

Federal Funds Watch

Volume XI, Issue 1

February 14, 2005

Legislative Budget Board



SPOTLIGHT: PRESIDENT'S 2006 BUDGET

The first step in the federal appropriations process began this week with the release of the President's 2006 budget request. The House and Senate are expected to adopt budget resolutions, which set spending targets for appropriation committees, by April 15th. Final appropriations should be completed by October 1st, although Congress rarely meets this deadline. A description follows of significant impacts to the Texas budget if the President's 2006 budget were implemented.

The Federal Funds Analysis Team of the Legislative Budget Board conducts research on federal legislation and federal funding issues which impact the state budget.

Questions or comments may be directed to Maria Hernandez at (512) 463-1200 or email at Maria.Hernandez@lbb.state.tx.us

BUDGET PROCESS

The President proposes several changes to the federal budget process. The President advocates a change to a biennial budget and appropriation process. Under the President's proposal, the House and Senate would be required by law to adhere to budget resolutions (currently non-binding resolutions). Legislation with long-term funding increases to major entitlement programs would require passage by three-fifths of the Senate. In addition, the President is requesting line-item veto authority tied to reducing the deficit. With this authority, the President would be able to defer new spending to reduce the deficit.

MEDICAID

A number of Medicaid initiatives are proposed to save \$60 billion in federal funds nationally over 10 years. Reducing payments for prescription drugs by basing reimbursement on prices more closely aligned with pharmacy acquisition costs and amending the drug rebate formula are estimated to save \$15 billion. Use of Intergovernmental Transfers (IGTs) for providing the state match for Medicaid would be limited to situations in which providers keep the payment for services, with savings projected at \$11.9 billion. Texas currently uses IGTs as state match for the Disproportionate Share Hospital program and Upper Payment Limit reimbursement. Also, \$3.3 billion in savings is attributable to limiting government providers to no more than actual costs.

Medicaid claims for targeted case management would be limited, and the related match rate reduced, with total savings projected to be \$11.7 billion. The President's budget reduces the maximum rate at which healthcare providers may be taxed from 6% of the provider's revenue to 3%, and projects a \$6.2 billion national savings. Texas currently assesses a Quality Assurance Fee on Intermediate Care Facilities

for the Mentally Retarded at the 6% rate. In addition, managed care organizations would be treated the same as healthcare providers regarding provider taxes, generating \$1.4 billion in federal savings. Medicaid administrative costs would be allocated to states in a block grant, rather than available at an open-ended match rate, with 10-year federal savings estimated to be \$6 billion. Finally, loopholes to circumvent eligibility criteria related to asset transfers would be closed, for a projected savings of \$4.5 billion.

HEALTH AND HUMAN SERVICES

WOMEN, INFANTS & CHILDREN (WIC). Funding to Texas would increase by \$32.5 million in fiscal year 2006. WIC funds are used by the Department of State Health Services to provide nutritious foods, education and healthcare referrals to low-income pregnant, breast-feeding, or postpartum women and to young children determined to be at nutritional risk.

FOSTER CARE. States would have the option to receive funding through flexible grants over five years, rather than matching payments as an entitlement program.

MONEY FOLLOWS THE PERSON DEMONSTRATION. The President's budget proposes a demonstration project to promote home and community-based waiver services for persons moving from institutions to home care. The federal government would assume the full cost of the program for each individual's first year of participation; states would be required to continue supporting the care in subsequent years. The budget provides \$1.8 billion over 10 years for this initiative.

COVER THE KIDS. States, schools and community organizations would be eligible for grants to enroll and provide coverage to children who are eligible, but not enrolled in, Medicaid and the Children's Health Insurance Program (CHIP). Over a two-year period, \$1 billion would be available nationally.

STATE PURCHASING POOL. The Administration proposes \$4 billion nationally over 10 years in grants to states to establish purchasing pools for the purpose of assisting low-income individuals buy health insurance coverage and take advantage of a proposed health insurance tax credit.

