

# **California's Fiscal Relationship with the Federal Government and the President's FFY2006 Budget Proposal**

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**Tim Ransdell**

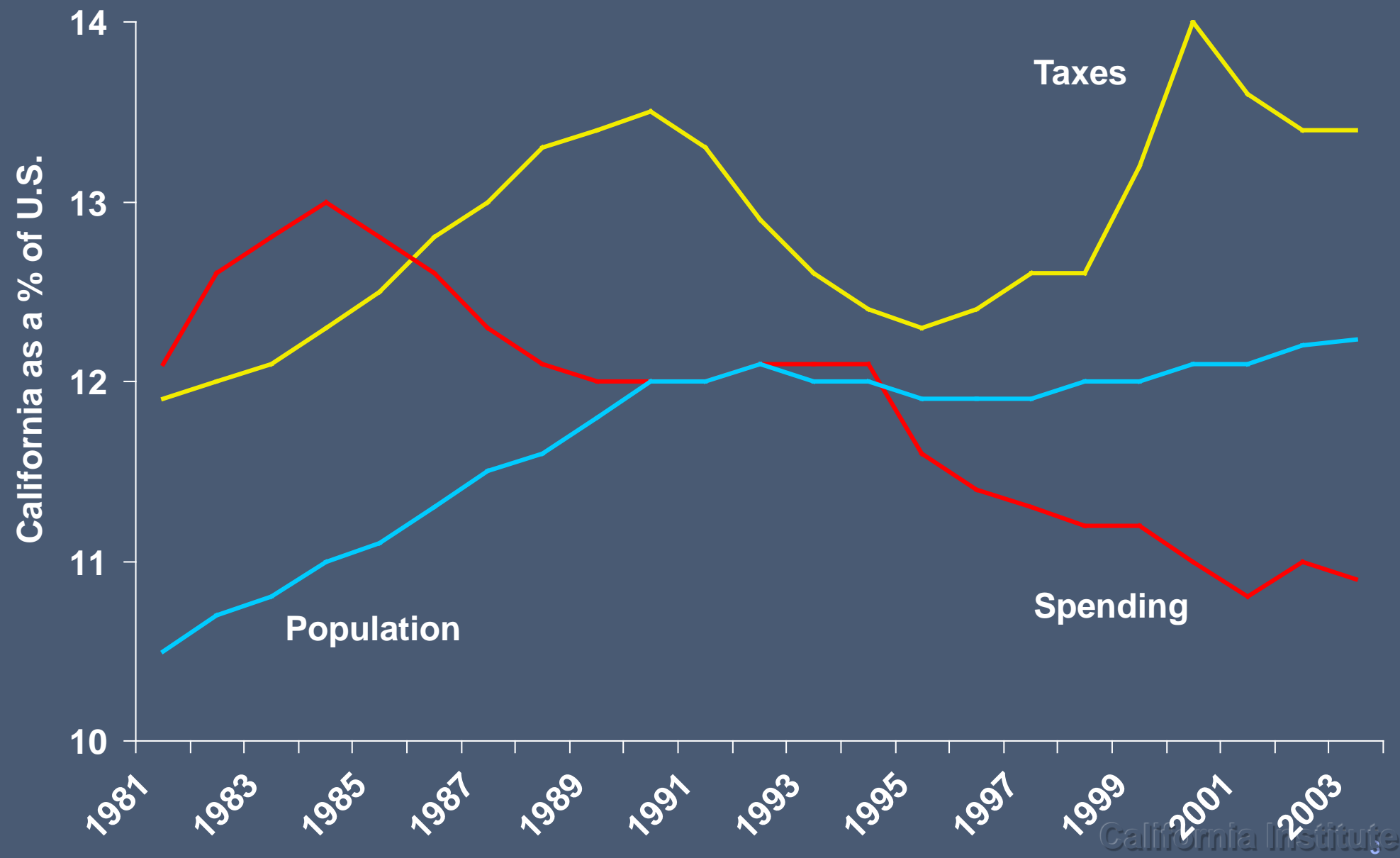
**California Institute for Federal Policy Research  
Public Policy Institute of California**

# Outline

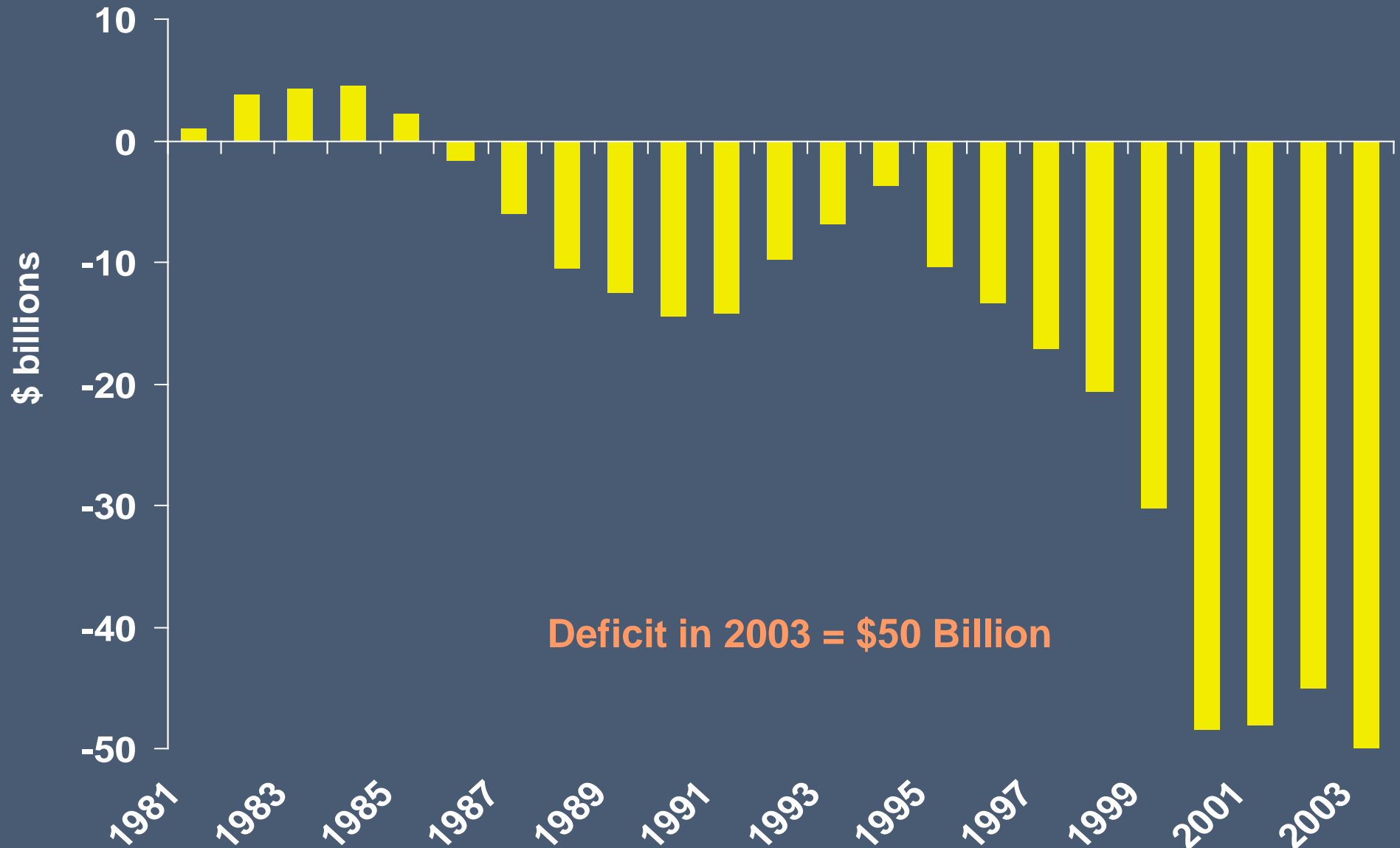
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- **Federal Funding: Overview**
- **Formula Grants**
- **Object Lesson: Homeland Security**
- **Budget Areas**

