



Federal Budget Update: Fiscal 2006 Executive Proposal Targets Discretionary Spending; States May Carry Heavy Impacts

National Association of State Budget Officers

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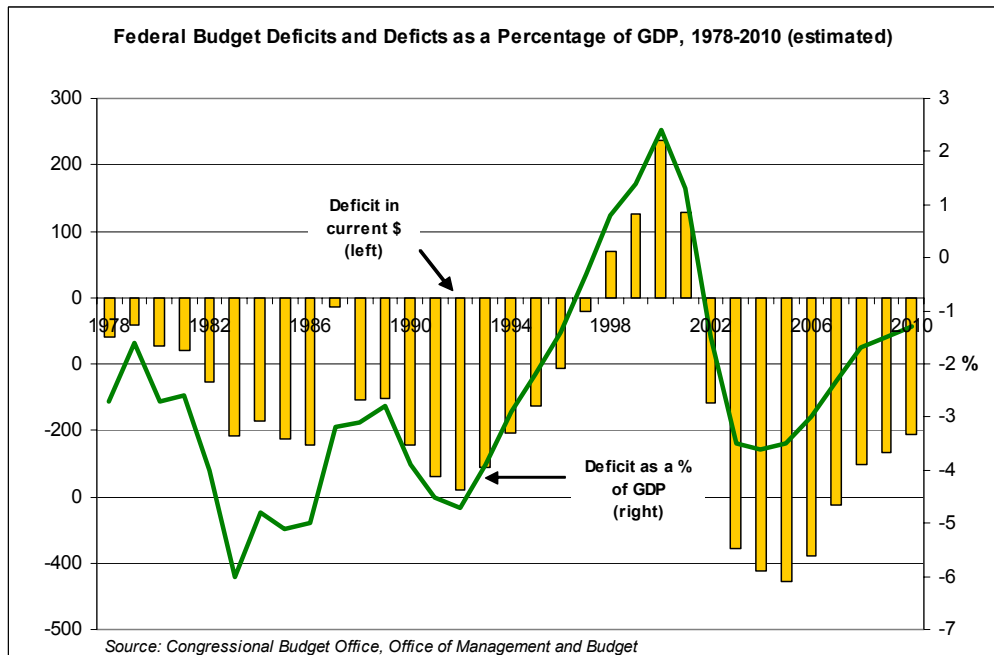
The nearly \$2.6 trillion fiscal 2006 budget proposal released yesterday reflects a small decrease in non-defense, non-homeland security discretionary spending. But when the proposed increase in international aid is factored in, domestic discretionary spending decreases by approximately 3 percent, and is proposed to remain flat through 2010. The proposal also does not include costs for the Iraq war, the Social Security overhaul, or changes to the alternative minimum tax. In particular, proposals include \$60 billion in Medicaid savings over ten years, the consolidation and reduction of many economic development-related programs, the elimination of 150 other programs, including many administered by the Department of Justice, and cutting nearly all of Amtrak's operating subsidies.

Proposal Calls for Cuts in Discretionary Spending

Yesterday the White House released its \$2.57 trillion fiscal 2006 budget proposal. While the plan reflects a 3.6 percent increase in total spending, with deficits continuing to loom through the 2010 horizon of the budget document, discretionary spending is impacted notably with possibly serious consequences for states. The Administration proposes to increase discretionary spending—funds that Congress controls through appropriations each year—by 2.1 percent in fiscal 2006. However, excluding defense and homeland security, discretionary spending would decrease by roughly 1 percent. The budget proposes \$840 billion in discretionary spending, of which \$389 billion would go to non-defense, non-homeland security functions.

Deficits Persist

While they are forecast to shrink each year, the Office of Management and Budget projects deficits through 2010. OMB estimates a total



deficit of \$390.1 billion in fiscal 2006, accounting for 3 percent of gross domestic product (GDP). By 2010, OMB estimates that the total deficit will decrease to \$207.3 billion, or 1.3 percent of GDP. By comparison, deficits between 2002 and 2005 were roughly 3.5 percent of GDP each year. Amid recession in 1992 the deficit reached 4.7 percent, and in 1983 it topped 6 percent.

