THE POLICY PAGE
An Update on State and Federal Action

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Federal Budget Decisions: Impact on Texas

As Oct. 1 deadline nears, social services and other appropriations for fiscal 2000 still undecided

The U.S. House of Representatives and the Senate reconvened in Washington, D.C., on September 8. Among their remaining tasks was finalizing the discretionary part of the federal budget for fiscal 2000, which begins October 1. Federal discretionary spending is authorized through 13 appropriations bills, only one of which has already been enacted into law. The dozen remaining bills must clear the House and Senate and be signed by the President for federally funded programs to continue operating.

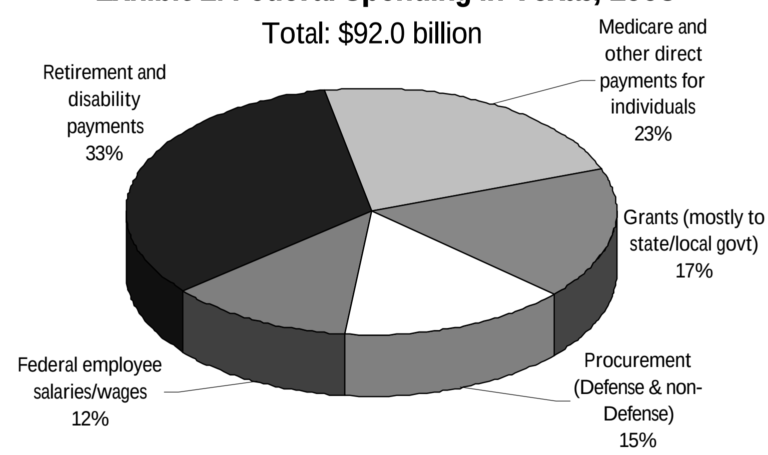
As in the 1999 Texas legislative session, the expectation of federal surpluses spurred proposals early in the budget process for tax cuts, even if the long-term effect on social services or other programs was negative—or at best, unknown. This *Policy Page* summarizes the original budget proposals made by the President, provides an update on how individual appropriations bills and tax cut proposals have made their way through the 106th Congress, and describes the importance of federal dollars in state and local budgets and the state economy.

PRESIDENT'S ORIGINAL BUDGET PROPOSAL

Early in 1999, President Clinton issued his budget plan for fiscal 2000. Total proposed federal spending was almost $1.8 trillion, over 35 times as large as Texas' fiscal 2000 state budget of $49 billion.

On the spending side, highlights of the President's budget included $261 billion over five years for weapons systems and a pay raise for the military; $44 billion to fund veterans programs; tax credits to stimulate $22 billion in bond financing for K-12 school facilities construction or renovation; $1.4 billion for districts to hire more school teachers; an added $607 million for the Head Start program; and $7.5 billion over five years to create subsidies for working but poor Americans.

Exhibit 1: Federal Spending in Texas, 1998



In health and human services, the President's budget proposed $5.3 billion over five years for changes to various health care programs, such as allowing the Medicare program to serve people under 65 years old, as well as $1.1 billion over five years to fund Medicaid and Children's Health Insurance Program coverage for immigrants. States could also extend Medicaid for foster care children up to age 21.

Additionally, the President proposed restoring Title XX funding (the Social Services Block Grant) to 1996 levels; extending the Welfare to Work program for another year and adding $150 million to provide transportation assistance for clients; boosting funding for child care block grants (but requiring states to match the new dollars); and offering $600 million in grants for early education and child care improvement initiatives. The Mental Health Block Grant would be increased by 24% to $359 million, while Family Planning Services grants would rise almost 12%, to $240 million.

Other budget items included $45.5 billion to improve highway and air safety; $55 billion for agriculture and nutrition programs; $1.7 billion for environmental initiatives; and dedication of most of the expected federal budget surpluses in the next 15 years to strengthen Social

Security. Establishment of individual savings plans would be encouraged through $536 billion in tax cuts over the next 15 years.