# Federal Government Spends Less in California Today Than It Receives in Taxes From California

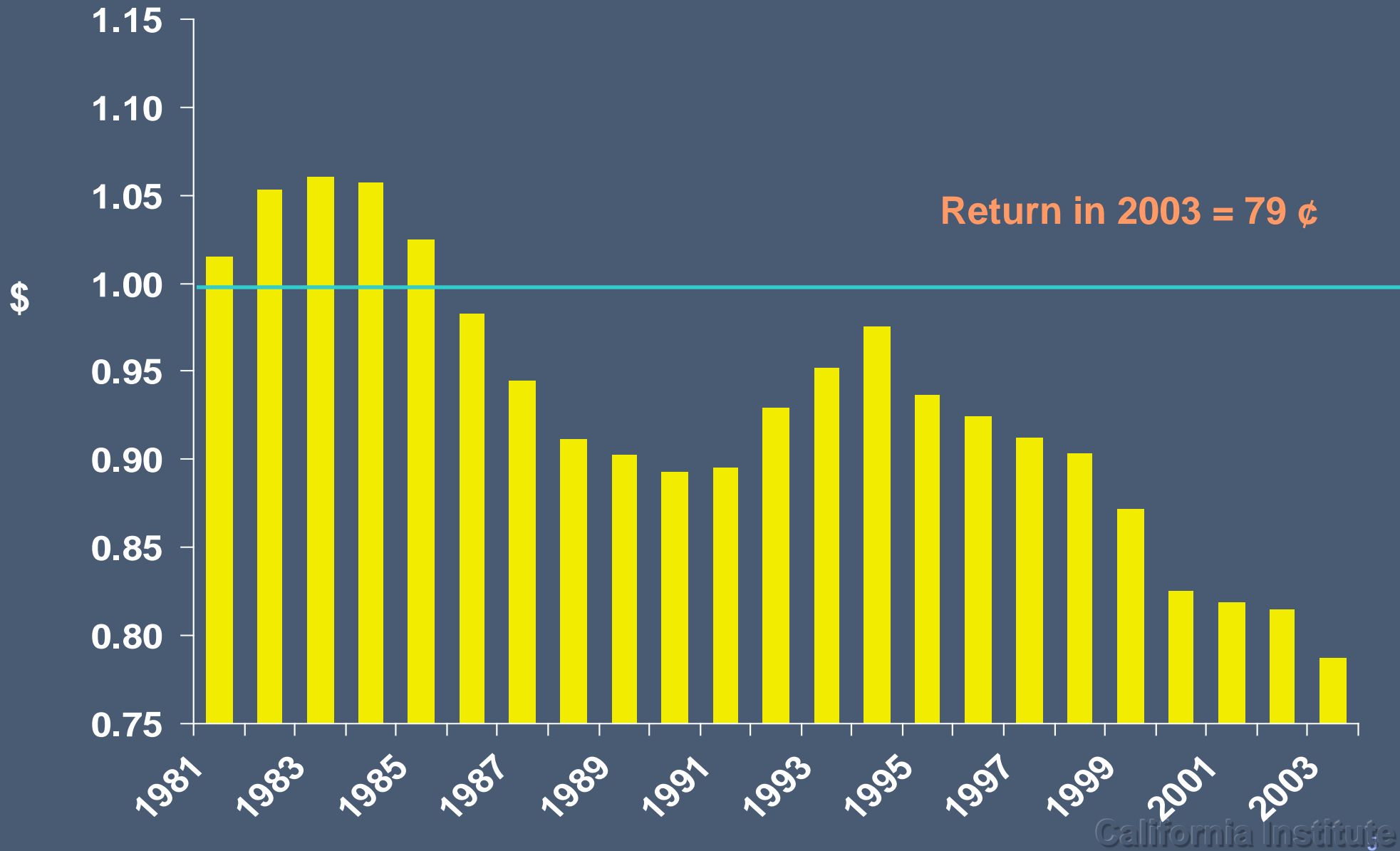


# California's Balance of Payments With Federal Government Has Been Negative for 18 Years



Deficit in 2003 = \$50 Billion

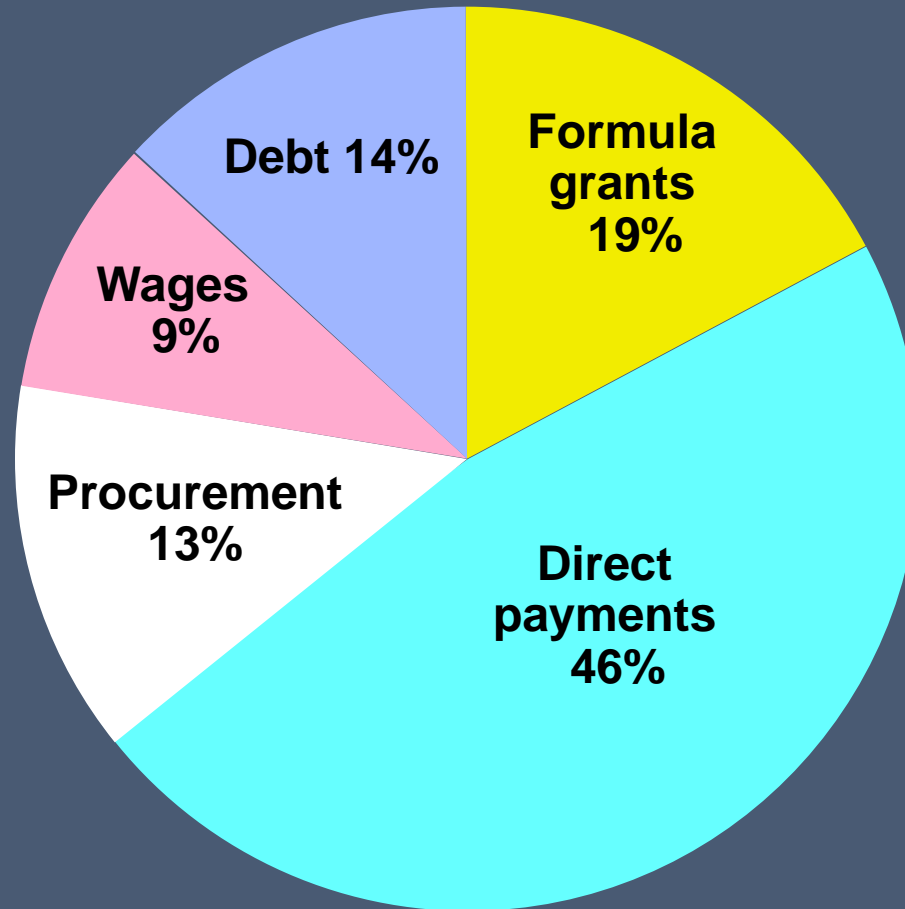
# California's Return on Investment: Federal Spending Per Dollar of Federal Taxes Paid



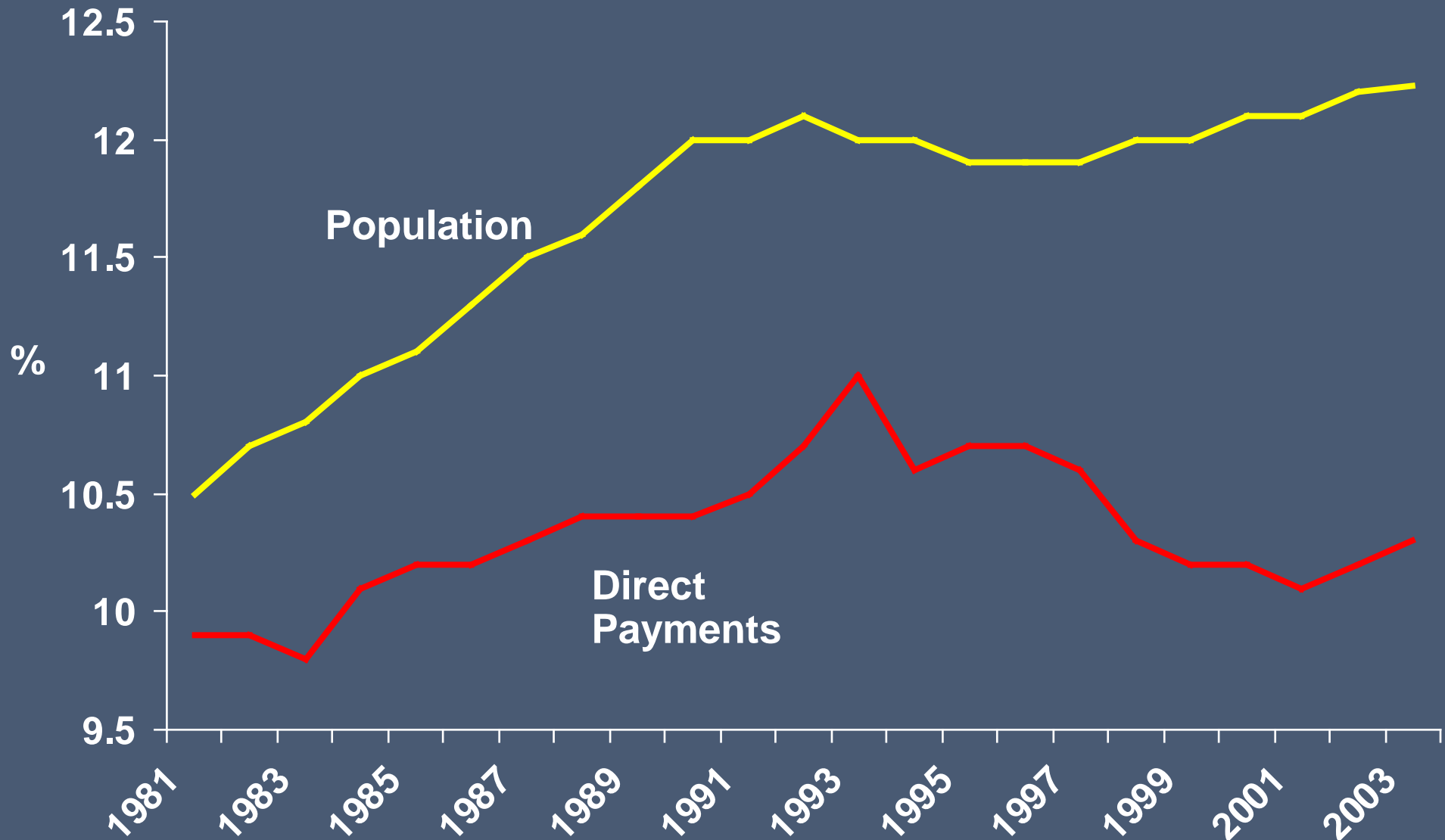
# California's Federal Balance of Payments Deficit Is New Record, But Not Surprising

