



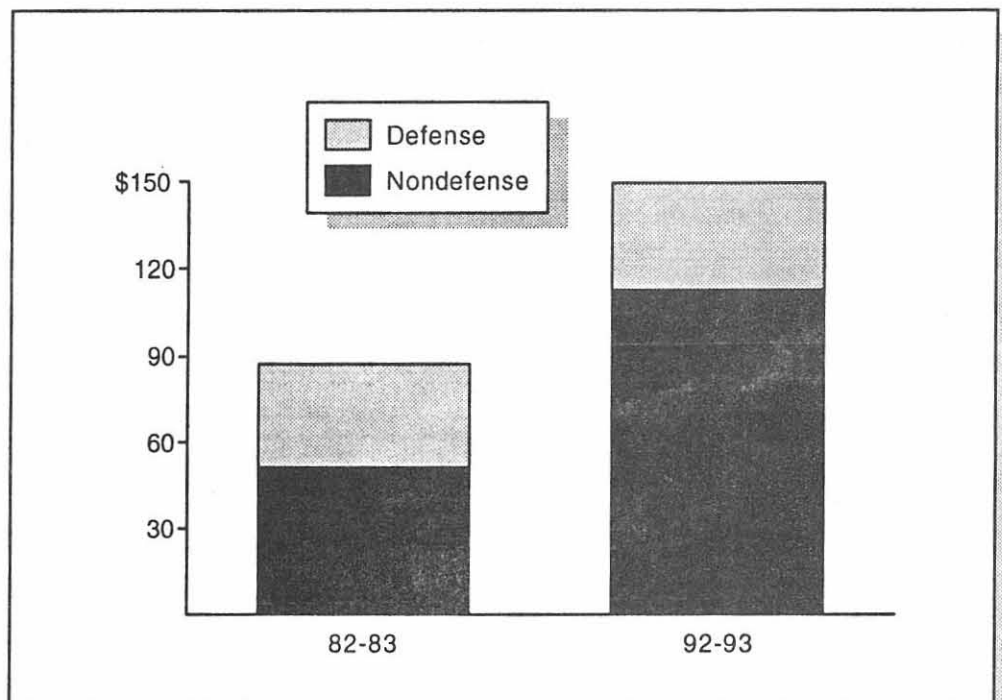
**Impact of Federal Proposals
on California**

