

# Federal Funds Watch

February 12, 2007

Legislative Budget Board



## Spotlight: President's Fiscal Year 2008 Budget

On February 5th the President presented his FY 2008 budget to Congress. Highlights follow on new initiatives, program eliminations and consolidations, significant increases or reductions in funding levels, and other issues. A table provides the estimated impact to Texas of selected programs.

**Medicaid.** For some administrative activities, such as survey and certification of nursing facilities, utilization review, training, and the operation of management information systems, the federal government currently reimburses states 75 or 90 percent of costs. The President's budget would reduce the match rate for these activities to 50 percent. Claims for targeted case management would be limited to the administrative claiming rate as well, rather than the Federal Medical Assistance Percentage (FMAP), a federal match rate of approximately 60 percent. The Administration's proposal limits payments to state and local providers to the cost of services and restricts the use of certain intergovernmental transfers used as match for Medicaid. Federal reimbursement would be eliminated for school-based administration or transportation costs and would be more limited for rehabilitative services. Federal Funds would also no longer be available for Graduate Medical Education. In the area of prescription drugs, reimbursement for multiple source drugs would be limited to 150 percent of the average manufacturer's price. Finally, the FMAP would be linked to state performance; a description of how this would be implemented is not available.

**Medicare.** To restrain Medicare costs, the President proposes reductions in reimbursement to hospitals, nursing homes and home health agencies totaling almost \$32.7 billion over five years. Currently the federal government subsidizes beneficiaries' premiums for Medicare Part B (outpatient services) and Part D (prescription drugs). The President proposes that individuals with higher income contribute more towards these costs.

**Health Care Coverage.** The existing exclusion from paying income taxes on employer-sponsored insurance would be replaced with standard deductions for health care (\$15,000 for families or \$7,500 for individuals). A new federal grant program would use existing expenditures for Medicare and Medicaid disproportionate share funds (which are currently distributed to hospitals for uncompensated care) to assist states in providing basic health care coverage to individuals. Changes are also proposed to make health savings accounts more attractive.

**Health and Human Services.** TANF Supplemental Funds for high growth/low benefit states would be extended beyond FY 2008, making \$52.7 million available to Texas annually. The President's Budget for 2008 eliminates funding for the Community Services Block Grant and Preventive Health and Health Services Block Grant programs, representing a loss of approximately \$30.2 million and \$6.3 million, respectively, to Texas. The Administration recommends legislation to expand the range of facilities that participate in the Vaccines for Children program, which provides free vaccine to certain eligible children 18 years of age and younger. This would increase costs to the federal program, but the increase would be partially offset

by a proposed reduction in the Centers for Disease Control and Prevention's discretionary Section 317 immunization program.

**Education.** Savings from the elimination of several education programs are directed to new initiatives. Two scholarship programs, Promise and Opportunities, would enable low-income students that are in low-performing schools to pay for tuition at private or out-of-district schools. Promise Scholarships (\$2,500 per student) would be combined with the school district's per-student Title I allocation and Special Education funds, if applicable. Opportunities Scholarships would be a stand-alone program not tied to Title I funding. These scholarships would cover the full cost of attending a new school, or provide the average per-pupil expenditure of public schools in the state where the student resides, whichever is less. Parents could receive \$3,000 per student for supplemental education services in lieu of either scholarship.

**Labor.** As previously proposed, the President would consolidate Workforce Investment Act programs (Employment Services, Adult Employment and Training, Dislocated Workers, and Youth Activities) into a single program called Career Advancement Accounts, at a reduced funding level. Workers could use these self-directed accounts to purchase education and training.

**Criminal Justice.** The President's budget eliminates the State Criminal Alien Assistance Program (SCAAP) and the Justice Assistance Grant (JAG) Program (a loss of \$25.9 million and \$37.7 million respectively). SCAAP funds provide assistance to states and units of local government that incur costs associated with incarcerating undocumented persons, while JAG programs are designed to reduce and prevent illegal drug activity, crime, and violence. The President's budget consolidates more than 70 justice grants into four programs that would address violent crime, violence against women, protecting children, enhancing juvenile justice, and public safety and protection.

**Homeland Security.** The President's budget reduces the State Homeland Security Grant Program (SHSGP) funding by 64 percent overall. Law Enforcement Terrorism Prevention Program funds decline by 30 percent. Since SHSGP funds are now allocated according to risk-based criteria, the impact to Texas is not available.

**Community Development/Housing.** The Administration proposes a 29 percent reduction in non-entitlement Community Development Block Grant (CDBG) funding. The President's budget proposes a 12 percent increase in HOME program funding for FY 2008, which provides funding to states for the purpose of increasing the supply of affordable housing.

**Military Spending.** To address Base Realignment and Closure costs, the President's budget provides \$1.08 billion for Texas installations. The budget also includes \$143 million for military construction in Texas.