- CA's \$50 billion deficit in 2003
  - 79¢ rate of return: 7<sup>th</sup> lowest among states
- Most of deficit is unlikely to change, because:
  1. As a younger-than-average state, California receives fewer Medicare and Social Security dollars
  - and
  2. As a richer-than-average state, California pays more income taxes

# Federal Spending Breaks Into 5 Categories

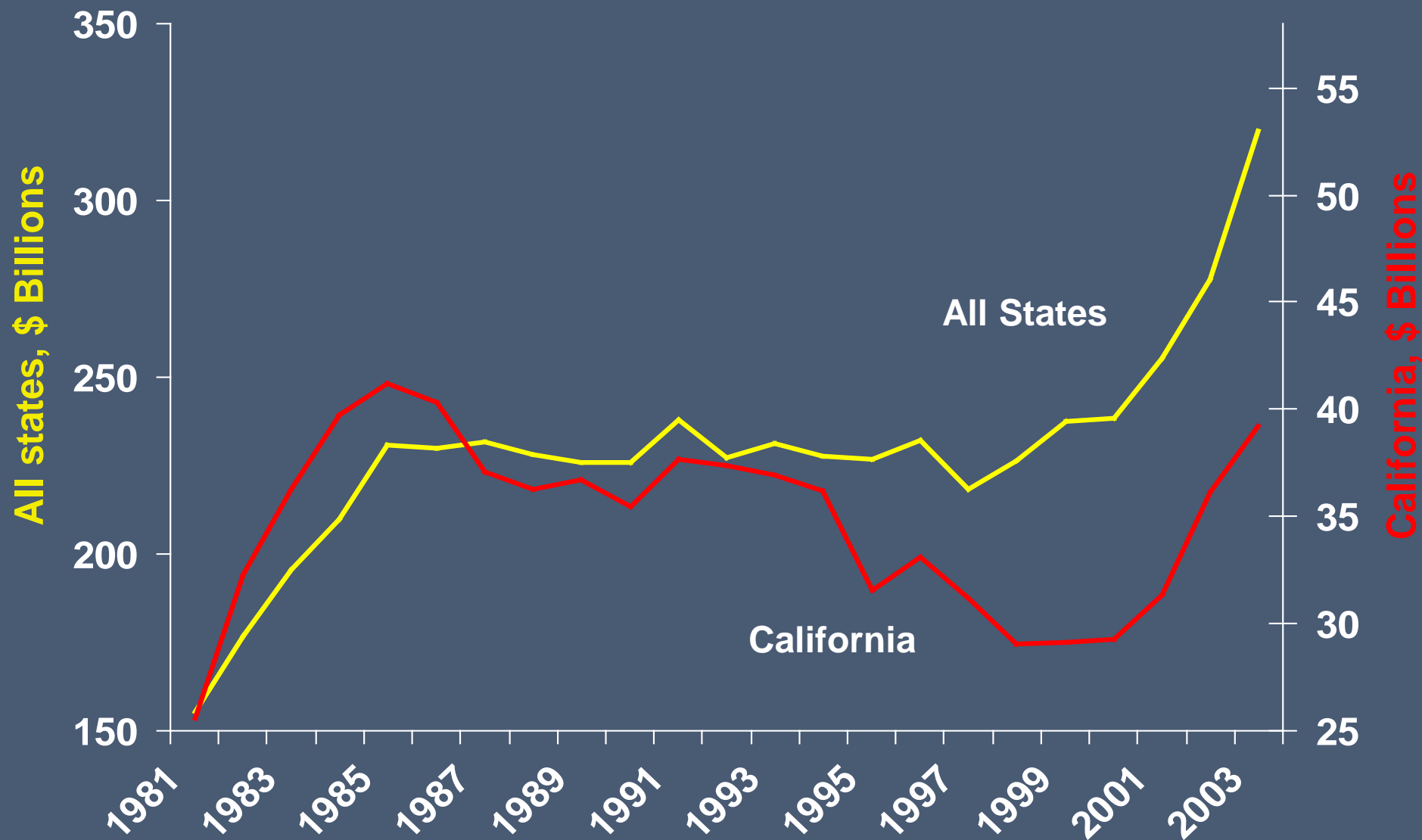


# California's Youthfulness Keeps State's Share of Federal Direct Payments Low

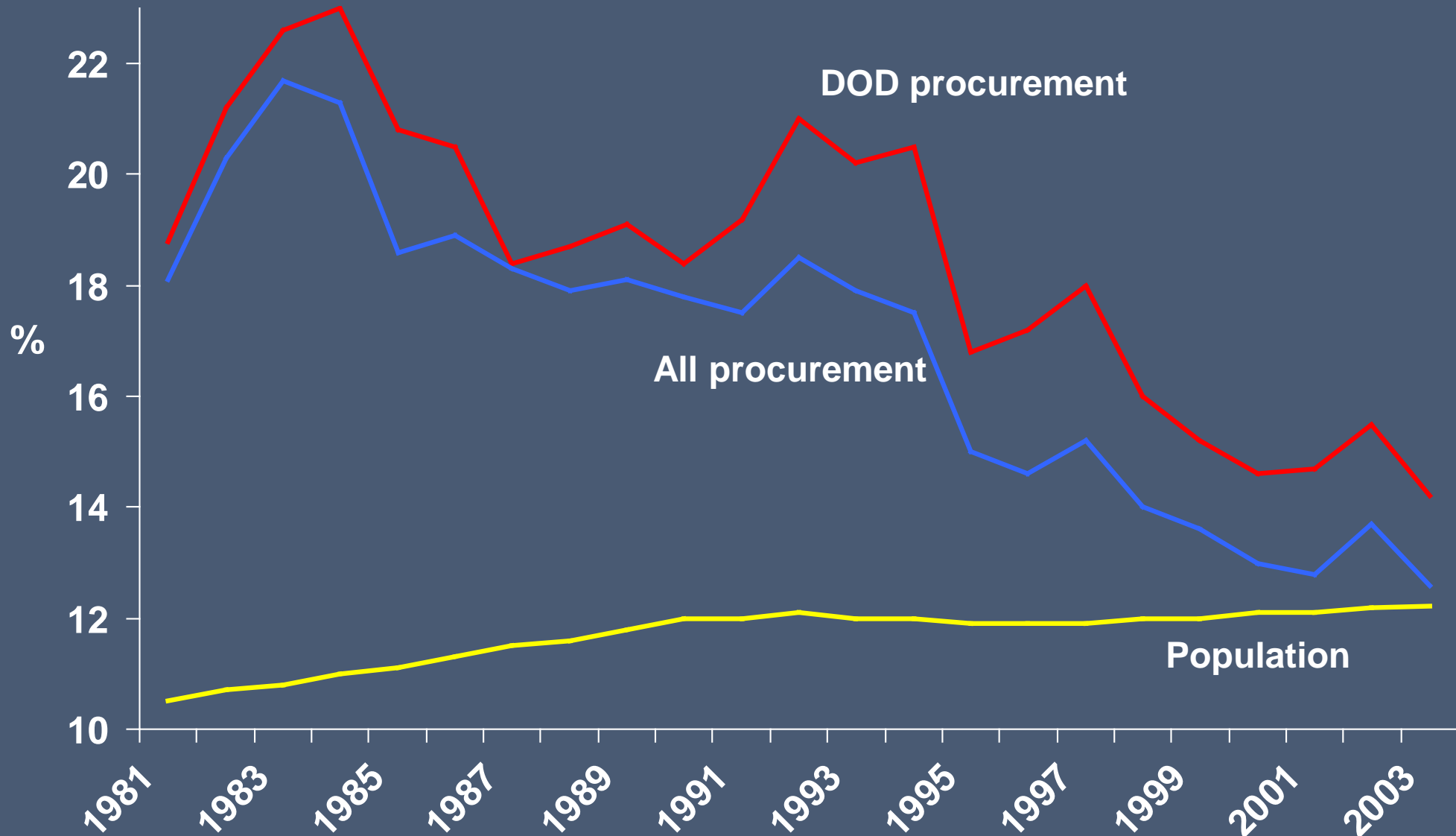




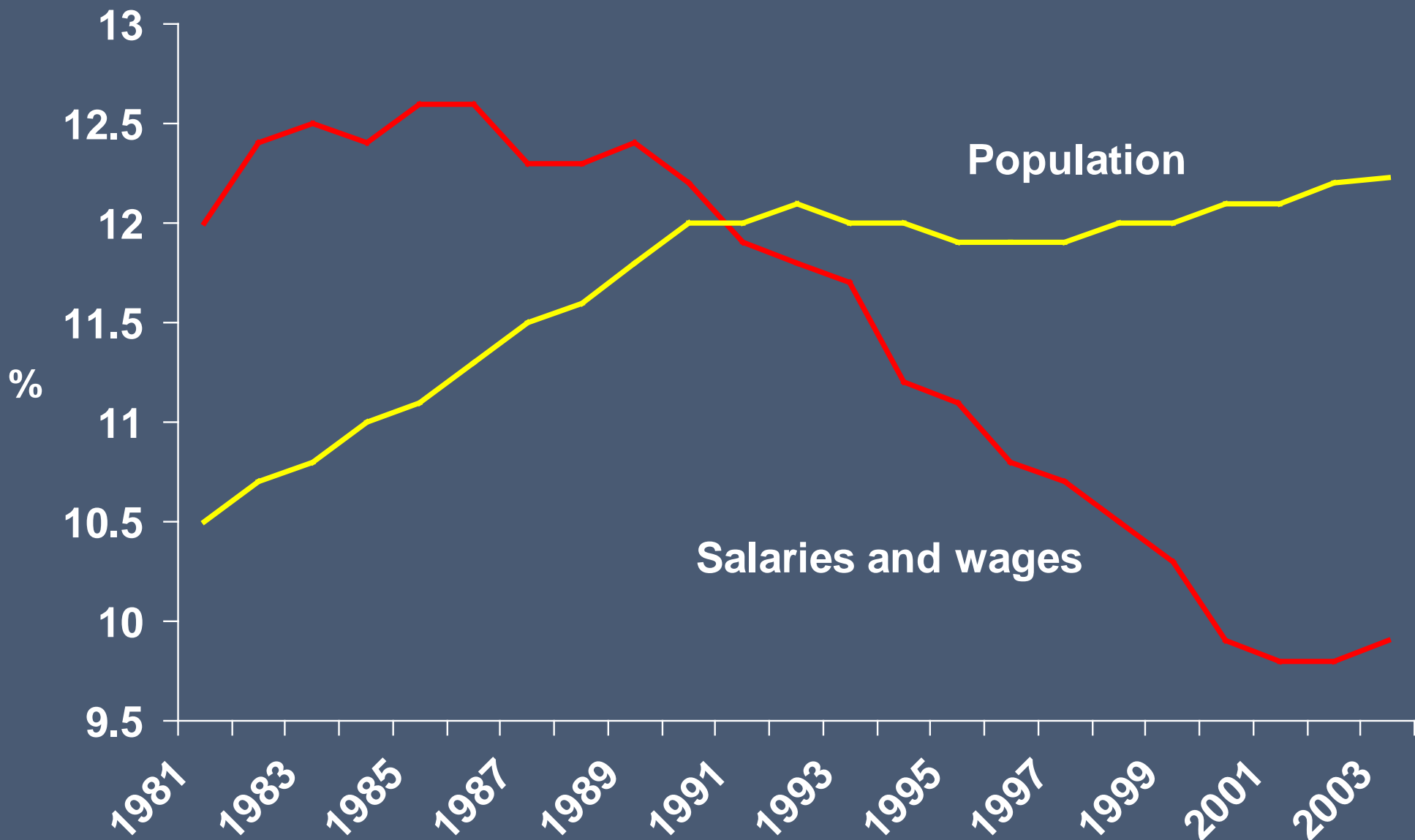
