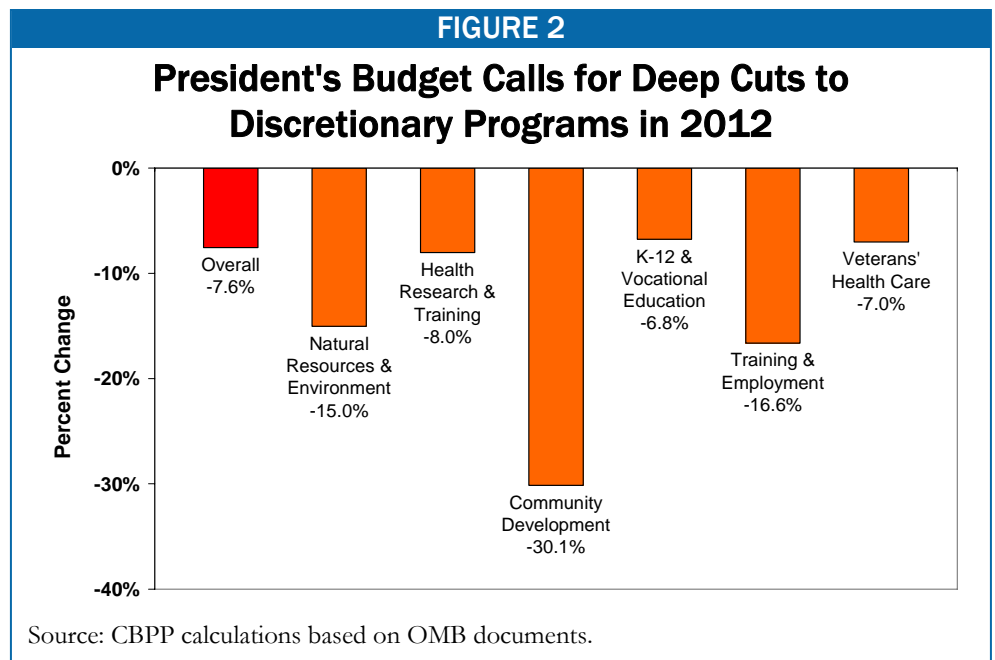
⁷ In the past, the "back-up" tables to the budget that were provided by this and previous administrations included proposed funding levels for each budget account for each year that the budget covered. Budget accounts often consist of a single program but sometimes include multiple, related programs.

stop career centers) and the Job Corps, would be cut by \$1.2 billion — or 17 percent — in 2008 and \$5.8 billion over the next five years.

There are some domestic categories of programs that would see increases, particularly general science and space programs. In addition, there are some groups of programs — such as veterans' programs — for which the Administration is proposing to increase funding in 2008 but cut funding in later years.

It is possible to estimate the funding level for an individual program for 2009-2012 on the basis of its funding level for 2008 and the funding level for the subfunction in which it is included for the years from 2009 to 2012. For example, under the President's proposals, Head Start would constitute 63 percent of the funding of its subfunction in fiscal year 2008. This analysis assumes that the relative funding priorities that the President has outlined for 2008 will remain consistent over the

five-year budget period — in this case, that Head Start will continue to constitute 63 percent of its subfunction in each year from 2009 to 2012. Using the proposed funding levels for Head Start's subfunction for 2009-2012, we can then project Head Start funding levels for 2009-2012 and compare them to the 2007 funding level, adjusted for inflation. (This methodology is described in more detail in the Appendix.)



State-by-State Impacts of Selected Program Cuts

We analyzed the President's proposed funding levels in 2008 and over the 2008-2012 period for 13 programs or closely related groups of programs. The programs analyzed come from a range of areas — including education, environmental protection, supports for low- and moderate-income families, and criminal justice — and provide funding to states, local governments, or community entities to provide services at the local level.

Data are available showing how the federal funds provided under these programs are divided among the states. The Center used those data to estimate the size of the cut in each state. Each state is assumed to absorb its proportionate share of the overall national cut. That is, if a state receives 5 percent of the funding in a particular program, it is assumed to absorb 5 percent of the funding cut. Tables B.1 – B.13 show the projected funding cuts by state (relative to the 2007 funding level adjusted for inflation) and, in some cases, the estimated potential impacts on the

number of individuals who could receive certain services, such as the number of children in Head Start.

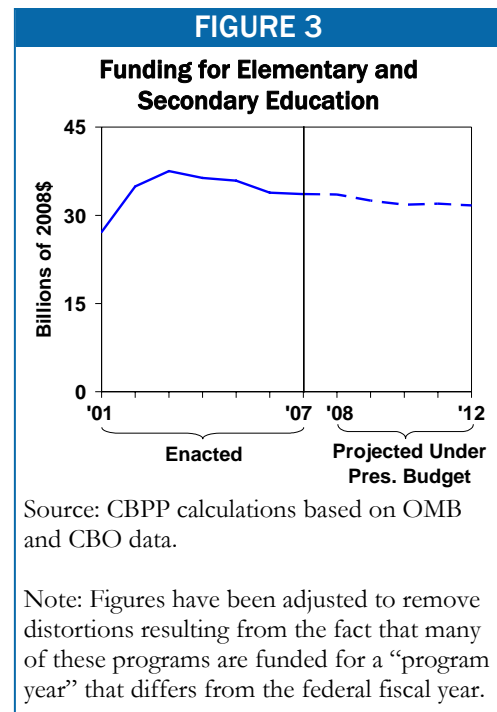
Tables C.1 – C.9 compare the proposed funding levels for various programs in fiscal year 2008 and fiscal year 2012 to historical funding levels: i.e., to the fiscal year 2001 funding level (adjusted for inflation) and to the funding level for the year in which funding (in inflation-adjusted terms) was at its highest level over the 2001-2007 period.⁸ These comparisons show that in some areas — such as K-12 education — funding rose after 2001 but that the Administration’s budget would undo a substantial share of those earlier increases. In other areas, the proposed funding reductions would be on top of cuts that already have been made to the program since 2001.