Critically for states and the federal grants-in-aid directed to them, the fiscal 2006 on-budget¹ deficit is \$559.9 billion. The net on-budget deficit for the same period is \$2.5 trillion. Last month the Congressional Budget Office (CBO) released figures that estimate a net total budget deficit of \$855 billion and net on-budget deficit of \$3.5 trillion through 2015.

Medicaid Receives Special Attention

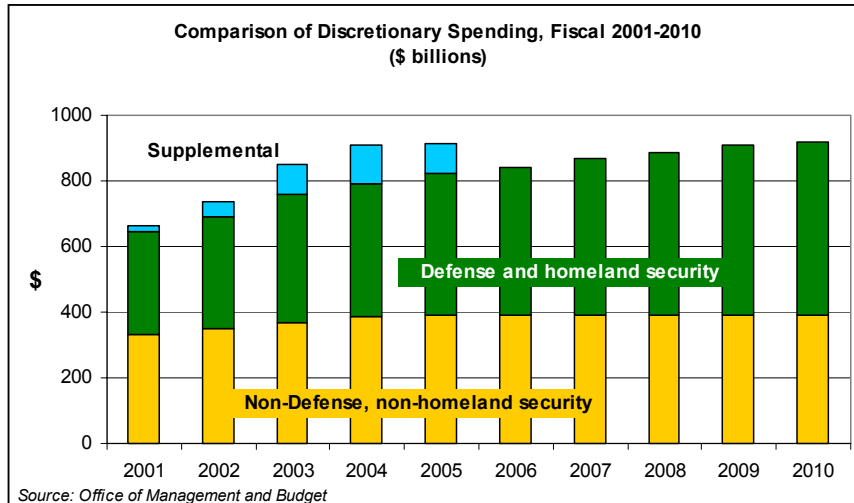
The Administration budget plan focuses closely on Medicaid. Highlighting an array of proposals for the program, it seeks \$60 billion in savings over ten years from “inappropriate Medicaid spending” by states.

| Administration Medicaid Savings Proposals | | |
|--|--|---|
| <u>Proposal</u> | <u>Description</u> | <u>Savings</u> |
| Restructuring intergovernmental transfers | Match only funds kept by providers as payment for services. | 1 year: \$0 5 year: \$4.6 billion 10 year: \$11.9 billion |
| Cost-based reimbursement for government providers | Limit reimbursement levels to government providers to no more than the cost of providing services. | 1 year: \$0 5 year: \$1.2 billion 10 year: \$3.3 billion |
| Phase down of Safe Harbor Tax | Phase down allowable tax rate from 6 percent to 3 percent. | 1 year: \$231 million 5 year: \$2.8 billion 10 year: \$6.2 billion |
| Reform managed care provider tax | Bring managed care organizations into line with other provider classes. | 1 year: \$0 5 year: \$399 million 10 year: \$1.4 billion |
| Reduction of targeted case management match to 50 percent | Lower the reimbursement level for targeted case management to the 50 percent match states receive currently for Medicaid admin. costs. | 1 year: \$129 million 5 year: \$1 billion 10 year: \$4 billion |
| Avoid cost shift for targeted case management and other services | Clarify which services may be claimed. | 1 year: \$0 5 year: \$2 billion 10 year: \$7.7 billion |
| Medicaid administrative claiming | Establish allotment for Medicaid administrative claiming. | 1 year: \$0 5 year: \$1.1 billion 10 year: \$6 billion |
| Restructure pharmacy reimbursement | Align reimbursement to pharmacy acquisition costs. | 1 year: \$542 million 5 year: \$5.4 billion 10 year: \$15.1 billion |
| Reform transfer of assets policy | Tighten rules regarding transfer of assets. | 1 year: \$99 million 5 year: \$1.5 billion 10 year: \$4.5 billion |

State Homeland Security Grants Reduced, Restructured

Grants to states for homeland security would be reduced by 25 percent, from \$1.1 billion to \$820 million. While all states currently receive 0.75 percent of total homeland security grants, the

¹ On-budget spending excludes the Social Security trust funds, net interest, and the net cash flow of the Postal Service.



