



## The Potential Impact of Federal Budget Pressures on Connecticut: Questions and Answers

January 2005

### What's The Problem?

*The most important federal budget debate in years* will occur beginning the first week in February when the President issues his budget proposal.

### Why is This Year's Budget Debate Different?

Because the President and Congress, facing a large and growing federal budget deficit, will call for deep cuts in federal funding for key health and social services, while at the same time extending the large tax cuts of recent years, the decisions made in the next several months are likely to have profound and long-term negative consequences for the millions of children, families, seniors, disabled, and others who rely on programs and services that receive federal funding, including education, health care, nutrition, and veterans' pensions.

#### *Unparalleled deep cuts*

Specifically, the President will likely propose large cuts in federal funding for entitlement programs, such as Medicaid, Food Stamps, Unemployment Compensation, and Veterans' Disability Benefits. He will also propose significant cuts in federal funding for non-defense discretionary programs, such as housing assistance, job training, transportation, environmental protection, energy assistance, food safety inspections and the National Institutes of Health.

#### *Structural changes*

In addition, the President may recommend *structural* changes that will *force* much deeper cuts in federal funding in future years, such as caps on entitlement and/or discretionary funding. By refusing to discuss adding new revenues or reversing the tax cuts of the last three years when deficit reduction is debated, the President will create further pressure for these changes.

Capping and cutting federal spending for entitlement and appropriated programs will ultimately hurt the millions of people who rely on federally-funded programs and services, as well as those who provide the services.

It also will put state and local budgets into even deeper crisis, particularly in these difficult fiscal and economic times, because, by design, entitlement programs are able to respond to increased need due to a down turn in the economy, public health crisis, or other unforeseen circumstances, such as the September 11<sup>th</sup> disaster. They are *mandatory* programs that are not controlled by yearly appropriations by Congress. So long as individuals qualify for program benefits, federal funding is guaranteed. If Congress caps and cuts these vital programs, it will be difficult - if not impossible - for states and towns to respond to such crises in the future.

## Will These Budget Decisions Affect Connecticut?

Yes! Currently, 16.3% (\$2.47 billion) of Connecticut's projected total revenues in FY 05 are federal funds: These include -

- \$1,850 million in Medicaid funds (which pay for health care for low-income children, families, people with disabilities, and the elderly, including most of the frail elderly living in nursing homes)
- \$ 369 million for education (e.g., special education, Title I aid to school districts, vocational education)
- \$ 304 million for Temporary Assistance to Needy Families and the Child Care Development Block Grant
- \$ 114 million for public health-services (e.g., WIC, immunizations, safe drinking water, disease surveillance)
- \$ 92 million for foster care and adoption assistance
- \$ 80 million for transportation (e.g., highway construction, mass transit)
- \$ 53 million for hospitals that serve distressed communities
- \$ 29 million for child support enforcement
- \$ 26 million for environmental protection

## What Will Happen To Connecticut If The Federal Government Cuts and Caps Federal Funding?

Inevitably, there will be more cost shifting to the state. That means Connecticut – and all other states -- will have increased responsibility to meet growing need, but with much less funding available from the federal government.

## Isn't Connecticut Already Facing A Serious Budget Crisis?

Yes. According to state government officials, Connecticut is expected to have a shortfall of ***between \$604 million and \$1.3 billion dollars*** in the budget year that begins July 2005. *Some* of this shortfall results from recent changes in federal tax and budget policies. In fact, since 2002, these changes have cost Connecticut a little over \$2 billion.<sup>1</sup> ***That is two to three times the projected state budget shortfall for this coming fiscal year.***

Because Connecticut -- like nearly all other states -- cannot run a budget deficit and relies heavily on federal funding for a wide array of programs and services, *further* cuts in federal funding mean Connecticut will have to either raise taxes, cut spending, or do both to balance its budget. That's why Connecticut and its citizens cannot afford to let the federal government adopt a deficit reduction plan that further burdens the state, and ultimately also our towns and cities.

## Who in Connecticut Will Be Affected By This Funding Squeeze?

Among the people who would be hurt if federal funding is cut, or capped, are:

- Seniors, including those in nursing homes, who rely on Medicaid and SSI (federal income support for low-income elderly and the disabled)
- Children who rely on HUSKY (Medicaid program), SSI, school lunch programs, Food Stamps, Child Care Assistance, Child Support Enforcement, educational programs, such as Title I.
- Persons with disabilities who rely on Medicaid, SSI, and other social services

<sup>1</sup> Center on Budget and Policy Priorities, *A Brief Update on State Fiscal Conditions and the Effects of Federal Policies on State Budgets* (September 14, 2004), available at [www.cbpp.org](http://www.cbpp.org).

- Veterans who rely on pensions, medical benefits, and other programs
- Hospitals patients
- Community health clinic patients
- Nursing home residents
- Students attending schools, colleges and universities
- Everyone who benefits from a cleaner, healthier environment
- All who drive on Connecticut highways or ride mass transit
- Everyone who benefits from federally-funded health research and food and drug safety oversight