# Defense Up Sharply in 2001-2003, But California \$ Still Not Back to 1980s Levels



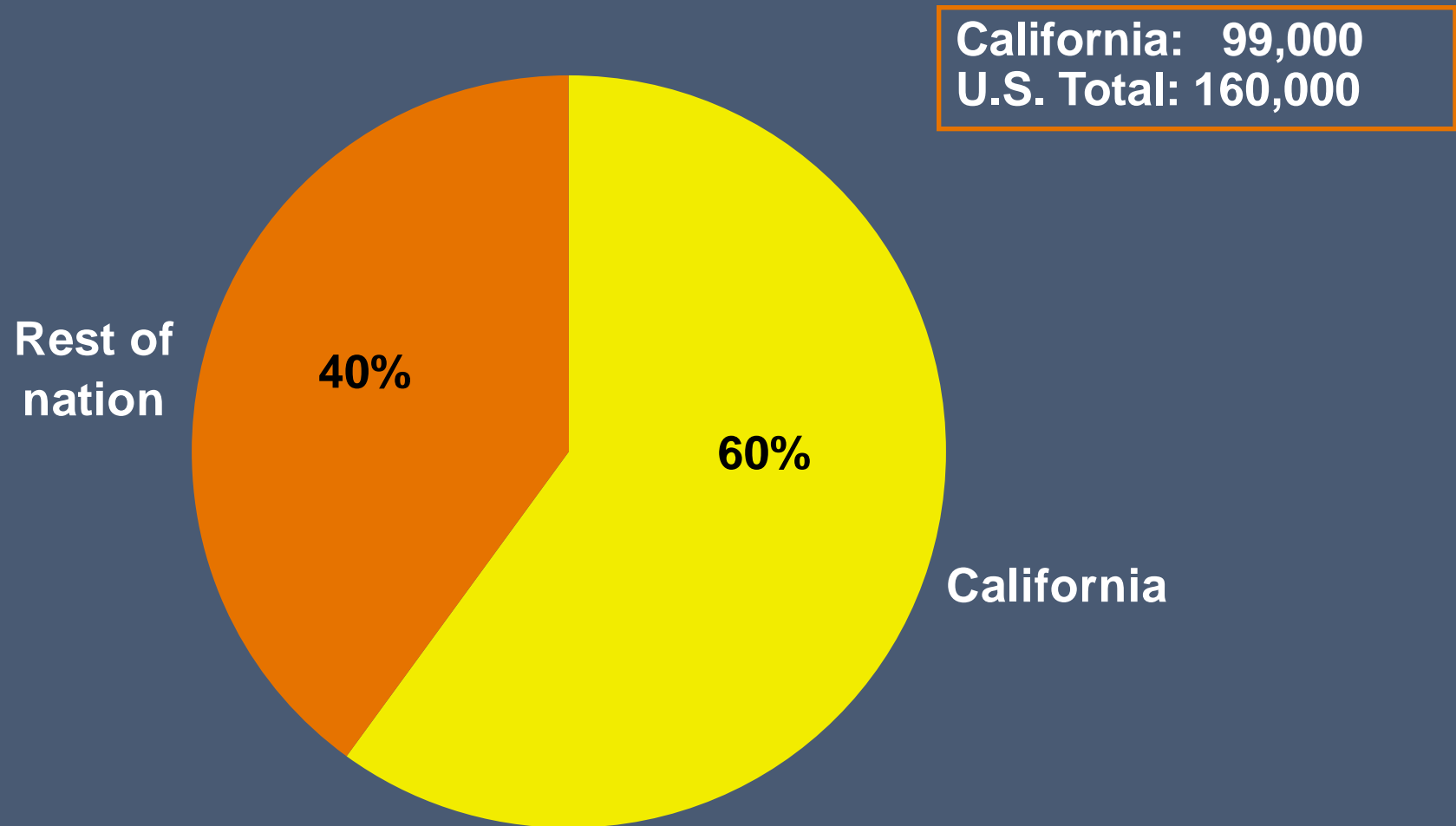
# California's Share of Federal Procurement Has Declined Sharply Over Past 20 Years



# California's Share of Federal Salaries Fell During 1990s, Partly Due To Base Closures



# California Shouldered 60% of U.S. Defense Personnel Reductions in 4 Closure Rounds



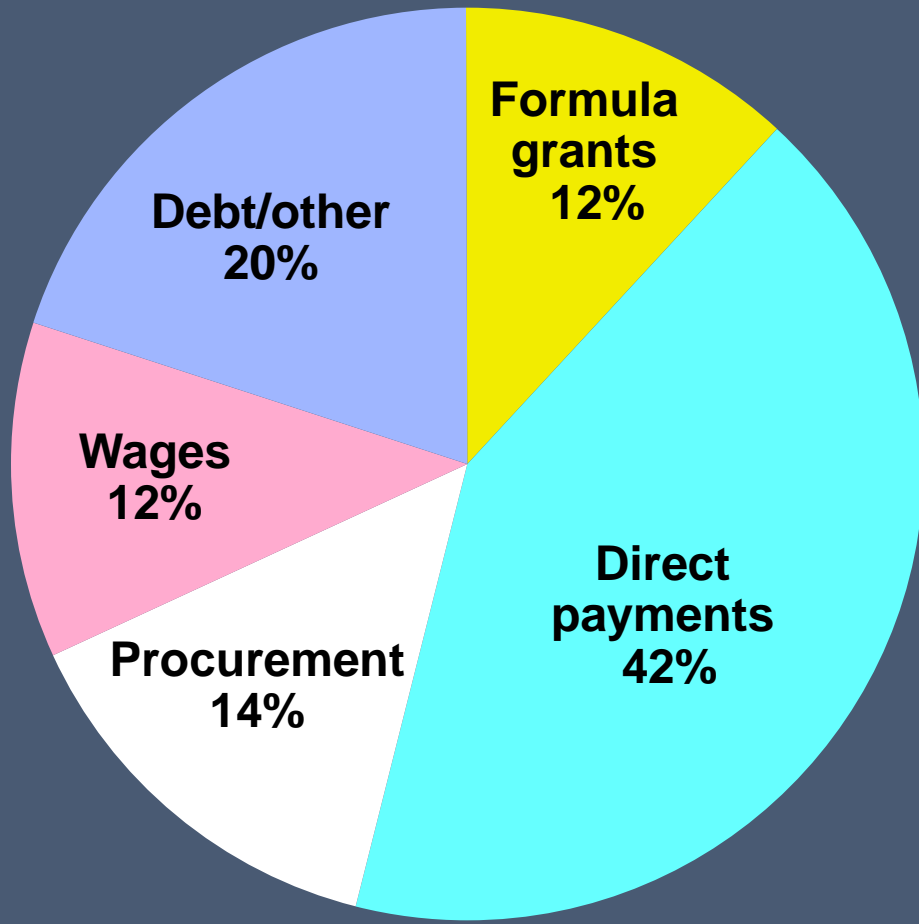
California share of net U.S. personnel cuts from DOD base closure (BRAC) rounds in 1988, 1991, 1993 and 1995