Administration’s proposal would reduce that amount to 0.25 percent. Most funds would be targeted based on vulnerabilities under state homeland security grants, the Urban Area Security Initiative, and the new Targeted Infrastructure Protection program.

Justice Programs Among Those To Be Eliminated

Among the 150 programs that the Administration has targeted for elimination are several administered by the Department of Justice. These include the Community Oriented Policing Services (COPS) Hiring Grants and the Byrne Justice Assistance Grants, the State Criminal Alien Assistance Program (SCAAP), Juvenile Accountability Block Grants (JABG), the Byrne Discretionary Grants, and COPS Law Enforcement Technology Grants, for annual savings of \$1.3 billion.

Economic Development Block Grants Consolidated

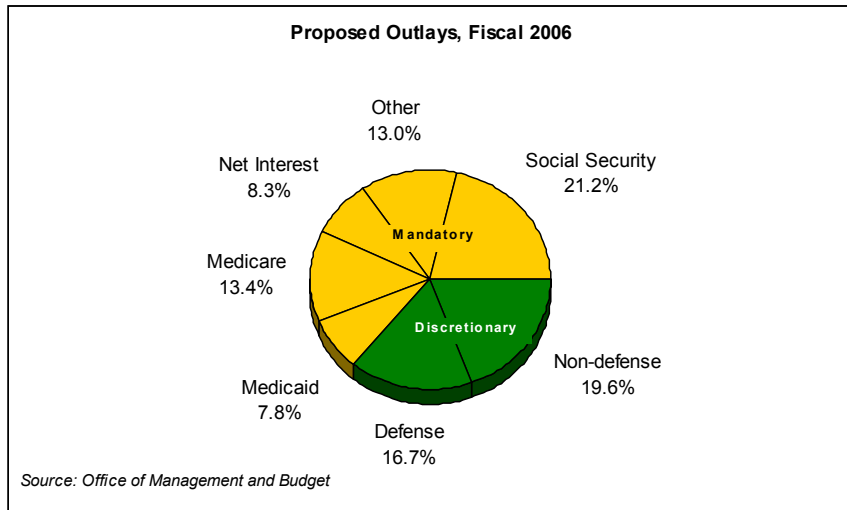
The Administration also proposes to consolidate eighteen community and economic development block grants currently administered by five departments into a single program within the Department of Commerce, and would be trimmed of \$1.5 billion in fiscal 2006, to \$3.7 billion. The consolidated programs are:

| | |
|---|--|
| <p>Housing and Urban Development CDBG Formula Grants National Community Development Initiative CDBG Set-Asides Brownfields Economic Development Initiative Rural Housing and Economic Development Urban Empowerment Zones Round II Grants Community Development Loan Guarantees</p> | <p>Agriculture Rural Business Enterprise Grants Rural Business Opportunity Grants Economic Impact Grants Rural Empowerment Zones (EZ)/Enterprise Communities (EC)</p> |
| <p>Commerce Economic Development Administration</p> | <p>Treasury Community Development Financial Institutions (CDFI) Program Bank Enterprise Award (BEA) Program CDFI Native Initiatives</p> |
| <p>Health and Human Services Community Services Block Grant Urban and Rural Community and Economic Development Rural Community Facilities</p> | |

Nearly All Amtrak Subsidies Eliminated, States Could Manage Routes

The Administration proposes to virtually end all subsidies for Amtrak, except for an amount to continue commuter service in the Northeast Corridor. Amtrak subsidies would drop from \$1.2 billion in fiscal 2005 to \$360 million in fiscal 2006. Among the budget proposals:

- Amtrak would split into a private infrastructure company and train operating company, effectively separating the Northeast Corridor (NEC) infrastructure from long-distance train operations.
- DOT would lease the NEC infrastructure to a compact of States that would be responsible for managing the infrastructure and train operations along the corridor.
- Outside the Northeast where Amtrak does not own track, individual States and interstate compacts could negotiate with the freight rail companies to develop new routes. This should lead to the development of short-corridor routes between major population centers.
- After a transition period, States would bid contracts for infrastructure maintenance and train operations among the former Amtrak companies and other private companies. States would cover train operating subsidies. Federal matching grants would help pay for infrastructure, which is similar to the Federal-State cost sharing arrangement of other DOT transportation programs.