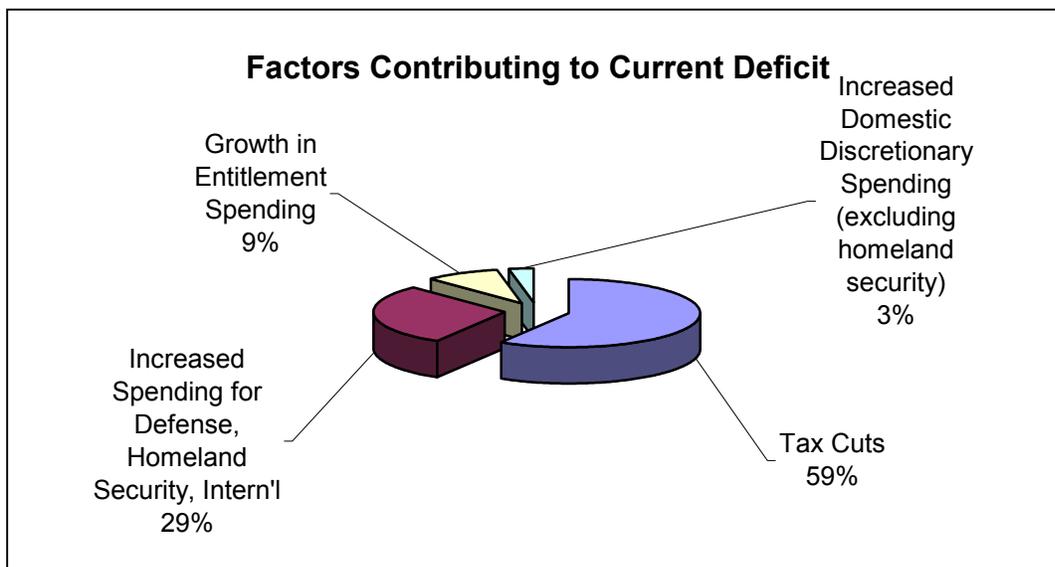
### What Are the Steps The President And Congress Will Likely Take To Cut and/or Cap Federal Funding For These Essential Health and Social Services?

After the President’s budget address (February 4 or 7), his proposal will go to the House and Senate Budget Committees to prepare what’s called a “Budget Resolution” (expected by mid to late March) which outlines their proposal for spending and taxation. This proposal defines in broad terms how much money each of the Appropriations Committees will be allowed to appropriate when they begin meeting in the coming months.

Importantly, once the Budget Resolution cuts or caps the amount of money that can be spent, it is extremely difficult to reverse those decisions. From that point forward, the fight will not be over *whether* to cut or *how much* to cut, but *where* to cut. This will pit one vital program against another for vastly diminished funding. Congress also is expected to make deep cuts to funding for programs and services that it funds on an annual basis, such as transportation, health research, and housing.

### But Don’t We Have To Reduce The Federal Deficit?

**Yes, but in a balanced way.** Most economists agree that the federal government needs to trim its ballooning deficit, but many disagree with the President and Congress’ lopsided approach which addresses the spending side of the budget only. This is especially true because the tax cuts enacted since January 2001 account for nearly 59% of the federal deficit.<sup>2</sup>



<sup>2</sup> Source: Center on Budget and Policy Priorities, as of November 1, 2004. CBPP calculations from Congressional Budget Office data. Reflects costs above an adjusted CBO current services baseline.

## What Would It Take to Balance the Budget While Preserving the Tax Cuts?

To balance the federal budget by 2014 while making the tax cuts of the last several years permanent, policy makers would have to either:

Cut Social Security benefits by .....57%

OR

Cut Defense Spending by.....72%

OR

Cut Medicare by.....81%

OR

Cut every other program except Social Security, Defense, Medicare, and Homeland Security by .....38%.<sup>3</sup>

A *balanced* approach to deficit reduction, by comparison, involves addressing both federal revenues and federal spending. Specifically, Congress would roll-back some of the recent tax cuts that provided the greatest benefit to the most wealthy and have resulted in federal revenues being at their lowest level since 1959 as a share of the economy. Congress *also* would cut spending growth in ways that did the least harm to those who rely on federally-funded programs and services. This is the approach that was taken in 1990 (under President Bush) and 1993 (under President Clinton) and was followed by federal budget surpluses and one of the strongest economies in the nation's history.

## Can We Make A Difference?

Yes! And we must. Last year - even though it was an election year -- the House debated imposing a cap on entitlements (except Social Security) that would have forced \$1.55 trillion in cuts over the next decade. Congress also proposed to cut appropriated or discretionary spending by \$45 billion. With the election behind it, Congress is expected to consider similar -- if not more far-reaching -- proposals this year.

*Last year's proposal was **stopped** by a broad based coalition working together at the national level.* This year, state level coalitions are forming to be sure their Congressional delegation knows that caps and cuts like those being proposed will have devastating, long-term effects at home. A list of the national groups working together is attached.

## What Can *You Do Right Now?*

1. Contact U.S. Senator Joseph Lieberman who can play a pivotal role in stopping this lopsided, dangerous approach to deficit reduction.
2. Contact U. S. Senator Chris Dodd and your federal representative as well.
3. Try to get your letters out before the President's budget address on February 4.
4. Tell federal lawmakers:

<sup>3</sup> R. Greenstein, *The Extraordinary Budget Crunch That Lies Ahead: Why the Battle Over How to Address It Will Profoundly Affect Our Society* (Center on Budget and Policy Priorities, November 5, 2004), available at [www.cbpp.org](http://www.cbpp.org).

- a. To adopt a balanced approach to deficit reduction that includes the need to roll back some of the tax cuts to increase revenues, and not only cut spending;
  - b. Not to include any caps or harmful cuts to health and social service programs including Medicaid; and
  - c. Take the time to adopt a deficit reduction plan that is right rather than rash.
5. Contact Governor Rell about your concern and ask her to take a stand in favor of a balanced approach to reducing the federal deficit, against capping federal entitlement and discretionary spending, and against cuts that will further burden Connecticut's budget and harm Connecticut residents. Already, the President and Congress have heard from Governors from both parties.

**For further information:**

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