# Outline

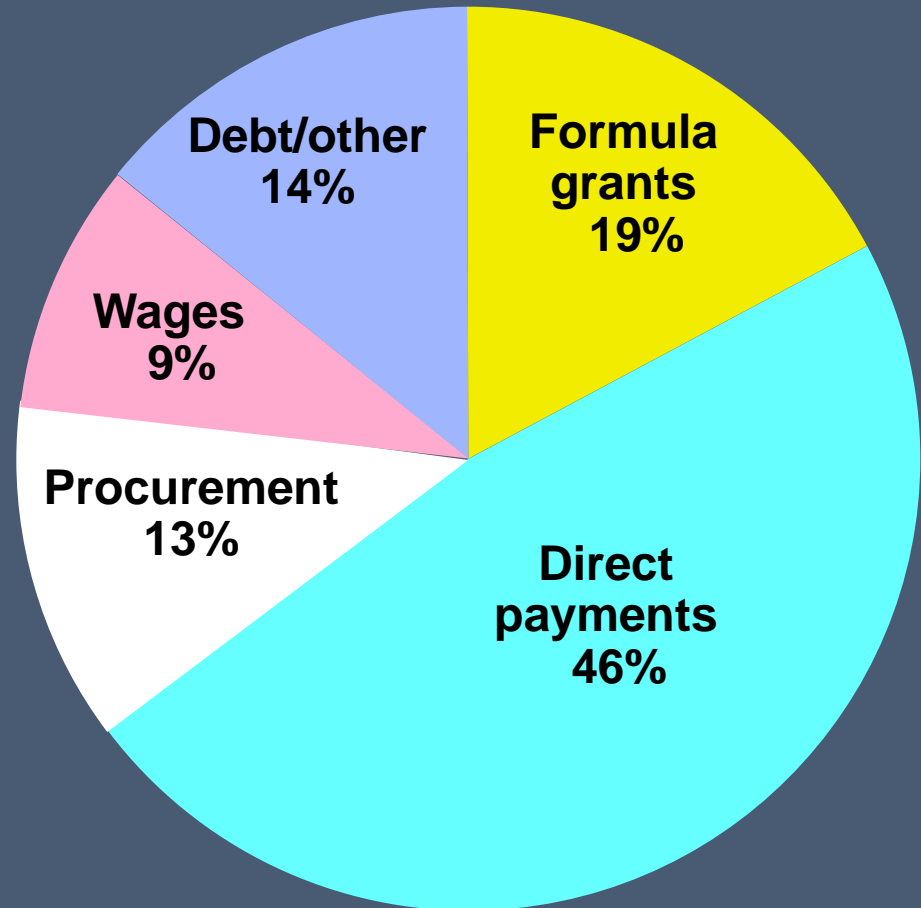
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# Formula Grants Have Grown As a Percentage of Federal Expenditures



FY 1991



FY 2003

# Federal Formula Grants: What Are They and How Much Are They Worth?

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- Use mathematical formula to distribute dollars
  - More than 170 federal formula programs
  - Differ from 1,000+ competitive/project grants
- \$435 billion in 2003 (19% of federal budget)
- California's \$51 billion was 11.8% of 2003 total
- Too early to predict future California share, or even U.S. total spending

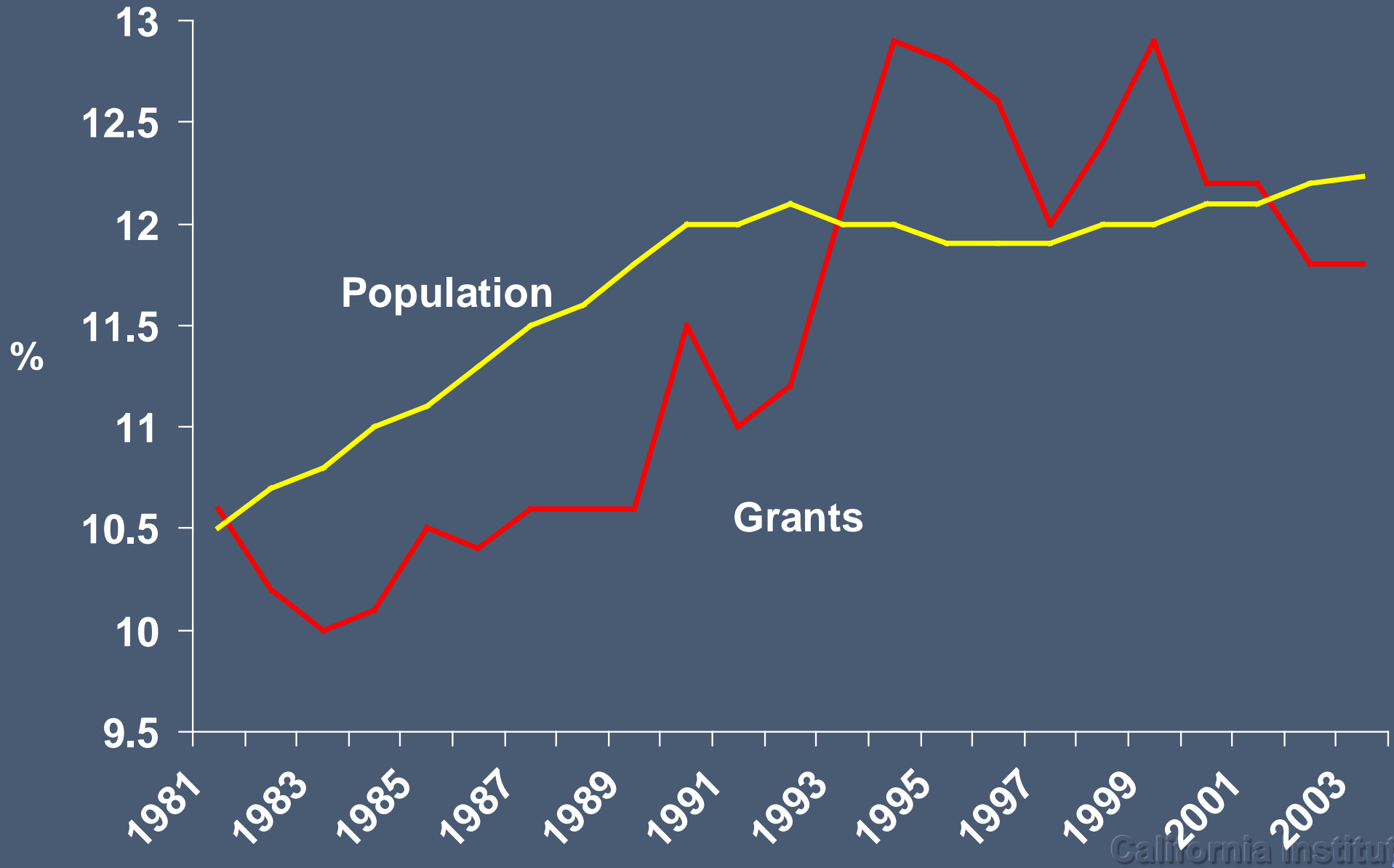
# What Is California's "Fair" Share of Federal Grant Spending? Of All Spending?