If you would like additional information, please contact Nick Samuels (nsamuels@nasbo.org or 202-624-8439) or Scott Pattison (spattison@nasbo.org or 202-624-8804) in NASBO's Washington, D.C. office.

Table 8-6. Summary of Programs by State

(obligations in millions of dollars)

| State or Territory | All programs FY 2004 (actual) | Programs distributed | | | | FY 2006 (estimated) | FY 2006 Percentage of distributed total |
|--------------------------|-------------------------------|----------------------|-------------------------------------|---------------|--------|---------------------|---|
| | | FY 2004 (actual) | Estimated FY 2005 obligations from: | | | | |
| | | | Previous authority | New authority | Total | | |
| Alabama | 4,868 | 4,868 | 531 | 4,436 | 4,966 | 5,020 | 1.43 |
| Alaska | 1,560 | 1,560 | 148 | 1,405 | 1,552 | 1,554 | 0.44 |
| Arizona | 6,053 | 6,053 | 431 | 6,178 | 6,609 | 7,102 | 2.03 |
| Arkansas | 3,497 | 3,497 | 366 | 3,408 | 3,774 | 4,070 | 1.16 |
| California | 40,688 | 40,688 | 2,580 | 38,513 | 41,093 | 41,053 | 11.73 |
| Colorado | 3,236 | 3,236 | 283 | 2,973 | 3,255 | 3,379 | 0.97 |
| Connecticut | 3,877 | 3,877 | 320 | 3,593 | 3,913 | 4,054 | 1.16 |
| Delaware | 869 | 869 | 120 | 760 | 880 | 911 | 0.26 |
| District of Columbia | 1,679 | 1,679 | 142 | 1,475 | 1,617 | 1,664 | 0.48 |
| Florida | 14,656 | 14,656 | 1,157 | 14,203 | 15,360 | 15,955 | 4.56 |
| Georgia | 9,322 | 9,322 | 1,078 | 8,006 | 9,085 | 9,475 | 2.71 |
| Hawaii | 1,386 | 1,386 | 229 | 1,160 | 1,389 | 1,391 | 0.40 |
| Idaho | 1,369 | 1,369 | 193 | 1,233 | 1,425 | 1,497 | 0.43 |
| Illinois | 12,166 | 12,166 | 952 | 10,712 | 11,664 | 12,239 | 3.50 |
| Indiana | 5,633 | 5,633 | 503 | 5,614 | 6,117 | 6,476 | 1.85 |
| Iowa | 2,761 | 2,761 | 294 | 2,565 | 2,859 | 2,972 | 0.85 |
| Kansas | 2,458 | 2,458 | 317 | 2,243 | 2,560 | 2,650 | 0.76 |
| Kentucky | 5,180 | 5,180 | 401 | 4,735 | 5,136 | 5,363 | 1.53 |
| Louisiana | 6,119 | 6,119 | 583 | 5,479 | 6,062 | 6,383 | 1.82 |
| Maine | 2,093 | 2,093 | 121 | 1,944 | 2,065 | 2,095 | 0.60 |
| Maryland | 5,024 | 5,024 | 440 | 4,631 | 5,070 | 5,286 | 1.51 |