EDUCATION

HEAD START. The President's budget would increase Head Start funding nationally to \$6.9 billion (\$45 million over the fiscal year 2005 level). The President proposes to use the increase for demonstration projects that would allow nine states to improve coordination of school readiness programs for children from low-income families. Head Start funds are awarded to local grantees (an estimated \$478 million to Texas in fiscal year 2005).

NO CHILD LEFT BEHIND ACT (NCLB). Texas would gain an additional \$58.5 million in Title I Grants to Local Educational Agencies in order to assist economically disadvantaged children reach academic achievement standards. Under the President's budget, states would be awarded new funding under the Teacher Incentive Fund (a gain of \$39.1 million to Texas) to reward effective teachers.

The Comprehensive School Reform Program would not be funded under the President's fiscal year 2006 budget (a loss of \$17.7 million for Texas). The President is also proposing elimination of the Even Start Program. In fiscal year 2005, Texas received \$18.6 million through this program, for local family literacy projects that integrate early childhood education, adult literacy, and parenting education.

The President's budget would eliminate federal funding for three major NCLB Act

programs, the Educational Technology State Grant, the Innovative Education Program, and Safe and Drug-Free Schools and Communities Program. Educational Technology State Grant funding had already declined in Texas from \$59.4 million in fiscal year 2004 to \$43.7 million in fiscal year 2005. The Innovative Education Program provides funding to implement promising educational reform programs and school improvement programs based on scientifically based research. (\$15.7 million was allocated to Texas in fiscal year 2005). The Safe and Drug-Free Schools and Communities Program provides support for a variety of drug and violence prevention activities focused primarily on school-age youths (a loss to Texas of \$34.9 million).

INDIVIDUALS WITH DISABILITIES EDUCATION ACT (IDEA). IDEA funds to Texas for school-age children would receive an increase. A 5% increase (\$47.3 million for Texas) to Special Education - Grants to States is proposed.

SECONDARY EDUCATION. Several new high school initiatives are included in the President's budget. In fiscal year 2006, Texas would receive an estimated \$15.1 million in High School Assessment funding to phase in two additional state assessments in grades 9 through 11 over several years. States would also receive new High School Intervention Program funding to support targeted interventions for increasing the achievement of high school students who are at risk of not meeting state academic standards (a gain to Texas of \$46.5 million).

The President's budget eliminates the Vocational Education State Grants and Tech-Prep Grants (a loss of \$104.2 million to Texas). These grants provide funds to develop the academic, vocational, and technical skills of secondary and postsecondary students who elect to enroll in vocational and technical programs. The Adult Education Program would be reduced significantly under the President's budget. Texas would receive an estimated \$10 million (compared to \$41.2 million in fiscal year 2005) to help adults become

literate and obtain the knowledge and skills necessary for employment and complete a secondary school education.

OTHER

CRIMINAL JUSTICE. The President would eliminate funding for the State Criminal Alien Assistance Program (SCAAP), which partially reimburses states for the incarceration costs of convicted undocumented persons. SCAAP funding to the State of Texas in fiscal year 2005 is an estimated \$17.1 million. Other criminal justice programs eliminated under the President's budget are the Juvenile Accountability Incentive Block Grant (\$3.2 million loss to Texas) and the newly created Justice Assistance Grants (\$626 million unallocated in fiscal year 2005).

LABOR. Employment Services State Grants and Workforce Investment Act (WIA) funds for Adult Employment and Training Activities, Dislocated Worker Employment and Training Activities, and Youth Activities would be combined into Consolidated Worker Grants. The national funding level for combined programs is reduced by \$146 million; a formula for allocating the funds is not specified.

ECONOMIC DEVELOPMENT. The President's budget proposes a new \$3.7 billion program within the U.S. Department of Commerce called Strengthening America's Communities Program, replacing 18 programs funded in fiscal year 2005 at \$5.3 billion. This new program would consolidate Community Development Block Grants (CDBG), Community Services Block Grants (CSBG) and several other federal economic development programs into one program with stronger accountability standards in exchange for flexible use of the funds.