K-12 Education

The President’s budget calls for \$6.9 billion in cuts over the next five years in funding for K-12 education, relative to the 2007 funding level adjusted for inflation. The cuts grow larger over time, reaching \$2.1 billion — or 5.8 percent — in 2012. (We define K-12 education to include four Education Department spending areas: education for the disadvantaged, special education, impact aid, and school improvement funding.)

In 2008, Education for the Disadvantaged (sometimes known as Title I), would be increased slightly over the expected 2007 funding level adjusted for inflation, but other education funding would be reduced, including special education funding for students with disabilities, school improvement funding, and impact aid (funding largely provided to schools based on the number of children they serve who live on military bases or Indian lands or in publicly subsidized housing complexes). In fact, over the five-year period, federal funding for special education would fall by a projected \$5 billion, and school improvement funding would decline by a projected \$4.3 billion, below the fiscal year 2007 funding levels adjusted for inflation.

Table B.1 shows the projected cuts in overall K-12 education funding for each state. These estimates were computed by analyzing each of the four K-12 funding areas



⁸ More precisely, the table compares projected funding in fiscal year 2008 and fiscal year 2012 to the amount that the state would receive if total funding for the program was at the fiscal year 2001 level, adjusted for inflation. In most cases, funding for these programs is allocated across states based on funding formulas that take the demographic characteristics of each state into account. Because of changes in demographics, the proportion of total funding allocated to each state changes over time — for example, a state that is gaining population faster than the nation as a whole might see its share of funding increase while a state whose population is growing more slowly or declining might see its share decline. The table compares the funding each state would be projected to receive in fiscal year 2008 and fiscal year 2012 if national funding levels were at the fiscal year 2001 levels adjusted for inflation (and the level in the year in which a program’s funding was at its highest real level over the 2001-2007 period), based on the most recent data available on the share of funding allocated to each state.

Why the Administration's Proposed Funding Levels Should Be Compared With Prior-Year Funding *Adjusted for Inflation*

In this analysis, the Administration's proposed funding levels are compared with funding in prior years adjusted for inflation. Adjusting for inflation is necessary to determine whether proposed funding levels will support the same level of services as were provided in prior years. Over time, inflation affects all parts of the economy, including the cost of public services. For this reason, most independent analysts adjust for inflation when comparing funding levels from one year to the next, in order to determine whether services would be increased, stay the same, or be cut relative to those provided in the prior year.

An example illustrates this point. Federal funds from the Child Care and Development Block Grant are distributed to states, which use them to help low-income families purchase child care at child care centers, family day care homes, and other child care providers. Child care is a labor-intensive industry; a large share of its cost reflects wages and salaries of staff. As inflation increases these wages and salaries, the cost of providing care increases. In addition, child care centers generally face increasing bills for rent, maintenance, utilities, food, and classroom materials.

If funding for child care subsidies does not keep pace with inflation, one or more of several things may happen: the number of children who can receive subsidies declines (as has been occurring over the past six years), the amount of the subsidy per child declines (forcing parents to pay a larger share of their income on child care), or child care providers are forced to cut back in other ways, such as cutting back on educational materials or delaying facility upgrades (though this cannot go on for long without affecting the quality of care).

separately and assuming that each state would absorb a share of the reduction equal to its share of that type of funding.⁹

K-12 education funding was increased earlier this decade as part of the No Child Left Behind initiatives. The President's budget proposes to undo a significant share of those increases. Under the budget, funding in 2008 would be 23.5 percent *above* its 2001 level (adjusted for inflation) but 10.6 percent *below* its level in 2003, when funding was at its peak in inflation-adjusted terms. In 2012, funding would be 16.6 percent above 2001 funding levels adjusted for inflation, but would fall 15.6 percent below its 2003 level, adjusted for inflation.

Table C.1 shows each state's share of the K-12 funding increases and decreases relative to the 2001 and 2003 levels adjusted for inflation. For example, in 2008, Alabama's funding would be \$91.6 million *higher* under the President's budget than if these programs were funded at the 2001 level adjusted for inflation, and \$60.5 million *lower* than if these programs were funded at the 2003 level adjusted for inflation. The cuts grow over the five-year budget period: in 2012, Alabama would receive \$93.7 less funding under the President's budget than if funding were kept at the 2003 level adjusted for inflation.

⁹ For example, we assume that if a state receives six percent of impact aid funding, it would absorb six percent of the impact aid funding reduction. If that same state receives seven percent of special education funding, it would be assumed to absorb seven percent of the cut to that program.

Vocational and Adult Education

Under the President's budget, adult and vocational education programs would be cut by \$832 million in fiscal year 2008, relative to the expected fiscal year 2007 level adjusted for inflation, and by a combined \$4.5 billion over the five-year period. Funding would be cut by more than 40 percent in each year of the five-year period. By 2012, funding would be less than *half* of the fiscal year 2004 level — the year in which funding for these programs peaked — adjusted for inflation.

In 2008, some 98 percent of these cuts would come from vocational education programs, which provide funding for states for secondary school career training programs and postsecondary career training at community colleges and other venues.

Each year, education programs typically are funded in part with funding that was provided in the prior year's appropriation bill and in part with funding provided in the current-year appropriation bill. The way in which the Administration is proposing to make the cuts in vocational and adult education programs means that states would largely feel the impact of this cut in the school year that begins in September 2008, rather than in the prior school year.¹⁰

Table B.2 shows the state-by-state impact of these cuts. Table C.2 shows the cut in funding in fiscal year 2008 and fiscal year 2012 relative to the fiscal year 2001 and fiscal year 2004 levels, adjusted for inflation.