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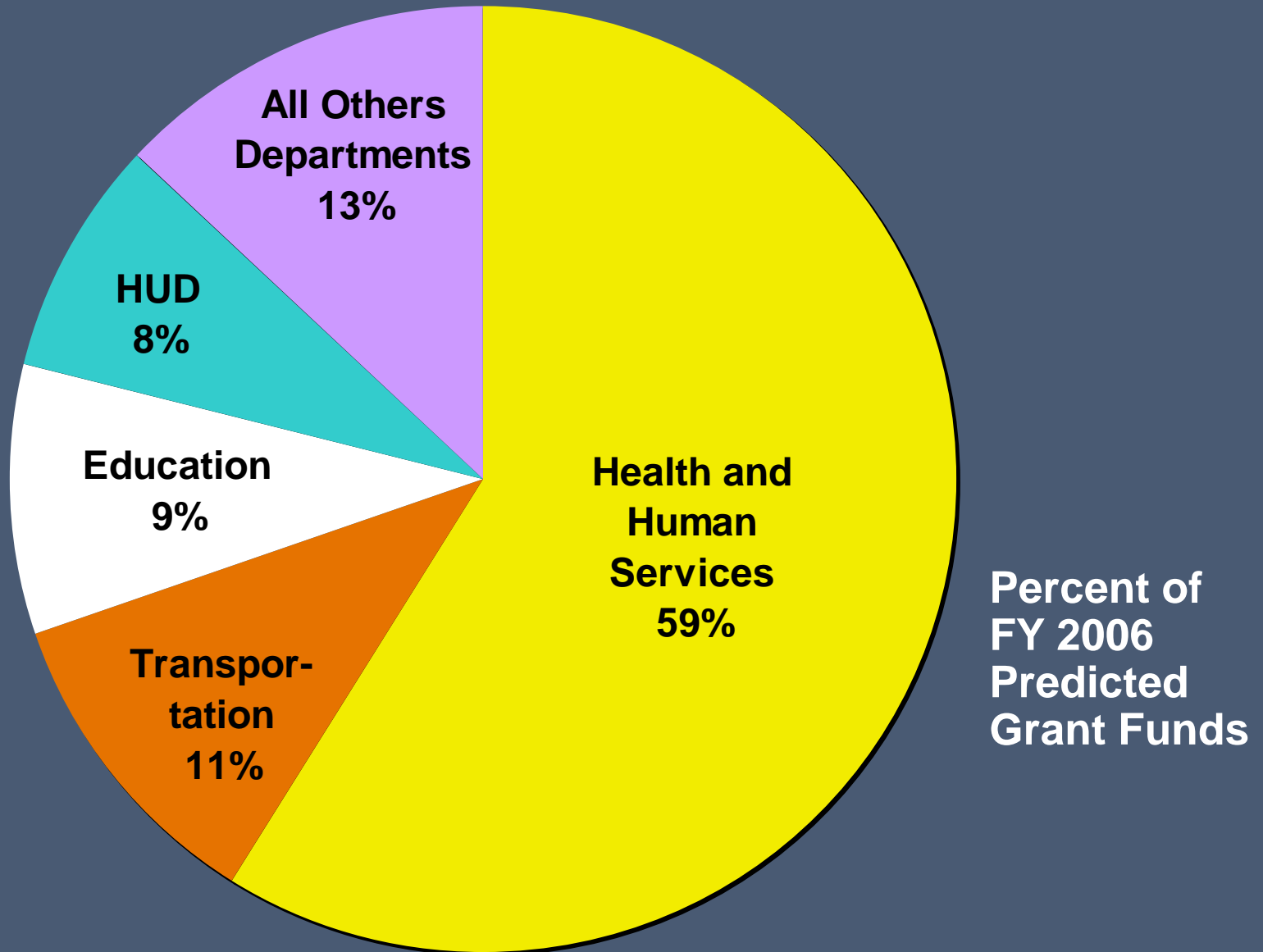
- Population
  - 12+% of U.S. population
- Hardship measures
  - 13+% of poverty, child poverty
  - 13% of unemployment
- Income
  - 13% of personal income
  - (Income exceeds national average by 8%)
- Age
  - 9<sup>th</sup> highest school-age, 6<sup>th</sup> lowest age 65 & over



# Share of Grants Was Low Through 1980s, Paralleled Population Through 1990s



# HHS Administers Most Federal Formula Grant Funding



# Top Ten Formula Grant Programs (I)

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1. Grants to States for Medicaid

2. Highway Planning and Construction

(February 2003 formula grant report)

3. Temporary Assistance for Needy Families (TANF)  
– Family Assistance Grants

(December 2002 formula grant report)

4. Title I Grants to Local Educational Agencies

5. Special Education – Grants to States

(September 2003 formula grant report)

# Top Ten Formula Grant Programs (II)

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## 6. Head Start

(September 2003 formula grant report)

## 7. National School Lunch Program

## 8. Foster Care – Title IV-E

## 9. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

## 10. State Children's Health Insurance Program (SCHIP)

# Outline

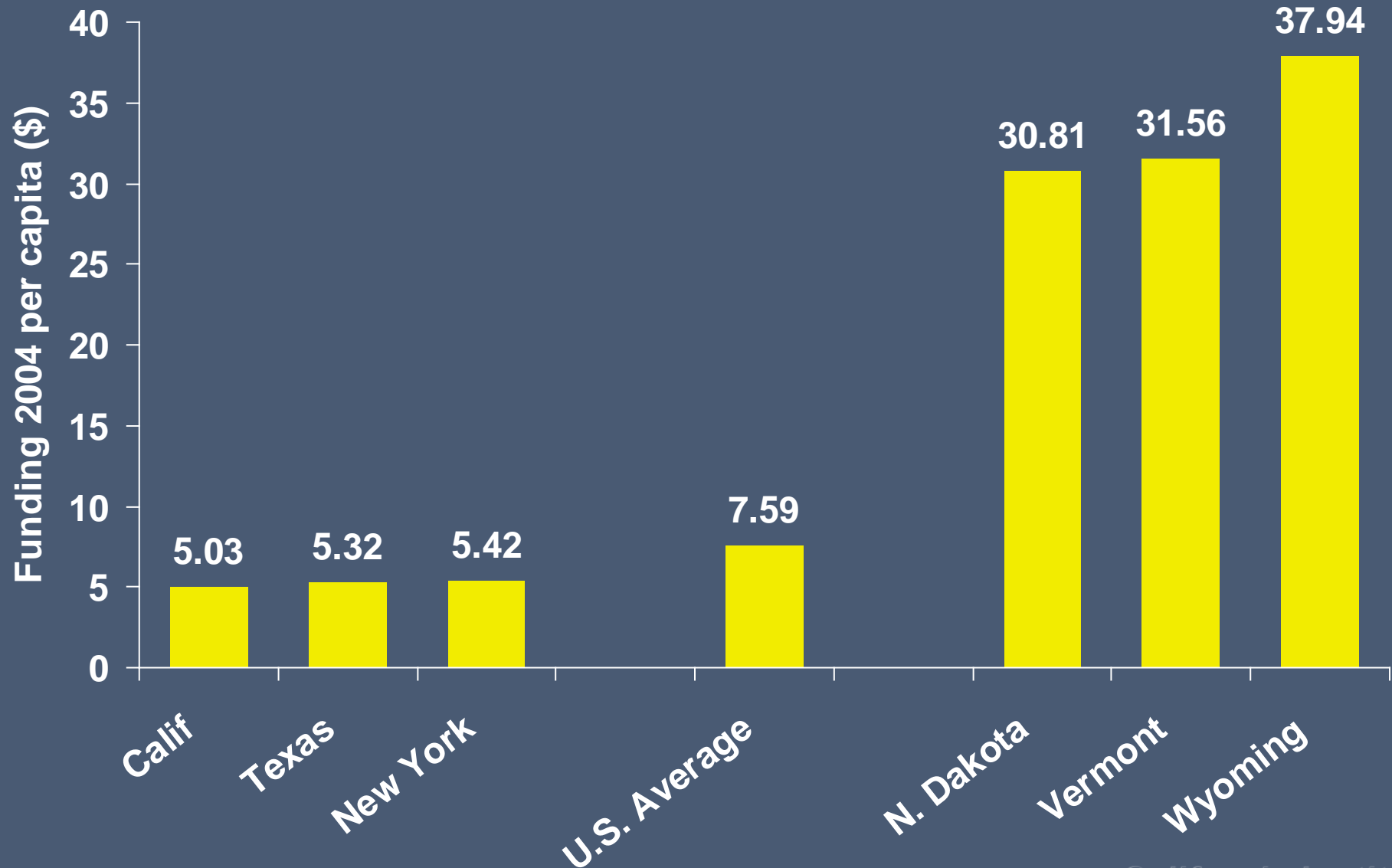
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# California's First Responder Grants Sharply Limited by Small-state Minimum

- Little-noticed formula appeared in Patriot Act for the first time on final day of passage
  - Required only that states “shall receive not less than 0.75 percent of the total amount”
- CA receives 7.95 percent of formula funds (\$164 M in 2003, \$175 M in 2004)
  - California funds per capita=\$5, Wyoming=\$38
- Formula based solely on size of state, bearing no relation to terror threat or attractiveness of targets

# First Responder Grants Using USA Patriot Act Formula, Funding Per Capita





# From March 22, 2004 Time Magazine Story: “How We Got Homeland Security Wrong”



***Casper, Wyo. firefighters model new \$1,800 haz-mat suits that protect against chemicals and flash fires***



# Urban Area Security Initiative (UASI) Responds to Criticism from Urban Areas

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- An alternative funding stream drives dollars to densely populated areas ... CA receives 17-20%
- Discretionary pot provided \$820 million nationwide in 2005 to first responders in urban areas
  - “Discretionary formula” based on threat, density, and critical assets ... but details undisclosed
  - Some funds for port & transit security