| Massachusetts | 8,222 | 8,222 | 1,078 | 7,769 | 8,846 | 9,014 | 2.58 |
| Michigan | 9,731 | 9,731 | 787 | 9,104 | 9,891 | 10,167 | 2.90 |
| Minnesota | 5,005 | 5,005 | 414 | 4,710 | 5,125 | 5,364 | 1.53 |
| Mississippi | 4,261 | 4,261 | 334 | 4,142 | 4,476 | 4,649 | 1.33 |
| Missouri | 6,550 | 6,550 | 517 | 6,437 | 6,954 | 7,437 | 2.12 |
| Montana | 1,171 | 1,171 | 196 | 970 | 1,166 | 1,211 | 0.35 |
| Nebraska | 1,790 | 1,790 | 188 | 1,638 | 1,826 | 1,920 | 0.55 |
| Nevada | 1,521 | 1,521 | 196 | 1,427 | 1,624 | 1,651 | 0.47 |
| New Hampshire | 1,228 | 1,228 | 135 | 1,101 | 1,237 | 1,252 | 0.36 |
| New Jersey | 8,524 | 8,524 | 774 | 7,903 | 8,677 | 8,887 | 2.54 |
| New Mexico | 3,053 | 3,053 | 245 | 2,798 | 3,043 | 3,122 | 0.89 |
| New York | 36,463 | 36,463 | 1,526 | 37,341 | 38,868 | 40,154 | 11.47 |
| North Carolina | 9,111 | 9,111 | 633 | 8,866 | 9,500 | 10,213 | 2.92 |
| North Dakota | 874 | 874 | 160 | 719 | 879 | 875 | 0.25 |
| Ohio | 12,792 | 12,792 | 1,129 | 12,210 | 13,339 | 14,129 | 4.04 |
| Oklahoma | 3,777 | 3,777 | 412 | 3,476 | 3,887 | 3,950 | 1.13 |
| Oregon | 3,455 | 3,455 | 274 | 3,372 | 3,646 | 3,705 | 1.06 |
| Pennsylvania | 14,617 | 14,617 | 1,538 | 14,439 | 15,977 | 16,465 | 4.70 |
| Rhode Island | 1,686 | 1,686 | 143 | 1,545 | 1,688 | 1,750 | 0.50 |
| South Carolina | 4,766 | 4,766 | 392 | 4,302 | 4,694 | 4,786 | 1.37 |
| South Dakota | 962 | 962 | 201 | 805 | 1,005 | 1,024 | 0.29 |
| Tennessee | 7,763 | 7,763 | 744 | 7,023 | 7,767 | 7,966 | 2.28 |
| Texas | 20,980 | 20,980 | 1,726 | 20,271 | 21,997 | 22,972 | 6.56 |
| Utah | 1,975 | 1,975 | 231 | 1,848 | 2,080 | 2,169 | 0.62 |
| Vermont | 1,002 | 1,002 | 142 | 841 | 983 | 992 | 0.28 |
| Virginia | 5,073 | 5,073 | 713 | 4,695 | 5,408 | 5,590 | 1.60 |
| Washington | 5,848 | 5,848 | 460 | 5,518 | 5,979 | 5,903 | 1.69 |
| West Virginia | 2,682 | 2,682 | 371 | 2,353 | 2,724 | 2,750 | 0.79 |
| Wisconsin | 5,103 | 5,103 | 507 | 4,550 | 5,057 | 5,059 | 1.45 |
| Wyoming | 693 | 693 | 148 | 544 | 692 | 696 | 0.20 |
| American Samoa | 55 | 55 | 1 | 49 | 51 | 46 | 0.01 |
| Guam | 121 | 121 | 1 | 131 | 132 | 131 | 0.04 |
| Northern Mariana Islands | 57 | 57 | * | 55 | 55 | 48 | 0.01 |