Tax changes: On the revenue side, the President's budget included $34 billion in targeted tax cuts and some tax increases. Families with long-term health care costs would receive a $1,000 tax credit, while parents staying at home to care for children 12 months old or younger would get a credit up to $500. Persons with a disability could be eligible for a tax credit of $700 annually for employment-related expenses. The Clinton budget proposed eliminating corporate tax shelters and other loopholes to increase federal revenues by $7.1 billion, as well as a 55-cent/pack increase in the cigarette tax.

Exhibit 2: Status of Fiscal 2000 Appropriations Bills

	Passed House	Passed Senate	Conference Rpt	Pub Law
Agriculture	Jun 8	Aug 4		
Commerce, Justice, State	Aug 5	Jul 22		
Defense	Jul 22	Jul 28		
District	Jul 29	Aug 2	Aug 5	
Energy and Water	Jul 27	Jul 28		
Foreign Operations	Aug 3	Aug 4		
Interior	Jul 15			
Labor, HHS, Education				
Legislative Branch	Jun 10	Jun 16	Aug 4	
Military Construction	Jul 13	Jul 14	Jul 27	Aug 17
Transportation	Jun 23	Sep 16		
Treasury	Jul 15	Jul 19	Sep 14	
VA/HUD	Sep 9			

Effects on Texas: Given the large number of military installations and defense contractors in the state, Texas stood to gain considerably from the President's spending plan as originally proposed. Non-defense budget items earmarked for Texas communities included $70 million for the Dallas North Central light rail project, $62 million for Houston regional transit, and almost $27 million for Border Patrol infrastructure.

On the minus side, Clinton's budget recommended funding the supplemental Temporary Assistance for Needy Families (TANF) grants, for low-benefit, high-growth states, at the 1999 level. For Texas, this would mean $13 million less in TANF for fiscal 2000, with a similar cut in 2001. The president's budget would also cut the federal match for paternity testing in child support enforcement to 66%, from its current level of 90%. Finally, the proposal would cut federal funding for state prison building, costing Texas $11 million in fiscal 2001.

Along with his budget for fiscal 2000, President Clinton asked Congress in his State of the Union Address to raise the federal minimum wage by 50 cents per year for the next two years. If enacted, this increase could benefit many of Texas' working poor. The current minimum wage of $5.15/hour provides a gross income of $10,700 per year, about 77% of poverty for a worker supporting a family of three.

CONGRESSIONAL ACTION

Congress's work was not limited to approving a budget for the period starting in October 1999; first, it had to address budget needs that had emerged since it last met. From March to mid-May, the House and Senate worked on a supplemental spending bill for 1999, finally enacted as PL 106-31. The measure authorized spending (most of it "emergency") on defense programs ($10.9 billion), aid to Kosovo ($1.1 billion), relief for farmers ($574 million), and foreign and domestic disaster aid ($1.6 billion). It also rescinded unspent funding—including $1.25 billion from the Food Stamp program, $350 million from HUD assisted housing grants, and $230 million from Community Development Block Grants—to offset the new spending. Finally, a rider to the act prevents the federal government from recouping any settlements won by states in lawsuits against the tobacco industry.

For fiscal 2000 spending, the budget resolution passed by Congress in April was the first hurdle. The resolution broadly laid out Senate and House plans for spending and revenue changes in the upcoming decade. Key elements of the budget resolution included:

- $778 billion in tax cuts in the next 10 years;
- putting any Social Security surpluses in a "lockbox," which can only be tapped for federal debt reduction or Social Security reforms;
- adhering to the annual spending limits spelled out in the Balanced Budget Act (BBA) of 1997.

The stated intention to stay within BBA spending limits meant that $30 billion would have to be eliminated from current spending levels, unless appropriations could be dubbed "emergency spending." Furthermore, the amount of the proposed tax cut increased later in the session, to $792 billion. Because the President's budget called for lower tax cuts and higher spending, the stage was set for a standoff or tax cut/spending compromise later in the summer when bills finally started to reach the President for his signature or veto.

On the spending side, it quickly became apparent that Congress would be unable to stick to its plan to getting appropriations bills approved and sent to the President by the Labor Day recess. One key problem: how to write spending bills (especially those funding social services) that would not be vetoed while enacting tax cuts.