Child Care

The President proposes to cut discretionary funding for the Child Care and Development Block Grant (CCDBG) by \$462 million over the next five years relative to the 2007 funding level, adjusted for inflation. The discretionary portion of this block grant has remained essentially frozen since fiscal year 2002, while the mandatory portion has grown only slightly as compared to a freeze level.¹¹ As a result, data from the President's own budget and from HHS show that the number of low-income children receiving child care assistance fell from 2.45 million in 2002 to 2.3 million in fiscal year 2006 — and is projected to fall to 2.0 million in fiscal year 2010 under the President's proposals.^{12,13}

¹⁰ This is because the Administration has proposed not to include in the fiscal year 2008 appropriations bill the so-called "advance funding" that would typically be included to fund these programs in the 2008-2009 school year.

¹¹ The Child Care and Development Block Grant receives both discretionary and mandatory funding. Discretionary funding stood at \$2.1 billion in fiscal year 2002, and mandatory funding stood at \$2.7 billion. Discretionary funding was funded slightly below the \$2.1 billion figure after fiscal year 2002. The funding level in the full-year appropriations bill for fiscal year 2007 is \$2.06 billion. Mandatory funding for child care was increased slightly in FY 2007 to \$2.9 billion as a result of changes made in the TANF-related provisions of the Deficit Reduction Act (DRA). The increase in mandatory child care funding was intended, in part, to offset increased costs states will incur as they try to meet increased the work participation requirements that the DRA has imposed on their TANF programs.

¹² The Administration's estimates of the number of children served in child care programs include children served through the following sources of child care assistance funding: discretionary and mandatory CCDBG funding, state funds used to meet the child care maintenance-of-effort and matching requirements, TANF funds states spend on child care, and Social Services Block Grant funds spent on child care.

¹³ For more information about the impact of the President's proposed funding levels on child care, see "Families Forgotten: Administration's Priorities Put Children Low on the List," by Danielle Ewen and Hannah Matthews, Center for Law and Social Policy, http://www.clasp.org/publications/2008_budget_child_care.pdf, February 2007.

Table B.3 shows the state-by-state impact of the cuts in discretionary child care funding in fiscal year 2008 and fiscal year 2012 relative to the fiscal year 2007 level, adjusted for inflation.

Under the President’s budget, discretionary child care funding in fiscal year 2008 would be 12.8 percent below its 2001 level adjusted for inflation and 15.7 percent below its level in 2002, when it peaked in inflation-adjusted terms. Table C.3 compares states’ funding levels for fiscal year 2008 to the amount they would receive if funding were at the 2001 and 2002 levels, adjusted for inflation.

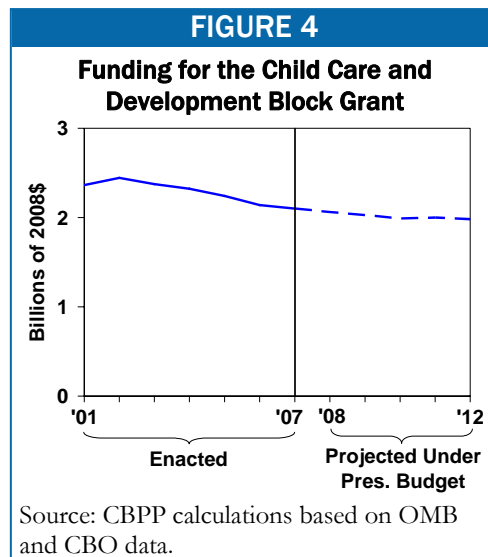
Even before the funding cuts of recent years, child care assistance programs served only a minority of the low-income children eligible for assistance because of funding limitations. Since quality child care is expensive, poor and near-poor families that do not have subsidies often struggle to afford the cost. In 2002 (the last year for which data are available), poor families that paid for child care spent an average of 25.7 percent of their income on care.¹⁴

According to the National Association of Child Care Resource and Referral Agencies, full-time infant care in a licensed child care center cost an average of \$7,100 in the median state in the 2004-2005 school year, while full-time care for preschoolers in a licensed child care center cost an average of \$5,800.¹⁵ A family with earnings at the poverty line (\$17,170 for a family of three in 2007) — or even a family with income at twice that level — would be hard-pressed to afford child care at these prices. Thus, low-income working families that do not have access to child care assistance face difficult choices: pay a large share of their income for child care, use less costly care that may be less reliable and of lower quality, scale back the parent’s hours of employment, or leave the labor force altogether.

Head Start

In fiscal year 2008, the President is proposing to fund the Head Start program at \$100 million below the fiscal year 2007 level, which amounts to \$232 million below the 2007 level adjusted for inflation. Under the President's budget, funding for Head Start would be cut by an estimated \$2.5 billion over the next five years relative to the 2007 level, adjusted for inflation.

If the President’s 2008 funding level is adopted, it would represent the sixth consecutive year that Head Start funding has fallen below the fiscal year 2002 level, adjusted for inflation. In fiscal year 2008, funding would be \$826 million — or 10.8 percent — below the 2002 level, adjusted for inflation.



¹⁴ See Table 6. Average Weekly Child Care Expenditures by Employed Mothers of Children Under 14, Children Under 5 and Children 5 to 14: Winter 2002, U.S. Bureau of the Census, <http://www.census.gov/population/socdemo/child/ppl-177/tab06.xls>.

¹⁵ See <http://www.naccrra.org/randd/data/2004-2005PriceofCare.pdf>.

As funding erodes, Head Start programs have three ways to cope. They can reduce the number of children they serve, try to raise additional funds elsewhere, or make cuts in the program — such as cutting back on teacher salaries, classroom materials, educational activities, or specialized health and developmental activities — that can reduce the quality of the program. For several years, Head Start programs have managed to serve the same number of children as federal funding was eroded by inflation. At some point, Head Start programs will find it impossible to continue to serve the same number of children despite funding reductions.