# Homeland Security: Two Approaches for Effecting Change

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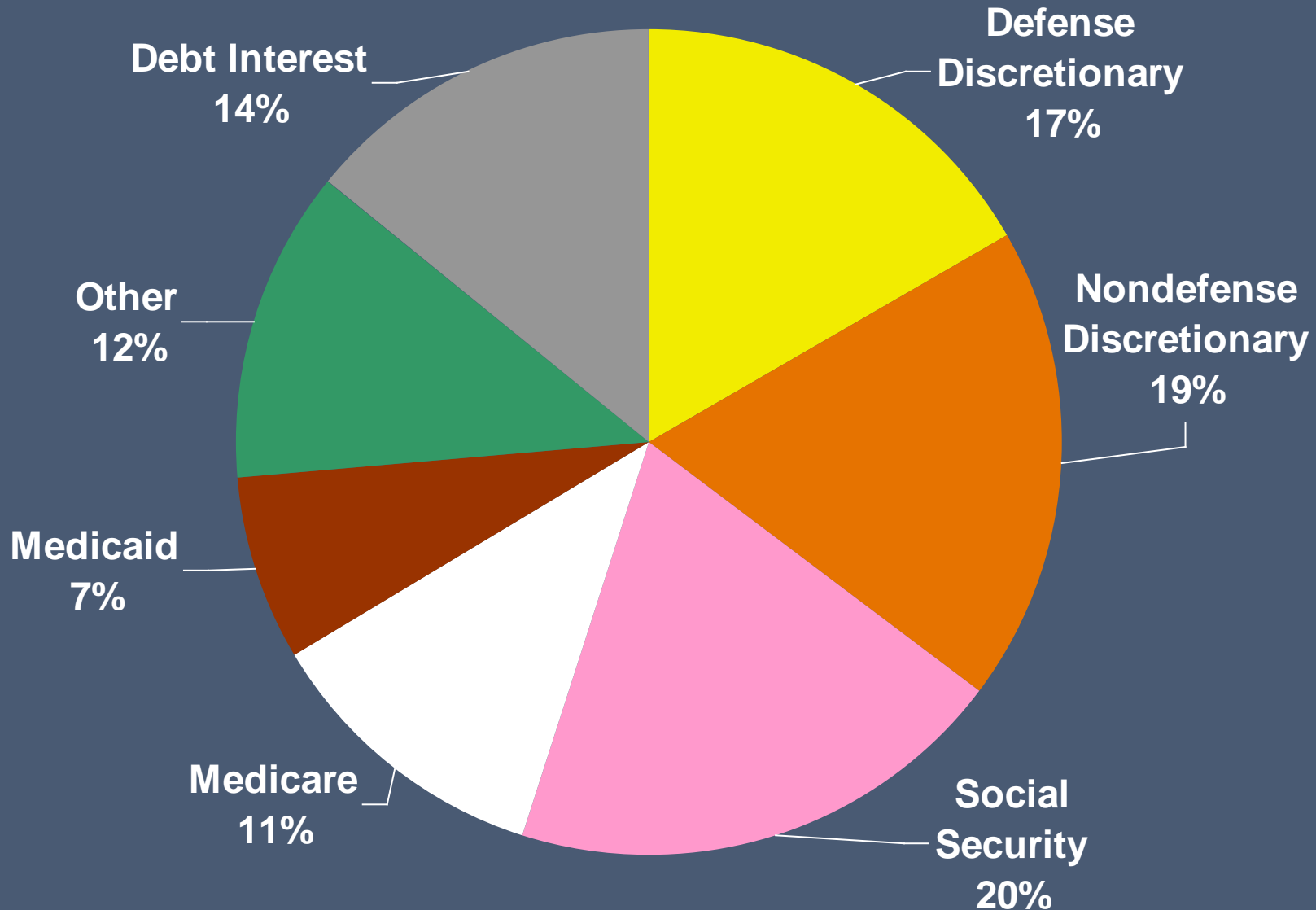
- Bill by Homeland Security Chair Chris Cox would base funds on density, threats, and vulnerability
  - Unanimous, bipartisan support in Committee
  - Passed House, but bogged down with Senate
- Bush Budget: Similar goals, different means
  - Eliminates 80% of funding using unfair formula
  - Replaces with discretionary, threat-based funds
  - Also increases urban area funding
  - Boosts port/transit/infrastructure funds from \$300 million to \$600 million

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# Major Components of the Federal Budget, Fiscal Year 2006



# Medicaid – Largest Formula Grant is One of the Few Remaining Federal Entitlements

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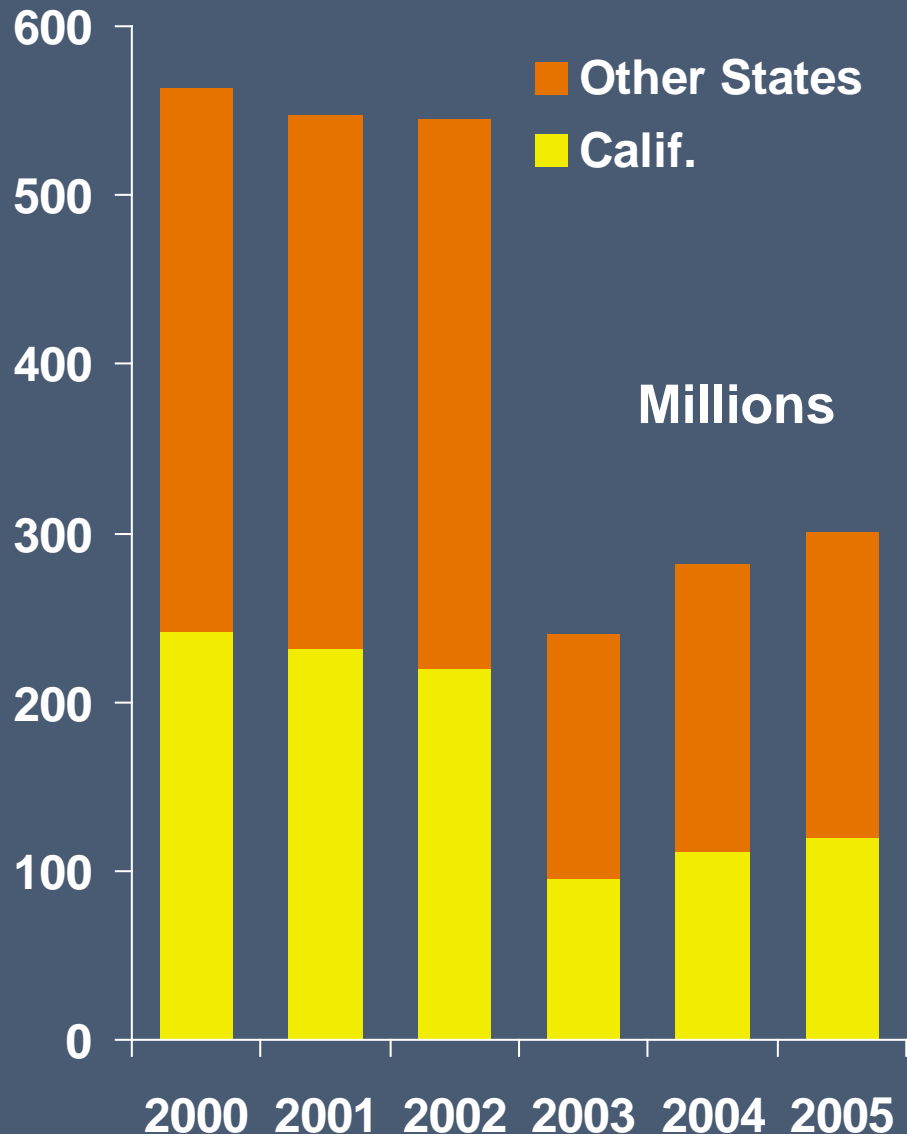
- 2006 Budget “guess” = \$193 billion nationwide
- Prediction for California:
  - \$19.51 billion in 2005, \$18.96 billion in 2006
    - But methodology for reduced \$ questionable
- CA share of federal reimbursements  $\approx$  10%
  - Rate depends on state per capita income
    - California gets 50¢ on the dollar (FMAP = 50)
    - Mississippi gets 76¢ (\$3 for every \$4 spent)
  - Medicaid pre-dates 1960s poverty definition

# **Budget Proposes Medicaid Policy Changes, with Goal of Saving \$60 Billion Over 10 Years**

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- **Recommends changing Medicaid rules to:**
  - “match only those funds kept by providers as payments for services”, and
  - “limit reimbursement levels to no more than the cost of providing services”
- **Possible results include:**
  - Eliminate Upper Payment Limit (UPL) phase-out
  - Restrict payments under the Disproportionate Share Hospital (DSH) program

# Budget Again Proposes Eliminating SCAAP Program, of Which CA Wins 40%



- **State Criminal Alien Assistance Program**
  - \$301 million in 2005
  - California's 40% represents roughly \$120 million
  - 70% State, 30% Local
- **But Southwest Border Prosecution Initiative increase would help CA**

# Education – Increases in Core K-12 Areas

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- Title I - Education for the Disadvantaged
  - \$600 million increase (to \$13.3 billion)
  - Entire increase is in “targeted grants,” the most favorable to Calif. of the four Title I formulas
  - State’s share of Title I grants: 14%
- IDEA Special Education Grants to States
  - \$508 million increase, to \$11.1 billion
  - Calif. share rising, since 1997 formula change
    - State received 10% in 2000, 10.7% now
    - Nearly \$100 million more per year