In fiscal year 2005, the Office of Rural and Community Affairs distributed an estimated \$82.3 million in CDBG funding to Texas. Last year, the Texas Department of Housing and Community Affairs received \$30.5 million in CSBG funding to support a variety of programs that target the causes of poverty in communities.

HOMELAND SECURITY. The President's 2006 budget would change the State Homeland Security Grant (SHSG) formula to reduce the minimum amount guaranteed to each state to 0.25% of the national funding level, with additional amounts to be granted according to risk, threat and vulnerability, as determined by the U.S.

Department of Homeland Security. Urban Area Security Initiative Grants (UASI) to Texas would be reduced by \$3.3 million, Law Enforcement Terrorism Prevention Program (LETPP) Grants by \$20.2 million, and Public Health Bioterrorism Preparedness and Response Grants by \$6.7 million. States would be required to set aside

20% of their SHSG and UASI grants to fund law enforcement terrorism prevention functions formerly funded by LETPP grants.

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

Programs	FY 2004	FY 2005	President's Budget FY 2006	Change from FY 2005
SELECTED EDUCATION				
Title I - Grants to Local Educational Agencies	\$1,110.7	\$1,173.9	\$1,232.4	\$58.5
Special Education - Grants to States	834.5	889.6	936.9	47.3
Title I - High School Intervention	0.0	0.0	46.5	46.5
Teacher Incentive Fund	0.0	0.0	39.1	39.1
High School Assessments	0.0	0.0	15.1	15.1
Language Acquisition State Grants	74.4	82.9	89.4	6.5
Innovative Education Program	23.5	15.7	7.9	-7.8
Comprehensive School Reform	19.5	17.7	0.0	-17.7
Even Start Literacy Program	20.0	18.6	0.0	-18.6
Adult Education	41.6	41.2	10.0	-31.2
Safe and Drug-Free Schools and Communities	35.0	34.9	0.0	-34.9
Educational Technology State Grants	59.4	43.7	0.0	-43.7
Vocational and Tech Prep Education	104.6	104.2	0.0	-104.2
Total Selected Education	\$2,323.2	\$2,422.4	\$2,377.3	-\$45.1
SELECTED HEALTH AND HUMAN SERVICES				
WIC Nutrition Program	\$480.6	\$502.8	\$535.3	\$32.5
Vocational Rehabilitation Grants to States	188.1	193.0	201.8	8.8
Preventive Health and Health Services Block Grant	5.5	5.5	0.0	-5.5
CDC - Immunization Grants	24.5	24.7	22.1	-2.6
Low-Income Home Energy Assistance Program	39.8	42.0	40.1	-1.9
Total Selected Health and Human Services	\$738.5	\$768.0	\$799.3	\$31.3
OTHER				
State Homeland Security Grant Program ¹	87.3	56.0	N/A	N/A
Citizen Corps Program	1.8	0.7	2.4	1.7
Urban Area Security Initiative Grants	38.2	49.8	46.5	-3.3
Juvenile Accountability Incentive Block Grant	3.7	3.4	0.0	-3.4
Airport Improvement Program	36.0	36.0	31.1	-4.9
Public Health Preparedness and Response	51.8	47.8	41.1	-6.7
State Criminal Alien Assistance Program	17.1	17.1	0.0	-17.1
Law Enforcement Terrorism Prevention Program	25.9	20.2	0.0	-20.2
Community Services Block Grant	30.8	30.5	0.0	-30.5
Community Development Block Grant ²	\$86.7	\$82.3	\$0.0	-\$82.3
Total Other	\$379.3	\$343.8	\$121.1	-\$166.7

NOTE: Texas grant amounts listed above represent preliminary estimates and include the FY 2005 0.8 % across-the-board reduction. Numbers may not add due to rounding.

¹ State Homeland Security Programs will be distributed based on threat, risk and vulnerability (following minimum set-asides for each state).

² Community Development Block Grant Program would be consolidated with other federal programs into a new program called Strengthening America's Communities Program. No funding distribution information is available.

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