If Head Start programs expend the same amount per child in 2008 as they did in 2002, adjusted for inflation, they would have to serve 98,600 fewer children in 2008 than they would have if funding since 2002 had kept pace with inflation. To the extent that Head Start programs do *not* reduce enrollment, they would have to make do with less federal funding per child than in 2002. If enrollment does not decline then Head Start programs will receive an average of about \$900 *less* per child in 2008 than in 2002 (in inflation-adjusted terms).

EPA Funding for Clean Water Projects

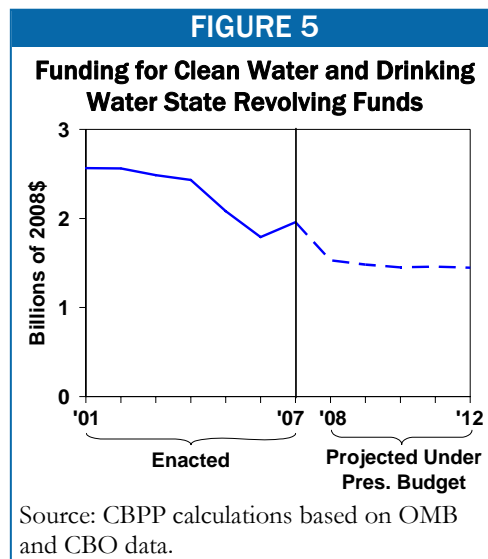
The Environmental Protection Agency (EPA) provides funding to states and Indian tribes for clean and safe water projects through two programs — the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund. These programs pay for sewage treatment plants and for clean drinking water and wastewater infrastructure projects. Under the President’s budget, funding for these programs would be cut by \$428 million, or 22 percent, in 2008 relative to the 2007 funding level adjusted for inflation. (The proposed fiscal year 2008 funding level would be \$392 million below a freeze of fiscal year 2007 funding.) The bulk of the cut in fiscal year 2008 would come from the Clean Water State Revolving Fund.

These proposed reductions would come on top of cuts already made in this area. The President’s proposed funding level in 2008 would be 40 percent — or \$1 billion — below the fiscal year 2001 funding level, adjusted for inflation.

Table B.5 shows the projected state-by-state distribution of the cuts in 2008 and 2012 relative to the fiscal year 2007 funding level, adjusted for inflation. Table C.5 shows the cuts in each state relative to what the state would receive if funding were at the fiscal year 2001 level adjusted for inflation.

Low-Income Home Energy Assistance

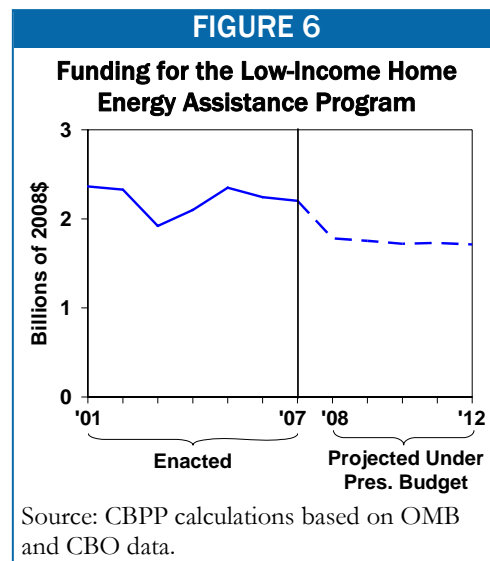
The Low-Income Home Energy Assistance Program (LIHEAP) provides funding to states to help low-income households pay their home heating and — in states with hot climates — air conditioning bills. In 2005, the program served 5.1 million households over the course of the year.



Most households that receive LIHEAP include either an elderly individual or an individual with a disability.

In 2008, the President is proposing to cut LIHEAP funding by \$420 million — or 19 percent — below the fiscal year 2007 level, adjusted for inflation. (The proposed funding level would be \$379 million below a freeze at the fiscal year 2007 level.) Over five years, the projected funding cut would total \$2.4 billion relative to the fiscal year 2007 level, adjusted for inflation.

The Department of Energy projects that in 2008, the price of home heating oil will be about 60 percent higher, and the price of natural gas about one-third higher, than in 2001. Nevertheless, the President proposes to fund LIHEAP at nearly 11 percent below its nominal 2001 level (that is, below the 2001 level not adjusted for inflation).



To cope with the loss in funding, states would have to increase state funding for energy assistance, cut the number of households served, or substantially reduce the amount of assistance provided to needy families. If they chose the middle option, an estimated 978,900 fewer households would receive energy assistance in 2008 than in 2005. Table B.6 shows the estimated reduction in the number of families that would receive LIHEAP in 2008. The table also shows the state-by-state distribution of the cuts in 2008, 2012, and over the five year period. Table C.6 shows the estimated reductions in funding and participants as compared to the levels in 2001.

If states cope with the reduced federal funding by lowering the benefits provided to participating households, they would need to reduce the average benefit in 2008 by more than \$100 compared to the average benefit in 2005 adjusted for inflation.

Community Services Block Grant

The Administration has proposed eliminating the Community Services Block Grant (CSBG). In fiscal year 2007, CSBG will receive \$631 million in funding.

CSBG funds community action agencies in more than 1,000 communities across the country. These agencies provide a myriad of services, including child care, before- and after-school care, health care to underserved populations, housing assistance, emergency housing, food assistance, domestic violence-related services, transportation assistance, legal assistance, and specialized services for individuals with disabilities. Typically they receive funding from other federal, state, local, and private sources in addition to CSBG.

Table B.7 shows the impact of eliminating of CSBG in 2008 and 2012 — in other words, the amount that states, localities, and private philanthropy would need to “backfill” to maintain funding for this network of community agencies and the services they provide.

