California’s Fiscal Relationship with the Federal Government and the President’s FFY2006 Budget Proposal

Tim Ransdell
California Institute for Federal Policy Research
Public Policy Institute of California
Outline

• 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

Return in 2003 = 79 ¢
California’s Federal Balance of Payments Deficit Is New Record, But Not Surprising

- CA’s $50 billion deficit in 2003
  - 79¢ rate of return: 7th 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
  2. As a richer-than-average state, California pays more income taxes
Federal Spending Breaks Into 5 Categories

- Formula grants 19%
- Direct payments 46%
- Procurement 13%
- Wages 9%
- Debt 14%
California’s Youthfulness Keeps State’s Share of Federal Direct Payments Low

Population

Direct Payments

%

[Graph showing defense spending for All States and California from 1981 to 2003]
California’s Share of Federal Procurement Has Declined Sharply Over Past 20 Years

![Graph showing the decline in California's share of federal procurement over the past 20 years. The graph compares DOD procurement, all procurement, and population.]
California’s Share of Federal Salaries Fell During 1990s, Partly Due To Base Closures

Percentage of Salaries and Wages vs. Population

- Population:
  - 1981: 11.0%
  - 1983: 12.0%
  - 1985: 12.5%
  - 1987: 13.0%
  - 1989: 12.5%
  - 1991: 12.0%
  - 1993: 11.5%
  - 1995: 11.0%
  - 1997: 10.5%
  - 1999: 10.0%
  - 2001: 10.0%
  - 2003: 10.5%

- Salaries and Wages:
  - 1981: 9.5%
  - 1983: 10.0%
  - 1985: 10.5%
  - 1987: 11.0%
  - 1989: 11.5%
  - 1991: 12.0%
  - 1993: 12.5%
  - 1995: 13.0%
  - 1997: 13.0%
  - 1999: 13.0%
  - 2001: 13.0%
  - 2003: 13.0%
California Shouldered 60% of U.S. Defense Personnel Reductions in 4 Closure Rounds

California: 99,000
U.S. Total: 160,000

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Formula Grants Have Grown As a Percentage of Federal Expenditures

FY 1991
- Debt/other: 20%
- Wages: 12%
- Procurement: 14%
- Direct payments: 42%

FY 2003
- Debt/other: 14%
- Wages: 9%
- Procurement: 13%
- Direct payments: 46%
Federal Formula Grants: What Are They and How Much Are They Worth?

- 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?

- 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
  - 9th highest school-age, 6th lowest age 65 & over
Share of Grants Was Low Through 1980s, Paralleled Population Through 1990s
HHS Administers Most Federal Formula Grant Funding

- Health and Human Services: 59%
- Transportation: 11%
- Education: 9%
- HUD: 8%
- All Others Departments: 13%

Percent of FY 2006 Predicted Grant Funds
Top Ten Formula Grant Programs (I)

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)

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)
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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
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

- 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

- 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

- Debt Interest: 14%
- Defense Discretionary: 17%
- Nondefense Discretionary: 19%
- Social Security: 20%
- Medicare: 11%
- Medicaid: 7%
- Other: 12%
Medicaid – Largest Formula Grant is One of the Few Remaining Federal Entitlements

- 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 ≈ 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

- 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

- **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

- 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 ≈ 11%, TRIO = 8%
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

- Surface Transportation Program
- Interstate Highway System
- Interstate Maintenance
- National Highway System
- CMAQ
- Bridge
- High Priority Project Earmarks
- Other
- Minimum Guarantee
Other 2006 Budget Topics

- **Other HHS**
  - Foster Care funding (CA = 29.6%)
  - TANF (CA = 21.6%)
  - Refugee/Entrant Asst.

- **Defense/NASA**
  - Only modest growth in CA’s strong areas (aircraft contracts)

- **HUD**
  - CDBG consolidated and reduced

- **Interior**
  - CALFED increased from $154 million to $203 million
CALFED Spending, FY 1998-2006

- 258 million in 1998
- 233 million in 1999
- 303 million in 2000
- 228 million in 2001
- 290 million in 2002
- 231 million in 2003
- 214 million in 2004
- 154 million in 2005
- 203 million in 2006

($ millions)
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