Agenda

February 15, 2005
Room 4202, 10 a.m.

OVERVIEW

The President's Proposed 2006 Federal Budget Impacts on California

1. Call to Order

2. Opening remarks

3. Presentations
   a. **Overview**—Tim Ransdell, Director, California Institute for Federal Policy Research
      
         • California's "balance of payments" with the federal government. Does California get its fair share?

         • Overview of the President's Budget and highlights of proposals that affect funding for state and local programs in 2006.

         • Longer-term outlook and implications for state and local funding based on the President's Budget projections.
b. Medi-Cal--Stan Rosenstein, Deputy Director, Medical Care Services, California Department of Health Services

- Significant federal budget proposals for Medicaid (Medi-Cal in California). How would they affect costs and coverage?

- Highlights of proposals that would likely result in additional savings or costs relative to the Governor's Budget for 2005-06 and looking forward to 2006-07.

- Status of the state's request for federal approval of the Certified Public Expenditures Waiver. What does the Governor's Budget assume about the fiscal effect of the waiver and how does that assumption compare with the effect of the current request? Is there a risk that the proposed federal "payment reforms" will conflict with, or negate, the waiver?

c. K-12 Education--Gerry Shelton, Director of Fiscal and Administrative Services, California Department of Education

- Overview of the President's K-12 education budget proposals.

- Proposed program eliminations, consolidations, and funding reductions—increased flexibility, but less money.

- New or expanded federal programs and requirements—will federal funding cover the costs?

- How does the President's budget affect the Governor's proposed K-12 Education Budget for 2005-06 and the outlook for 2006-07?

- Potential net impact on school district budgets—will schools be squeezed between funding cuts for existing programs and the costs of new or expanded federal programs?
d. **Transportation**—Cindy McKim, Chief Financial Officer, California Department of Transportation

- How would the President's budget affect the amount and allocation of federal transportation funding received by California? Are there any significant differences between the President’s budget and the assumptions in the Governor's Budget proposals?

- What effects would the President's budget have on the schedule of project funding and construction in the state?

- How would the President’s budget affect funding for highway maintenance and transit operations?

- What are the longer-term implications for California of the President’s proposal for a 6-year reauthorization of surface transportation funding?

e. **State Criminal Alien Assistance Program (SCAAP)**—Greg Jolivette, Director, Criminal Justice Section, Legislative Analyst’s Office

- State and local cost of incarcerating criminal aliens.

- Description and funding history of SCAAP.

- Elimination of funding in the President's budget—what is the effect on the Governor's 2005-06 Budget and for 2006-07?

f. **Homeland Security and Law Enforcement Assistance**—Sarah Mangum, Department of Finance

- How much have California's state and local governments received in federal homeland security grants and what has been the focus of the grants?

- Do existing homeland security funding formulas and practices disadvantage California?

- The President is proposing a significant reduction in homeland security grant funding along with major
changes in funding formulas and allocation methodologies. On balance, how would these changes be likely to affect the total amount of funding that California receives and the allocation of funds among programs? Will any additional funds be available for security needs at critical infrastructure sites, such as ports?

- The President's budget proposes significant reductions in assistance to state and local law enforcement agencies, as well as program eliminations and consolidations. How are these proposals likely to affect California's state and local governments?

g. California's Plan and Strategy for Improving Federal Funding—David Harper, Deputy Director, Department of Finance

- What staff and resources does the Schwarzenegger Administration currently have available to make sure that our needs are addressed in Washington?

- What are the highest priority federal budget and funding issues in the view of the administration?

- Has the administration developed a process and plan for working with state's congressional delegation?

- Has the administration identified specific issues around which to build coalitions with other states? Have specific plans and processes been developed for these coalition-building efforts?


5. Adjournment.
BACKGROUND ON THE PRESIDENT'S BUDGET FOR 2006

Process

**Fiscal Years.** The federal fiscal year begins on October 1. Therefore, proposals for federal fiscal year 2006 generally would affect three quarters of California's 2005-06 fiscal year, which starts on July 1, and one quarter of the state's 2006-07 fiscal year. However, the actual timing of federal budget changes varies by program, depending on the specific funding mechanism and other factors, such as the availability of carryover balances.

**Budget Resolution.** The next major milestone in the federal budget process is the consideration by the congressional budget committees and adoption of a budget resolution by Congress. The statutory deadline for the adoption of the resolution is April 15th, but last year a formal resolution never was adopted. The budget resolution provides allocations to the appropriations committees and sets targets for changes to mandatory or entitlement programs (such as Medicaid) that will be enacted in a budget reconciliation bill (similar to a budget trailer bill in California).

**President Enforcement.** The President's budget proposes major changes in the federal budget enforcement process that are designed to further restrict spending in the future. These changes include requiring any additional cost of entitlements or other mandatory spending to be offset with spending cuts, but not tax increases. However, tax reductions would not be subject to any balancing requirement. Higher spending levels would require a supermajority vote in Congress. The President would be able to exercise a line-item veto. Also, the proposal includes ongoing spending authority in the event of a late budget.

**Longer-Term Budget Outlook Implies Much Larger Reductions**

The President's budget reduces discretionary spending for programs outside of defense and homeland security by 1 percent in 2006. However, much deeper cuts would be needed to meet the President's goal of halving the deficit (as a percentage of the economy) by 2009. Moreover, the President's budget projections through 2010 exclude some very significant items, including the following:

- Realistic costs for Iraq and Afghanistan.
- Transition costs of Social Security privatization.
- Full recognition of the cost of extending tax cuts.
• Full repair of the federal alternative minimum tax (AMT), which will soon eliminate much of the effect of the tax cuts for many middle-income taxpayers, especially in California.

These items will add trillions to the federal budget problem over the next ten years and put intense pressure on federal financial assistance to states.