Cuts in Medicaid and Inadequate SCHIP Funding

In addition to cuts in domestic discretionary programs, the Administration proposes cuts in federal Medicaid funding that total \$24.7 billion over the next five years and \$60.9 billion over ten years, through a combination of legislative changes and regulatory action.^a These reductions, more than five times as large over the next five years as the Medicaid cuts Congress enacted last year in the Deficit Reduction Act, would adversely affect both beneficiaries and states.

About six of every seven dollars' worth of Medicaid savings in the Administration's budget would be achieved by shifting costs from the federal government to the states. For example, the budget would reduce the federal matching rate for the costs of certain state activities in administering the Medicaid program, such as inspecting nursing homes for quality and safety. The costs of inspecting nursing homes would not disappear, but the state's share of the cost would increase.

If enacted, the Administration's Medicaid proposals would substantially reduce the federal funds that states use to purchase covered services and administer the program. States, many of which have taken aggressive measures to reduce Medicaid cost growth in recent years, would have three options for making up the loss of federal Medicaid funds: cutting back on their Medicaid programs by reducing eligibility, benefits, or payments to health care providers; cutting back on other state programs and using those funds to replace the lost federal Medicaid dollars; or raising taxes. In states that opt to cut back their Medicaid programs, low-income families, individuals with disabilities, and seniors could face increased out-of-pocket costs, less access to providers, or loss of Medicaid eligibility altogether. In states that choose instead to replace the lost federal dollars with state funds, fewer state funds likely would remain available to pay for coverage expansions among uninsured children and adults, such as that underway in Massachusetts.

The President's budget also fails to include sufficient funding for the State Children's Health Insurance Program (SCHIP) for states to maintain current enrollment in the program.^b

^a For more information, see "The Administration Again Proposes to Shift Federal Medicaid Costs to States," by Leighton Ku, Andy Schneider, and Judy Solomon.

^b Edwin Park and Matt Broaddus, "SCHIP Reauthorization: President's Budget Would Provide Less Than Half the Funds States Need to Maintain Enrollment," Center on Budget and Policy Priorities, (forthcoming).

Public Housing Capital Fund

In fiscal year 2007, the Public Housing Capital Fund will receive \$2.4 billion in federal funding to help local housing agencies across the country repair, modernize, and replace public housing units. Under the President's budget, this fund would receive \$2.0 billion in fiscal year 2008 — a cut of 19 percent below the fiscal year 2007 level, adjusted for inflation. Over the next five years, the Fund would be cut by a total of \$2.5 billion below the fiscal year 2007 level, adjusted for inflation.

These reductions would come on top of already deep cuts that have been made to the program since 2001. Under the President's budget, funding in fiscal year 2008 would fall 43 percent below the fiscal year 2001 level, adjusted for inflation.

The proposed cuts would have a deleterious impact on families living in public housing and on communities' efforts to maintain affordable housing units for low-income families, seniors, and

individuals with disabilities. Without adequate funding, housing agencies would be forced to delay needed repairs and upgrades to housing units. For example, the director of the Boulder, Colorado housing authority recently testified before Congress that a shortage of capital funds has forced her agency to defer close to \$1 million in repairs and improvements each year. Similarly, the St. Paul, Minnesota housing agency has deferred the installation of automatic fire safety sprinkler systems in high-rise developments for the elderly for cost reasons. (It should be noted that half of the households living in public housing include seniors or individuals with disabilities.)

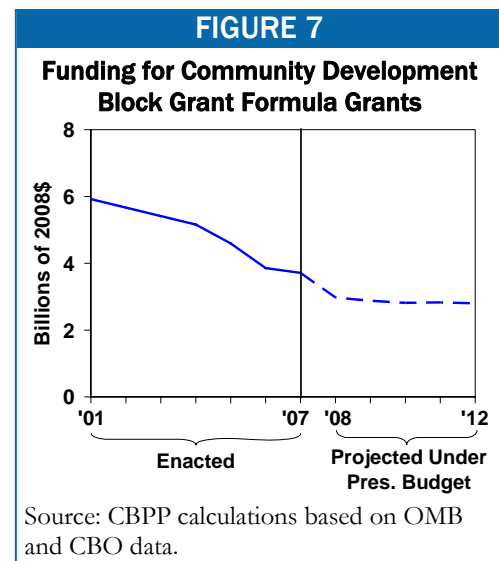
Not only does deferring needed maintenance jeopardize the safety of housing units and contribute to blight in neighborhoods, but the delays can increase repair costs in later years and ultimately could reduce the number of housing units that are habitable.

Table B.8 shows the state-by-state distribution of the cuts in fiscal year 2008 and fiscal year 2012 relative to the fiscal year 2007 funding level adjusted for inflation. Table C.8 shows the state-by-state distribution of the cuts relative to the 2001 funding level.

Community Development Block Grant

The President is proposing a sharp reduction in the Community Development Block Grant (CDBG), which helps fund a broad range of community development activities, including housing development and rehabilitation, homelessness programs, improvements to public facilities such as senior and youth centers, economic development, and the provision of social services.

Under the President’s proposal, funding for the formula grants portion of CDBG would be cut by \$800 million, or 21 percent, in fiscal year 2008 alone, relative to the fiscal year 2007 level adjusted for inflation.^{16,17} The Administration also is proposing to change the targeting of CDBG funds in a way that directs more resources to low-income communities. While this would be a positive step, states would still have substantially less in overall resources to work with under the President’s budget.



¹⁶ The cut to CDBG could be larger than shown here. The President’s budget includes a set of “rescissions” (or retroactive cuts) to Economic Development Initiative grants — funding for specified community development activities — in his fiscal year 2008 budget proposal. The fiscal year 2007 continuing resolution, enacted after the President delivered his proposals for 2008, does not include funding for any of these initiatives, however. Thus, if overall funding for the community development category of programs were at the President’s requested level, the savings secured from these rescissions would need to come from other programs in this category, including presumably the CDBG formula grants, which constitute a majority of the subfunction. In this analysis, we did not assume that the savings from the rescissions would get taken out of the formula grants.