**ESTIMATED FEDERAL ALLOCATIONS TO TEXAS FOR SELECTED GRANT PROGRAMS (IN MILLIONS)**

PROGRAMS	FY 2006	C.R. FOR FY 2007 <sup>1</sup>	CHANGE FROM FY 2006	PRESIDENT'S BUDGET FY 2008	CHANGE FROM FY 2007
<b>SELECTED EDUCATION</b>					
Title I - Grants to Local Educational Agencies	\$1,182.0	\$1,193.2	\$11.2	\$1,261.4	\$68.2
School Improvement Grants	0.0	0.0	0.0	46.2	46.2
Promise Scholarships	0.0	0.0	0.0	22.7	22.7
State Grants for Innovative Programs	7.8	7.9	0.1	0.0	(7.9)
Tech-Prep Education State Grants	8.4	8.4	0.0	0.0	(8.4)
Even Start Literacy Program	8.2	8.8	0.6	0.0	(8.8)
Improving Teacher Quality	239.6	239.9	0.3	230.8	(9.1)
Special Education Grants to States	888.3	897.3	9.0	880.2	(17.1)
Safe and Drug-Free Schools and Communities	27.5	27.9	0.4	8.1	(19.8)
Educational Technology State Grants	24.1	23.5	(0.6)	0.0	(23.5)
Vocational Education State Grants	95.1	95.5	0.4	47.2	(48.3)
<b>Total Selected Education</b>	<b>\$2,481.0</b>	<b>\$2,502.4</b>	<b>\$21.4</b>	<b>\$2,496.6</b>	<b>(\$5.8)</b>
<b>SELECTED HEALTH AND HUMAN SERVICES</b>					
Women, Infants & Children (WIC)	\$498.5	\$507.8	\$9.3	\$511.0	\$3.2
Vocational Rehabilitation Grants to States	201.8	212.1	10.3	214.8	2.7
Preventive Health and Health Services Block Grant	6.3	6.3	0.0	0.0	(6.3)
CDC-State and Local Capacity, Bioterrorism Grants	46.6	46.6	0.0	39.5	(7.1)
Low-Income Home Energy Assistance Program	84.0	44.1	(39.9)	33.3	(10.8)
Social Services Block Grant <sup>2</sup>	128.6	128.6	0.0	90.8	(37.8)
<b>Total Selected Health and Human Services</b>	<b>\$965.8</b>	<b>\$945.5</b>	<b>(\$20.3)</b>	<b>\$889.4</b>	<b>(\$56.1)</b>
<b>SELECTED EMPLOYMENT SERVICES</b>					
Career Advancement Accounts	\$0.0	\$0.0	\$0.0	\$250.8	\$250.8
Employment Services State Grants	49.5	49.5	0.0	0.0	(49.5)
Workforce Investment Act - Adult	75.0	75.0	0.0	0.0	(75.0)
Workforce Investment Act - Youth	81.1	85.3	4.2	0.0	(85.3)
Dislocated Workers	96.4	109.5	13.1	0.0	(109.5)
<b>Total Selected Employment Services</b>	<b>\$302.0</b>	<b>\$319.3</b>	<b>\$17.3</b>	<b>\$250.8</b>	<b>(\$68.5)</b>
<b>TRANSPORTATION</b>					
Highways-Equity Bonus <sup>3</sup>	\$831.8	\$1,082.0	\$250.2	\$1,130.1	\$48.1
National Highway System <sup>3</sup>	468.2	493.3	25.1	514.7	21.4
Interstate Maintenance <sup>3</sup>	369.0	391.6	22.6	411.3	19.7
Surface Transportation Program <sup>3</sup>	500.4	531.3	30.9	548.8	17.5
Bridge Replacement & Rehabilitation <sup>3</sup>	136.0	140.0	4.0	147.6	7.6
<b>Total Transportation</b>	<b>\$2,305.4</b>	<b>\$2,638.2</b>	<b>\$332.8</b>	<b>\$2,752.5</b>	<b>\$114.3</b>
<b>OTHER</b>					
Community Development Block Grant (CDBG) <sup>4</sup>	\$73.3	\$73.3	\$0.0	\$58.5	(\$14.8)
Child Support Enforcement	226.4	237.5	11.1	211.8	(25.7)
State Criminal Alien Assistance Program	25.9	25.9	0.0	0.0	(25.9)
Community Services Block Grant	30.2	30.2	0.0	0.0	(30.2)
Justice Assistance Grant	21.2	37.7	16.5	0.0	(37.7)
<b>Total Other</b>	<b>\$377.0</b>	<b>\$404.6</b>	<b>\$27.6</b>	<b>\$270.3</b>	<b>(\$134.3)</b>

NOTE: Amounts represent preliminary estimates of funding sources. Texas estimates are not available for a number of other programs with significant increases or decreases. Numbers may not add due to rounding.

<sup>1</sup>FY 2007 Continuing Resolution amounts are preliminary estimates based upon the House-approved version.

<sup>2</sup>Amounts exclude one-time funds to assist hurricane victims.

<sup>3</sup>Amounts do not reflect the state's share of funds available through the revenue adjusted budget authority (RABA) mechanism.

<sup>4</sup>The FY 2008 budget proposes a new CDBG funding formula; these allocations for non-entitlement funds, assume distribution under the current formula.

SOURCES: Federal Funds Information for States (FFIS), U.S. Department of Education, Bureau of Justice Assistance, and Legislative Budget Board.