For fiscal 2000 spending, the House and Senate approved allocations to guide subcommittees in recommending funding levels that would fit within budget caps (i.e., the $30 billion in required reductions). The House's allocations would make significant cuts to

Labor/HHS/Education and VA/HUD funding, while the Senate's would require cuts in almost all areas.

Once the subcommittee process got underway, the agriculture, military construction, and transportation bills were among the first to clear the House (Exhibit 2). The military construction bill also made it through the Senate relatively early (mid-July), followed by the Treasury, Commerce/Justice/State Departments, Defense, and Energy and Water spending bills.

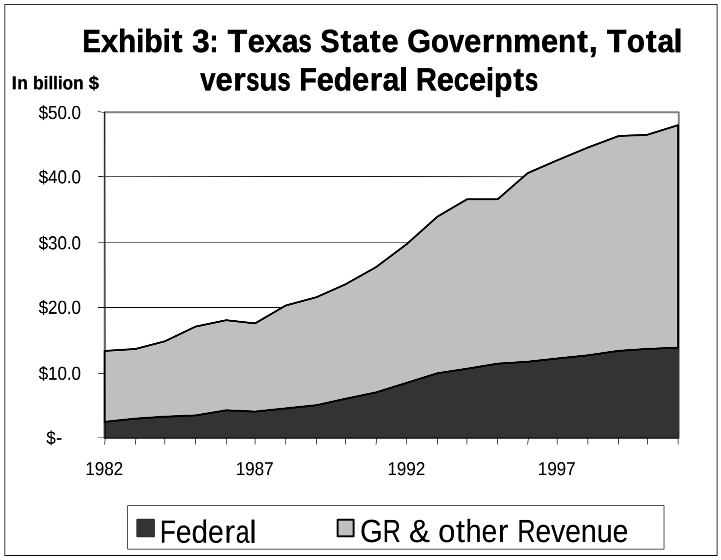
Nearing the deadline: The House and Senate recessed until Labor Day with only three bills having made it past the conference report stage. On the revenue front, with national support for tax reductions failing to materialize and Clinton promising to veto the $792 billion tax break as soon as it reached him, Congressional leaders announced that they were unwilling to compromise on the size of the tax cuts.

By September 16, when two weeks remained before the October 1 deadline for starting a new fiscal year, only four measures had cleared the House and Senate and gone to the President for his signature: bills funding military construction, the legislative branch, the District of Columbia, and the Treasury Department and other smaller agencies.

Because the Labor/HHS/Education bill had still not made it out of either the House or Senate, it became the target for the largest budget cuts to offset increased spending in other areas. The Title XX grant, which has already undergone substantial cuts in recent years, was seen as particularly vulnerable. A September 13 analysis by the Center on Budget and Policy Priorities reported that Title XX could be cut by at least $1 billion in fiscal 2000. If approved, this could mean a loss to Texas of at least $72 million (or 42%). The Labor/HHS/Education bill also authorizes other large sources of funds in the Texas budget, including TANF, Medicaid, and the Children's Health Insurance Program.

At this writing, less than a week of working days remains for Congress and the President to approve the remaining appropriations bills before the new fiscal year starts. If that deadline cannot be met, stopgap spending would have to be approved through "continuing resolutions." Congress hopes to avoid this outcome because it can lead to a shutdown of federal agencies, as was the case in 1995.

The defense spending bill is now in a House-Senate conference committee. Conferees are expected to approve a $17 billion increase for the Pentagon budget, for a total $270 billion. If spending caps were strictly applied, this would leave about $268 billion for the other 12 spending bills combined. However, this amount is low enough that it will likely lead to spending caps being broken, as they were last year. Because of the time crunch, the Labor/HHS/Education bill may not be finished at all. Instead, the programs it funds could be put in an omnibus spending bill to be completed in October or November.



Back to life? Tax cuts and minimum wage hikes: Clinton's veto this week pronounced dead tax cuts of any significant size. However, separate efforts in the House and Senate may revive tax cuts to a lesser extent, possibly linked to a minimum wage hike.