| | | | | | | | |
|------------------------------------|----------------|----------------|---------------|----------------|----------------|----------------|---------------|
| Puerto Rico | 2,313 | 2,313 | 27 | 2,376 | 2,403 | 2,500 | 0.71 |
| Freely Associated States | ..... | ..... | ..... | 7 | 7 | 7 | * |
| Virgin Islands | 130 | 130 | 23 | 116 | 139 | 133 | 0.04 |
| Indian Tribes | 683 | 683 | * | 701 | 701 | 720 | 0.21 |
| Total, distributed by State | 328,532 | 328,532 | 27,555 | 311,417 | 338,972 | 349,994 | 100.00 |
| MEMORANDUM: | | | | | | | |
| Undistributed | 3,637 | 3,637 | 2,669 | 7,764 | 10,433 | 24,782 | N/A |
| Total, including undistributed | 332,169 | 332,169 | 30,225 | 319,181 | 349,406 | 374,776 | N/A |

* \$500,000 or less or 0.005 percent or less.

Table 8-16. Grants to States for Medicaid (93.778)

(obligations in thousands of dollars)

| State or Territory | FY 2004 Actual | Estimated FY 2005 obligations from: | | | FY 2006 (estimated) | FY 2006 Percentage of distributed total |
|--------------------------|----------------|-------------------------------------|---------------|------------|---------------------|---|
| | | Previous authority | New authority | Total | | |
| Alabama | 2,709,016 | ..... | 2,697,722 | 2,697,722 | 2,755,670 | 1.28 |
| Alaska | 653,930 | ..... | 645,185 | 645,185 | 707,126 | 0.33 |
| Arizona | 3,716,585 | ..... | 4,179,879 | 4,179,879 | 4,639,981 | 2.15 |
| Arkansas | 2,165,347 | ..... | 2,344,999 | 2,344,999 | 2,651,630 | 1.23 |
| California | 20,226,317 | ..... | 19,507,114 | 19,507,114 | 18,957,149 | 8.79 |
| Colorado | 1,542,064 | ..... | 1,482,810 | 1,482,810 | 1,564,516 | 0.73 |
| Connecticut | 2,109,574 | ..... | 2,081,199 | 2,081,199 | 2,178,051 | 1.01 |
| Delaware | 442,843 | ..... | 456,106 | 456,106 | 481,587 | 0.22 |
| District of Columbia | 919,116 | ..... | 903,761 | 903,761 | 924,455 | 0.43 |
| Florida | 8,196,029 | ..... | 8,404,176 | 8,404,176 | 8,936,165 | 4.15 |
| Georgia | 5,129,463 | ..... | 4,590,816 | 4,590,816 | 4,958,941 | 2.30 |
| Hawaii | 633,438 | ..... | 614,819 | 614,819 | 622,968 | 0.29 |
| Idaho | 735,561 | ..... | 760,884 | 760,884 | 846,211 | 0.39 |
| Illinois | 6,115,306 | ..... | 5,355,001 | 5,355,001 | 5,787,508 | 2.68 |
| Indiana | 3,221,866 | ..... | 3,570,656 | 3,570,656 | 3,862,291 | 1.79 |
| Iowa | 1,542,219 | ..... | 1,616,856 | 1,616,856 | 1,718,623 | 0.80 |
| Kansas | 1,250,974 | ..... | 1,342,034 | 1,342,034 | 1,427,217 | 0.66 |
| Kentucky | 3,122,433 | ..... | 3,020,952 | 3,020,952 | 3,230,402 | 1.50 |
| Louisiana | 3,731,377 | ..... | 3,542,163 | 3,542,163 | 3,842,520 | 1.78 |
| Maine | 1,457,560 | ..... | 1,433,866 | 1,433,866 | 1,459,864 | 0.68 |
| Maryland | 2,678,469 | ..... | 2,607,623 | 2,607,623 | 2,765,030 | 1.28 |
| Massachusetts | 4,738,636 | ..... | 5,280,988 | 5,280,988 | 5,355,052 | 2.48 |
| Michigan | 5,193,069 | ..... | 5,159,780 | 5,159,780 | 5,381,974 | 2.50 |
| Minnesota | 2,906,166 | ..... | 2,982,264 | 2,982,264 | 3,193,272 | 1.48 |
| Mississippi | 2,716,890 | ..... | 2,833,807 | 2,833,807 | 3,004,820 | 1.39 |
| Missouri | 4,020,441 | ..... | 4,345,386 | 4,345,386 | 4,778,898 | 2.22 |
| Montana | 533,728 | ..... | 557,623 | 557,623 | 594,002 | 0.28 |