¹⁷ The bulk of CDBG funds are distributed by formulas to local communities and states. Some CDBG funds, however, are not. This includes disaster aid administered through CDBG, loan funds, and enterprise and empowerment zone-related funding.

CDBG already has seen substantial funding cuts: between 2001 and 2007, funding fell from \$4.4 billion to \$3.7 billion (without adjusting for inflation). Under the President's proposal, 2008 funding would be 43 percent — or \$2.2 billion — below the 2001 level, adjusted for inflation.

Table B.9 shows the projected cuts by state in CDBG funding in fiscal year 2008 and fiscal year 2012 relative to the fiscal year 2007 level, adjusted for inflation. Table C.9 shows the cuts in 2008 and 2012 relative to the 2001 funding level.

State and Local Law Enforcement Grants

The President's budget proposes to eliminate the Justice Assistance Grant (JAG) program and the State Criminal Alien Assistance Program (SCAAP), along with 18 other criminal justice grant programs, and to replace them with two competitive grant programs with substantially reduced funding. Funding for the new competitive grants would only be about half of the funding this set of programs received in fiscal year 2007.

The JAG and SCAAP programs currently are formula grant programs and in fiscal year 2007 are expected to provide \$854 million in funding to state and local law enforcement agencies. The JAG program supports a wide range of law enforcement activities, including crime prevention, corrections, prosecution, and drug treatment. The SCAAP provides funding to states and localities to offset the costs associated with incarcerating individuals who are undocumented immigrants.

Table B.10 shows the projected loss to states from the elimination of these two formula grant programs. To be sure, some states would qualify for some funding under the new competitive grant programs, but there is no way to project how those funds would be distributed among states.

Commodity Supplemental Food Program

The President's budget would eliminate the Commodity Supplemental Food Program (CSFP), which serves 440,000 low-income seniors in an average month.¹⁸ In fiscal year 2007, program funding stood at \$107 million.

CSFP provides monthly nutritious food packages primarily to low-income seniors aged 60 and older in 32 states, the District of Columbia, and two Indian reservations.¹⁹ The typical package includes items such as canned tuna fish, peanut butter, cheese, cereal, and canned fruits and vegetables. Because USDA can buy these items at a discount, a package costs the government less than \$20, but it is worth significantly more to recipients. More than a third of seniors who receive CSFP food packages, about 150,000 people, are over age 75.²⁰

¹⁸ See, "President's Budget Would Cut Food for 440,000 Low-Income Seniors," by Dottie Rosenbaum, Center on Budget and Policy Priorities, February 2007.

¹⁹ CSFP also provides food packages to low-income pregnant and post-partum women, infants, and children up to age 6. The budget assumes that these families will be switched to the WIC program and thereby continue to receive comparable food assistance.

²⁰ The Administration's rationale for eliminating CSFP is that "in the limited areas where it is available, [CSFP] duplicates two of the Nation's largest Federal nutrition assistance programs — Food Stamps and WIC." It is true that CSFP does not have sufficient resources to operate in all areas of the country, but that does not justify the program's elimination in

Table B.11 provides data, for those states that operate a CSFP program, on the number of seniors that would lose assistance if it is terminated.

Special Supplemental Nutrition Program for Women, Infants, and Children

In 2008 the President's budget would fund the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) at a little above the fiscal year 2007 level, adjusted for inflation. The budget also calls, however, for \$1.2 billion in cuts over the subsequent four years (2009-2012) in the subfunction that includes WIC. Given that WIC accounts for 93 percent of the funding in this subfunction, WIC would almost certainly be cut over 2009-2012 if the President's funding levels for the subfunction were adopted. If funding for the subfunction were increased but the President's overall domestic discretionary funding levels were adopted, programs in other subfunctions would have to be cut even more deeply than is shown in this analysis.

Table B.12 provides state-by-state data on the projected *increase* in WIC funding in 2008 and the projected *cut* to the program in 2012 and over the five-year period as a whole relative to the fiscal year 2007 funding level, adjusted for inflation.

Social Services Block Grant

The Social Services Block Grant (SSBG) provides funding to states for a broad range of social services. In fiscal year 2004, the categories with the largest share of SSBG expenditures were: specialized services for people with disabilities (including in-home assistance, transportation, counseling, support services for family members, and services to help individuals live independently in the community); services for abused and neglected children, seniors, and people with disabilities; and home-based services (such as assistance with household chores and shopping provided to frail seniors).

The President's budget would cut SSBG by \$500 million — 29 percent — in fiscal year 2008 compared to the fiscal year 2007 funding level, *not* adjusting for inflation.²¹ SSBG is funded on the mandatory side of the budget, but under the President's budget proposal this cut would count as a reduction in discretionary funding.²²

the areas where it does operate. It is also true that low-income seniors can qualify for food stamps as well as CSFP, but there is no evidence that eliminating CSFP would not adversely impact significant numbers of elderly individuals who participate in it. The Administration's Program Assessment Rating Tool finds, "for elderly individuals, now the majority of CSFP participants, evidence suggests that CSFP may represent a favorable alternative to the Food Stamp Program and contribute positively to access to food assistance for low-income elderly people in the places where the program operates." See <http://www.whitehouse.gov/omb/expectmore/detail/10002010.2004.html>, answer to question 4.4.

²¹ Under budgeting rules followed by both the Office of Management and Budget and the Congressional Budget Office, mandatory programs are assumed to be funded at the levels provided for in the statutes that authorize the programs. In the case of a mandatory block grant, this means that the "baseline" funding level for the program is the funding level written into the statute. In the case of SSBG, the statute sets the funding level at \$1.7 billion for 2001 and each year thereafter. (Funding for SSBG was above the \$1.7 billion level before 2001.) Thus, in this analysis, the President's proposed funding level is compared to the baseline funding level of \$1.7 billion (without any adjustment for inflation in future years).