On the House side, one possibility is that an increase in the minimum wage will be tied to extension of the federal R&D tax credit and some other credits due to expire. Other options include tying the minimum wage hike to inheritance tax cuts, to increased business deductions for meals and entertainment, or to tax cuts for self-employed workers buying their own health insurance. On the Senate side, an unsuccessful attempt was made to amend the bankruptcy reform bill to include a minimum wage increase to $6.15/hour in the next two years.

The Center for Public Policy Priorities will provide further updates on the federal budget, tax cuts, and the minimum wage issue as Congress continues its work.

ULTIMATE IMPACT ON TEXAS STATE BUDGET

Over time, the state's use of federal funds has increased significantly (Exhibit 1). In the 1999 session, legislators enacted a $98 billion budget (H.B. 1) for the biennium now underway, under the assumption that $13.7 billion in federal funds would come to Texas in 2000. According to the Comptroller's revenue estimate, federal funds would increase by 3.1% over fiscal 1999, and federal dollars would be the second largest revenue source for the state, after taxes. For fiscal 2001, $14 billion in federal revenue is expected.

H.B. 1 appropriates $27.7 billion in federal funds, which account for 28% of overall state spending in 2000-2001. Some functions of state government, however, are much more dependent on federal funds (Exhibit 2). In fiscal 2000, federal funds will make up 50% of the budgets for business and economic development agencies, and almost 60% of health and human service budgets.

The latest national data indicate that Texas state government is slightly more dependent on federal funds than are other states. In 1996, according to the U.S. Census Bureau, federal funds contributed 29% of Texas' state revenues, compared to an average of 27% for all state governments nationwide. Per Texan, state agencies spend about $630 in federal funds annually.

Texas' heavier reliance on federal funds—particularly in health and human services—means that federal budget cuts would have a more noticeable impact on the state's residents. Additional information on the importance of TANF in the 2000-01 state budget and on the possible effects of Title XX cuts is available at http://www.cppp.org/products/policypages/91-110/91-110html/PP95.html and http://www.cppp.org/products/policyanalysis/titlexx.html.

IMPACT ON LOCAL GOVERNMENTS AND INDIVIDUALS

Counties, municipalities, and other local governments receive federal funds through grants from state agencies, as well as directly from the federal treasury. This latter source of federal funds is not a major part of Texas local revenue relative to property and sales taxes, generating only 2.6% of all local funds in 1996 (compared to a national average of 3.8%). Nevertheless, these federal funds together account for more than $1 billion in annual spending for Texas communities—about $62 per resident.

State or local agencies are not always part of the federal funds flow: Texans may receive a payment or loan directly from a federal agency such as the Social Security Administration. Additionally, federal agencies with offices in Texas spend money on salaries and goods and services.

With all sources of federal funding included, federal spending in Texas totaled $92 billion in 1998, about 14% of the state economy (as measured by gross state product). Adjusted for population, federal spending per capita in Texas works out to $4,657 annually.

GETTING INVOLVED IN EFFORTS TO INCREASE FEDERAL INVESTMENTS

The Invest in America campaign is a nationwide effort to increase awareness of the need for a higher level of federal domestic spending, rather than tax cuts. In light of decreased health insurance coverage, the continued existence of poverty and hunger (particularly among children), workforce training demands, critical infrastructure needs, and other issues that states have been unable to address on their own, Invest in America urges interested organizations to get involved by contacting Patrick Lemmon at OMB Watch (202-234-8494), or email *iia@ombwatch.org*.

Interested individuals may also contact their congressional representatives (U.S. House and Senate). If you are not sure what congressional district you live in, see *http://www.capitol.state.tx.us/fyi/fyi.htm*.

Several associations monitor the federal budget process closely and provide more information about the possible effects on states or local governments of continued budget cuts. The National Conference of State Legislators (*www.ncsl.org*), National Governors' Association (*www.nga.org*), and the National League of Cities (*www.nlc.org*) are just a few examples of such groups.

Finally, for advocates wanting more information about federal spending for a particular social service area (such as public assistance, job training, or child welfare), the Center on Budget and Policy Priorities (*www.cbpp.org*) makes several excellent reports available. CBPP also issues reports on the effects of proposed federal tax cuts on median-income households.

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Exhibit 4: Federal vs. Total Funds in Texas FY 2000 Budget, by Function
(in billions of dollars)