| Nebraska | 967,629 | ..... | 995,974 | 995,974 | 1,076,176 | 0.50 |
| Nevada | 650,528 | ..... | 694,375 | 694,375 | 739,606 | 0.34 |
| New Hampshire | 660,723 | ..... | 692,589 | 692,589 | 710,446 | 0.33 |
| New Jersey | 4,561,848 | ..... | 4,481,915 | 4,481,915 | 4,576,345 | 2.12 |
| New Mexico | 1,932,576 | ..... | 1,859,639 | 1,859,639 | 1,936,059 | 0.90 |
| New York | 23,457,121 | ..... | 25,642,056 | 25,642,056 | 26,504,617 | 12.30 |
| North Carolina | 5,576,409 | ..... | 5,859,591 | 5,859,591 | 6,474,673 | 3.00 |
| North Dakota | 370,889 | ..... | 375,695 | 375,695 | 374,386 | 0.17 |
| Ohio | 7,511,293 | ..... | 7,805,898 | 7,805,898 | 8,569,309 | 3.98 |
| Oklahoma | 2,055,734 | ..... | 2,077,405 | 2,077,405 | 2,130,003 | 0.99 |
| Oregon | 1,844,212 | ..... | 1,991,033 | 1,991,033 | 2,014,350 | 0.93 |
| Pennsylvania | 8,456,730 | ..... | 9,433,359 | 9,433,359 | 9,897,025 | 4.59 |
| Rhode Island | 1,043,194 | ..... | 1,043,417 | 1,043,417 | 1,099,032 | 0.51 |
| South Carolina | 3,002,491 | ..... | 2,910,750 | 2,910,750 | 2,963,772 | 1.37 |
| South Dakota | 432,369 | ..... | 461,206 | 461,206 | 490,948 | 0.23 |
| Tennessee | 5,229,794 | ..... | 4,998,339 | 4,998,339 | 5,229,594 | 2.43 |
| Texas | 10,812,996 | ..... | 11,367,334 | 11,367,334 | 12,059,751 | 5.59 |
| Utah | 1,000,545 | ..... | 1,061,913 | 1,061,913 | 1,144,821 | 0.53 |
| Vermont | 557,405 | ..... | 546,219 | 546,219 | 556,556 | 0.26 |
| Virginia | 2,335,066 | ..... | 2,457,090 | 2,457,090 | 2,607,021 | 1.21 |
| Washington | 3,036,685 | ..... | 3,127,085 | 3,127,085 | 3,007,009 | 1.39 |
| West Virginia | 1,640,815 | ..... | 1,580,553 | 1,580,553 | 1,650,846 | 0.77 |
| Wisconsin | 2,828,633 | ..... | 2,694,359 | 2,694,359 | 2,686,870 | 1.25 |
| Wyoming | 265,033 | ..... | 258,001 | 258,001 | 262,416 | 0.12 |
| American Samoa | 3,947 | ..... | 3,950 | 3,950 | 3,950 | * |
| Guam | 6,745 | ..... | 6,961 | 6,961 | 6,690 | * |
| Northern Mariana Islands | 2,382 | ..... | 2,380 | 2,380 | 2,380 | * |
| Puerto Rico | 219,397 | ..... | 219,600 | 219,600 | 219,600 | 0.10 |
| Freely Associated States | ..... | ..... | ..... | ..... | ..... | ..... |
| Virgin Islands | 7,076 | ..... | 6,920 | 6,920 | 6,920 | * |

| | | | | | | |
|--------------------------|--------------------|-------|--------------------|--------------------|--------------------|----------------------------|
| Indian Tribes | ..... | ..... | ..... | ..... | ..... | ..... |
| Undistributed | ..... | ..... | ..... | ..... | ..... | ..... |
| Survey & Certification | 168,752 | ..... | 247,420 | 247,420 | 251,900 | 0.12 |
| Fraud Control Units | 131,500 | ..... | 149,400 | 149,400 | 161,600 | 0.07 |
| Vaccines For Children | 1,052,030 | ..... | 1,634,850 | 1,634,850 | 1,502,333 | 0.70 |
| Medicare Part B Transfer | 168,240 | ..... | 190,000 | 190,000 | ..... | ..... |
| Medicare Part D | ..... | ..... | 72,800 | 72,800 | 99,100 | 0.05 |
| Incurred Not Reported | ..... | ..... | ..... | ..... | 22,910,109 | 10.63 |
| Adjustments | -17,153 | ..... | -733,538 | -733,538 | -4,981,327 | -2.31 |
| Total | 184,382,051 | ..... | 188,535,007 | 188,535,007 | 215,570,809 | ¹ 100.00 |

* \$500 or less or 0.005 percent or less.

¹ Excludes undistributed obligations.