# Higher Education – Increases in Pell Grants; Reductions in Other Areas

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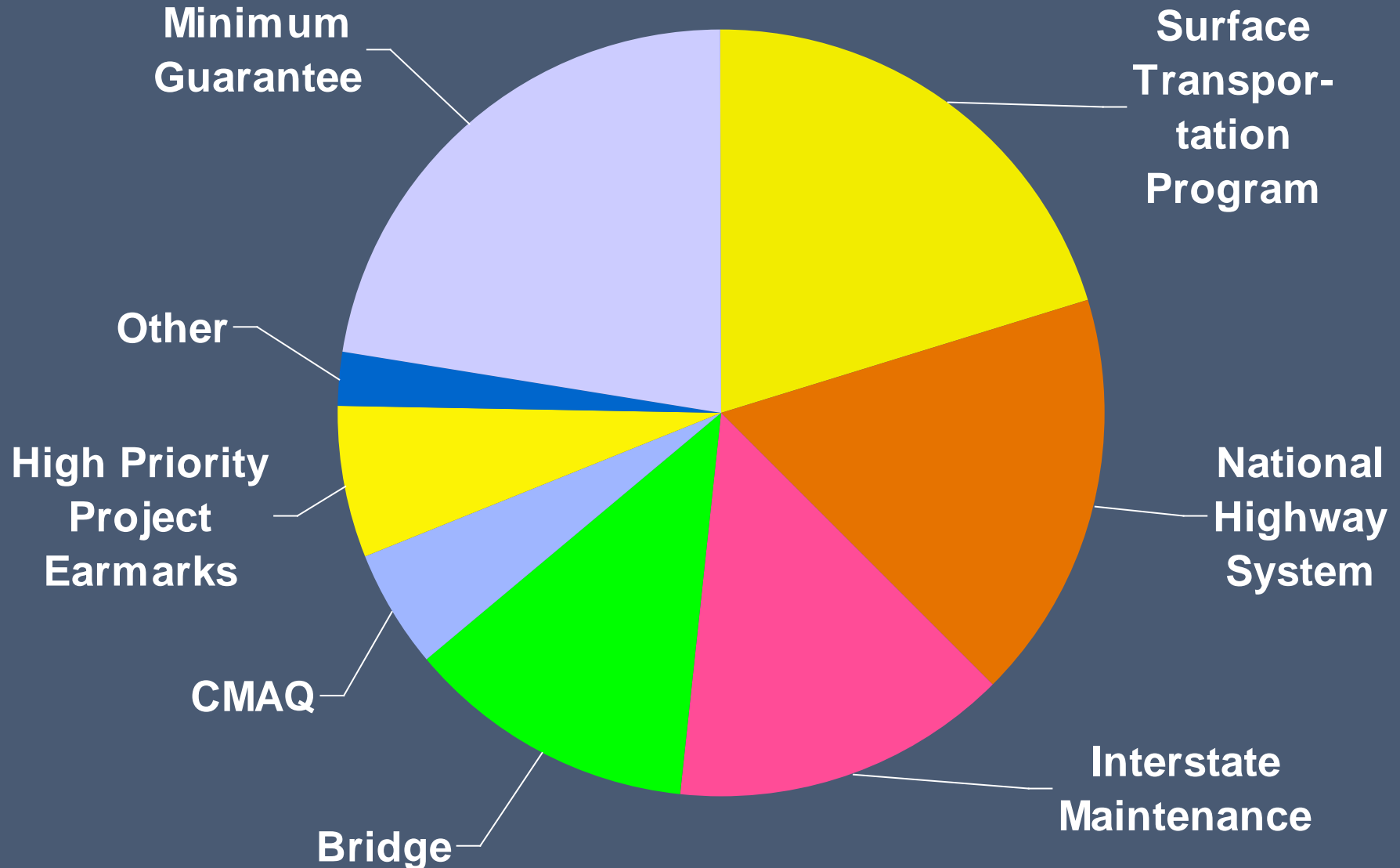
- Pell Grants would increase by \$100 per year for 5 years (from \$4,050 to \$4,550)
- Tuition-sensitivity eliminated, benefiting California Community Colleges
- Budget proposes eliminating several programs:
  - Perkins Loans (\$1.1 billion; CA = 9.8%)
  - LEAP (\$167 million; CA = 15.4%)
  - GEAR-UP (\$300 million; CA = 14.9%)
- Vocational and Adult Education halved, as is TRIO
  - California share: Voc Ed  $\approx$  11%, TRIO = 8%

# Transportation

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- **Budget proposes sufficient funding for a 6-year \$284 billion TEA-21 reauthorization bill**
  - Matches House bill last year
  - Removes obstacle that hindered 2004 renewal
  - Still not enough to raise Minimum Guarantee beyond current level
- **Uncertain future for CMAQ (Congestion Mitigation & Air Quality) Program; CA = 21%**

# Federal-Aid Highway Program (FAHP) Funding

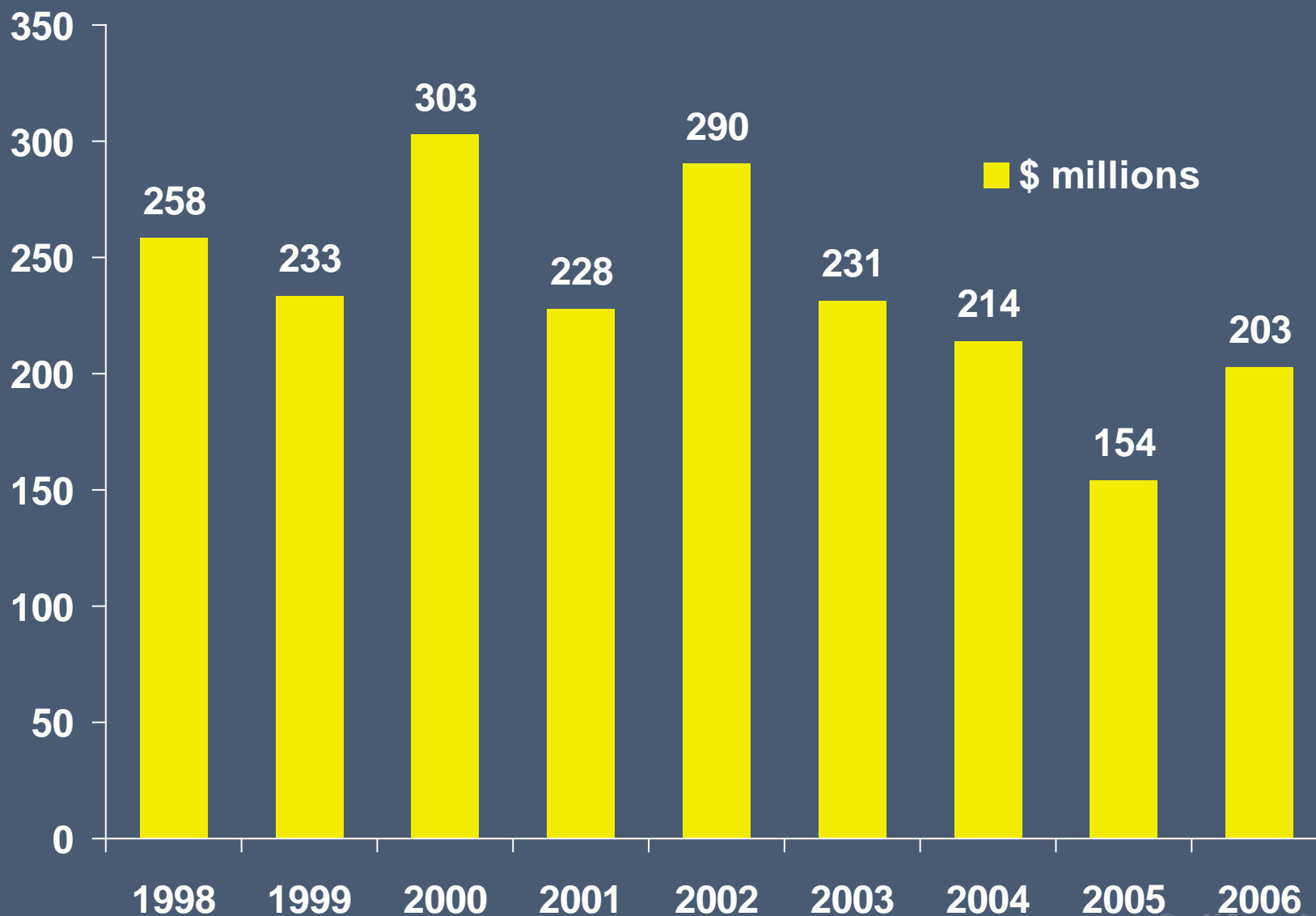


# Other 2006 Budget Topics

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- **Other HHS**
  - Foster Care funding (CA = 29.6%)
  - TANF (CA = 21.6%)
  - Refugee/Entrant Asst.
- **HUD**
  - CDBG consolidated and reduced
- **Defense/NASA**
  - Only modest growth in CA's strong areas (aircraft contracts)
- **Interior**
  - CALFED increased from \$154 million to \$203 million

# CALFED Spending, FY 1998-2006



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