²² The congressional Appropriations Committees have the authority to reduce funding for a mandatory program and to count the savings in determining whether they have kept total discretionary program costs within the ceiling they have been assigned under the Congressional budget resolution. In its budget, the Administration is recommending that the

Table B.13 shows the impact of this cut by state.

Conclusion

The President's budget would reduce funding (compared to the 2007 funding levels, adjusted for inflation) for almost every part of the domestic discretionary budget, including environmental protection, veterans' health care, medical research, law enforcement, child care, and energy and nutrition assistance for low-income seniors. The cuts would start in 2008 and grow deeper in each of the four succeeding years. In many cases, the cuts proposed in this budget would come on top of cuts already made in these programs over the past several years. In other cases, such as education, they would undo some of the funding increases provided for these programs in recent years. Many of the cuts would reduce funding to states, forcing them either to reduce services or raise taxes to cope with the funding shortfalls.

Over the 2008-2012 period, overall funding for domestic discretionary programs would be \$114 billion lower than if funding were maintained at the 2007 level, adjusted for inflation. Nevertheless, these savings would be more than cancelled out by the cost of making the 2001 and 2003 tax cuts permanent. In essence, the domestic discretionary cuts would be used to defray a small fraction of the cost of extending the tax cuts. Moreover, because the domestic discretionary reductions would affect millions of low- and middle-income Americans, while the largest tax cuts would go to very wealthy households, the budget's net effect would be to further widen the already large gap between the extremely wealthy and other Americans.

congressional Appropriations Committee cut the Social Services Block Grant in the appropriations bill. This is a way of fitting slightly more funding for discretionary programs within the President's overall proposed discretionary funding level.

APPENDIX

Methodology for Projecting Cuts by State

For a selection of key domestic discretionary programs, we examine the President's proposals for 2008 and compare them with the funding levels enacted into law in 2007 or previous years, adjusted for inflation. We also project the effect of the President's proposals for future years.

For each program we analyze, we estimate each state's share of the overall reduction nationally. For four programs, we are able to show how many participants could have been served by the lost money.

Projecting the President's Cuts Past 2008

The President's budget documents and the "back-up" tables that OMB provided to the congressional budget committees contain detailed information on proposed funding levels for individual discretionary programs in fiscal year 2008. The President is proposing substantially deeper cuts in domestic discretionary programs in the years *after* 2008. The budget does not provide information on his proposed funding levels for these programs for 2009-2012.

This is a departure from standard budgeting practices. Prior to the fiscal year 2006 budget, every presidential budget proposal for at least the preceding 17 years included the Administration's proposed funding levels for discretionary programs or accounts for at least five years.

By failing to provide this information, the Administration has obscured the priority choices in its budget and has made it more difficult for policymakers and the public to evaluate the Administration's proposed funding levels and to see the trade-offs they would require.

Nevertheless, with the information provided in the budget itself and the OMB back-up materials, it is possible to see how the President's budget proposals would affect important domestic policies after 2008. The back-up materials provided to the congressional budget committees show the President's proposed funding level for the discretionary programs in each of 15 budget functions (which are broad categories of related programs) and each of 74 budget "subfunctions" (which are significantly narrower groups of more closely related programs). This information about proposed funding levels by subfunction can be combined with more detailed information about the President's proposed funding levels by program in fiscal year 2008 to project proposed funding levels for individual discretionary programs from 2009 to 2012.

In the past, the Administration has argued that such projections do not reflect the President's funding priorities. This argument is unpersuasive. If the Administration stands behind the overall discretionary funding levels it is proposing for each of the next five years and the funding levels for each function and subfunction it has provided to the budget committees, then any program that it wishes to cut by *less* than this analysis projects will have to be offset by deeper cuts in another, closely related program.

Methodology for Projections Past 2008

The following method is used to estimate funding levels for selected programs for years 2009 through 2012:

- We begin with the actual funding levels the Administration proposes for each program for fiscal year 2008. (This information is readily available in the Administration's budget documents.)
- We then calculate from data provided in the OMB back-up tables how much discretionary funding is proposed for each function and subfunction in 2009 through 2012 (This calculation involves only simple addition and subtraction of Administration data and does not entail making *any* assumptions on our part.) Domestic discretionary programs are divided into 15 budget functions and 74 subfunctions. Each function and subfunction groups together similar programs. (For example, programs dealing with education, training, employment, and social services are grouped together in one function. That function is then divided into six separate subfunctions dealing with programs related to: K-12 education and vocational education; higher education; research and general education aids; training and employment; other labor services; and social services.)
- For each program examined in this analysis, we identify both the funding level proposed for the program in 2008 under the President's budget and the overall level of discretionary funding that the budget proposes for 2008 for the subfunction that contains the program. From these data, we calculate the percentage of the subfunction's discretionary funding that the particular program would receive in 2008. We then calculate the projected amount of funding in the budget for the program in 2009 through 2012 by assuming that the percentage of the subfunction's discretionary funding that would go to the program in the years from 2009 through 2012 would be the same as the percentage that would go to the program in 2008.

In other words, we assume that the relative priorities reflected within each subfunction in the Administration's budget proposal for 2008 would continue in the years from 2009 through 2012. Thus, if the Administration proposes that a particular program receive 40 percent of the total discretionary funding for its subfunction in 2008, we assume the program would similarly receive 40 percent of the discretionary funding that the budget includes for that subfunction in 2009, 2010, 2011, and 2012.

Take, for example, the Head Start Program. It is included in the same subfunction as the Community Services Block Grant (CSBG). In fiscal year 2008, the President proposes to eliminate CSBG and fund Head Start at \$100 million below a freeze at the fiscal year 2007 level. For years after 2008, we assume that CSBG will be terminated as the President has proposed in 2008 and we assume that Head Start will consume 63 percent of the total discretionary funding for its subfunction, as it did in fiscal year 2008 under the President's proposals. If Head Start is not cut by this amount but the President's funding levels for the subfunction are adhered to, then other programs — such as those for abused and neglected children, also funded in this subfunction — would have to be cut more deeply.

In this straightforward manner, we project funding levels for a range of human service, education, community development, and environmental programs. The goal is to provide examples across a

range of programs of the depth of the reductions that would be needed to meet the President's overall targets for reducing funding for discretionary programs.

It is worth noting that the reductions in particular programs described here are not worst-case examples. To the contrary, the reductions described here are broadly typical of the domestic program reductions reflected in the Administration's budget. For example, we examine reductions in the WIC program and K-12 education, which are slated for somewhat *lower*-than-average reductions, and cuts in other areas — such as the clean water and drinking water revolving funds and the Community Development Block Grant — that are slated for larger-than-average reductions.

If the Administration had released program-by-program budget proposals for discretionary programs for 2009 through 2012 (and those proposals were consistent with the funding levels reflected in the budget for the functions and subfunctions), the calculations described above would not be necessary. The Administration's figures would themselves facilitate a full and open debate about the priorities in the budget. Unfortunately, the Administration has elected not to make public the funding levels it envisions for individual discretionary programs after 2008, despite proposing permanent extensions of its tax cuts that will deepen the nation's fiscal problems in the years and decades ahead. As a result, the estimates provided here of the funding levels for individual programs, which are fully consistent with all of the information the Administration has released about its plan, are important if policymakers and the public are to engage in a more fully informed debate about the policies and trade-offs the Administration has proposed and the appropriate path for American fiscal policy.

Methodology for Allocating Cuts by State

To determine each state's share of the cuts in a particular program, this analysis assumes that each state will absorb its proportionate share of the cut to the program. For example, if a state receives 7 percent of the funding for a particular program, we assume it absorbs 7 percent of the proposed cut in the program.

In some programs, the total amount of the cuts for all of the states (as estimated here) is less than the overall national cut. This occurs in programs where most, *but not all*, of the funding is distributed to states. For example, in the case of Vocational and Adult Education, most of the funding is distributed to states through formula grants but a small portion of the funding is withheld for national activities or special projects.

To determine each state's share of the cut to a program, we used the most recent available data on the state's share of funding in that program. For the majority of programs we examined, we used the state's projected share of program funding for 2008. These data are from documents accompanying the President's budget and from the Department of Education. For a few programs where official 2008 projections of state shares were not available (including the Community Services Block Grant, law enforcement grants, and EPA clean water and clean air revolving funds, and a small portion of the funds for the Low-Income Energy Assistance Program), we allocated cuts based on the states' shares of funding levels in earlier years or applied the statutory formula that is used in the program for allocating funds to states.

For three program areas — K-12 education, vocational and adult education, and the Low-Income Home Energy Assistance Program (LIHEAP) — the cuts were distributed based on each state's share of more than a single component of program funding. For example, K-12 education includes four separate programs: Title I education for the disadvantaged, special education, impact aid, and school improvement. Under the President's budget, in fiscal year 2008, education for the disadvantaged would be increased while the other three programs would be reduced relative to 2007 levels adjusted for inflation. When determining a state's share of the overall cut in K-12 education (in each of the years 2008-2012), we considered that state's share of each of the components of the overall K-12 education area.

Similarly, in the area of LIHEAP, we considered each state's share of formula LIHEAP funding as well as each state's share of contingency funding. In the area of vocational and adult education, we considered separately each state's share of both vocational education funding and adult education funding.

Where possible, we also show how many participants could have been served by the lost funds. To do this, for each state, we multiplied the actual number of participants in the program (based on the most recent reliable state participation data available) by the percentage reduction in funding. For example, if a state served 100,000 children in Head Start programs in the most recent year for which data are available, and Head Start is estimated to lose 10.8 percent of funding in 2008 compared to 2002, then this loss of funding is equivalent to the loss of 10,800 Head Start slots in the state. (As noted in the report, this does not mean the state would necessarily lose that many Head Start slots. Head Start programs have other ways to cope with funding cuts, such as reducing the amount spent per child which, over time, is likely to result in lower-quality programs.)

Do the Proposed Cuts Represent Policy or Are They Merely "Formulaic"?

In the past, the Administration has claimed that its "out-year" funding levels — at either the subfunction or program level — do not represent its policies and are "formulaic" in nature. The Administration may make this claim again. If such claims are made, the Administration should be asked to identify the programs or program areas it plans to cut *more deeply* than is indicated by the function and subfunction funding levels reflected in the budget materials it has provided to the congressional budget committees. In the absence of deeper cuts in other discretionary programs, the Administration would not be able to cut some programs *less deeply* than this analysis shows and still meet the caps on overall discretionary funding it has proposed and seeks to have enacted into law.

Moreover, the discretionary funding levels that the OMB back-up budget documents include for the various functions and subfunctions do *not* appear to follow any discernable formula. For instance, discretionary funding for the Natural Resources and Environment function (function 300) would *decrease* by 15 percent in 2012 relative to the fiscal year 2007 level adjusted for inflation, while funding for General Science, Space, and Technology (function 250) would *grow* by 16.5 percent that year relative to the 2007 funding level adjusted for inflation. Even within a single function, the path of program funding varies. In 2012, overall funding for the education, training, and social services function would be 10.3 percent below the 2007 level adjusted for inflation. Within that function, however, funding for elementary, secondary, and vocational education would be reduced by 6.8

percent in 2012 relative to the 2007 level adjusted for inflation, while funding for training and employment services would be cut by 16.6 percent. Perhaps most tellingly, funding for the “Other Advancement of Commerce” subfunction (subfunction 376) suddenly increases dramatically in 2009 and 2010, presumably to accommodate the increased funding the Census Bureau will need to carry out the 2010 census. It is extremely difficult to imagine a formula that could produce these results.