**Presented To
Joint Legislative Budget Committee**

**By Hadley Johnson
Mac Taylor**



Total Federal Spending In California 1992-93 Compared With 1982-83

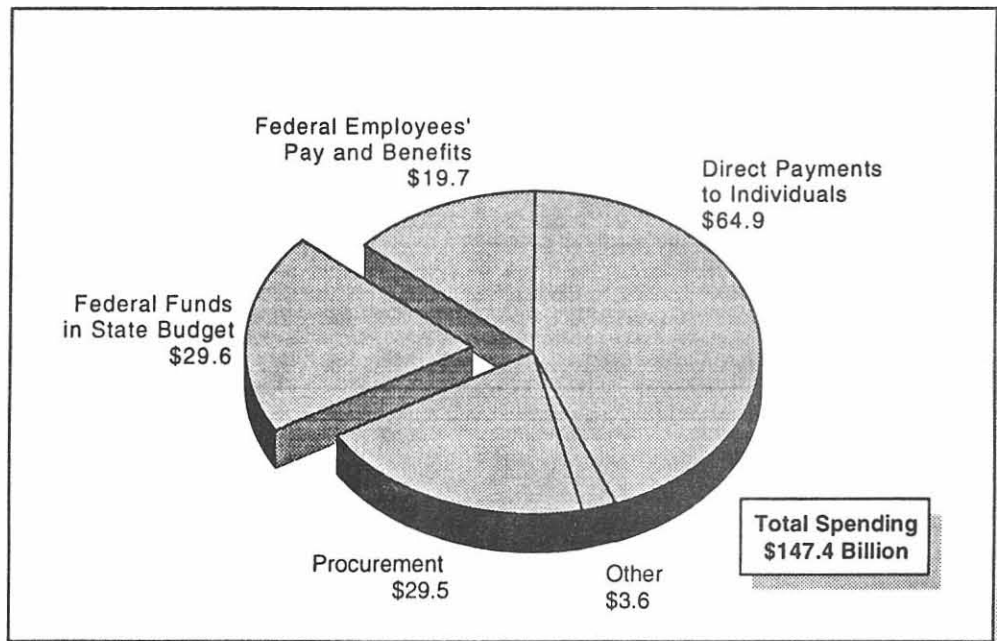


- ✓ Total federal spending in California grew by 71 percent from 1982-83 to 1992-93, but essentially all of the growth was in nondefense spending. Defense-related spending remained almost flat over the period (and declined after taking account of inflation). The defense share of federal spending in the state declined from 41 percent to 25 percent
- ✓ During this period federal nondefense spending in California more than doubled—about the same rate of growth experienced by spending from state funds.



Federal Expenditures In California—1992-93 Most Spending Is Outside the State Budget

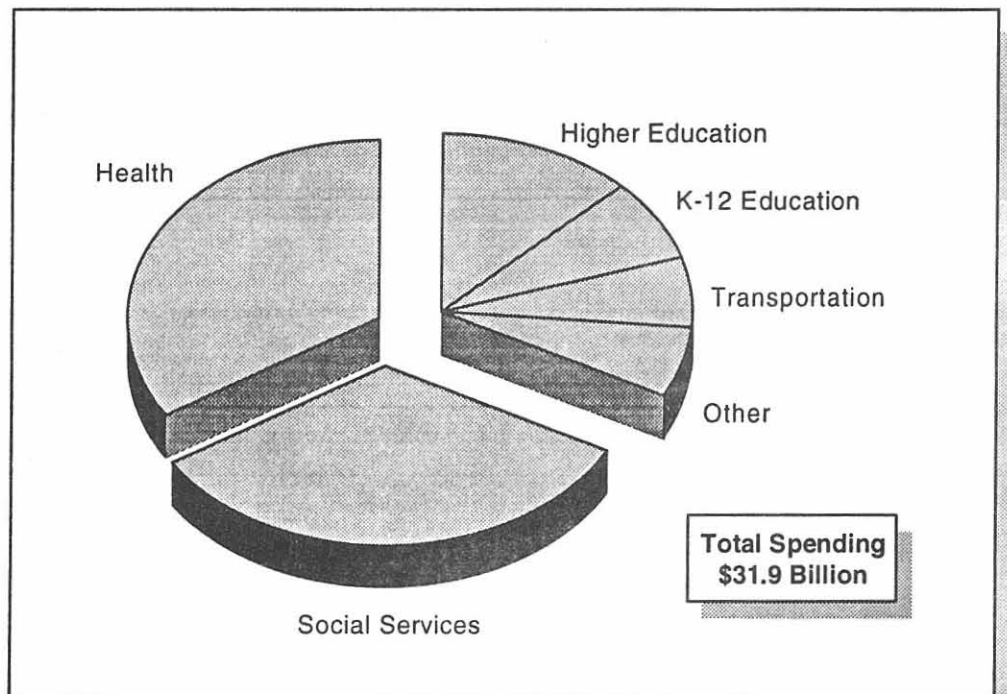
(In Billions)



- ✓ Only about one-fifth of total federal spending in California flows through the state budget. Most federal funds are spent for direct payments to individuals in programs not administered by the state, for procurement of goods and services and to pay federal employees and military personnel in California.
- ✓ Social Security and Medicare benefits totaled \$46.4 billion (more than 70 percent of the direct federal payments to Californians).
- ✓ Defense accounted for two-thirds of procurement spending in 1992-93.
- ✓ Between \$2 billion and \$3 billion of federal funds was provided directly to local governments in California, but generally local entities receive federal funds via the state.



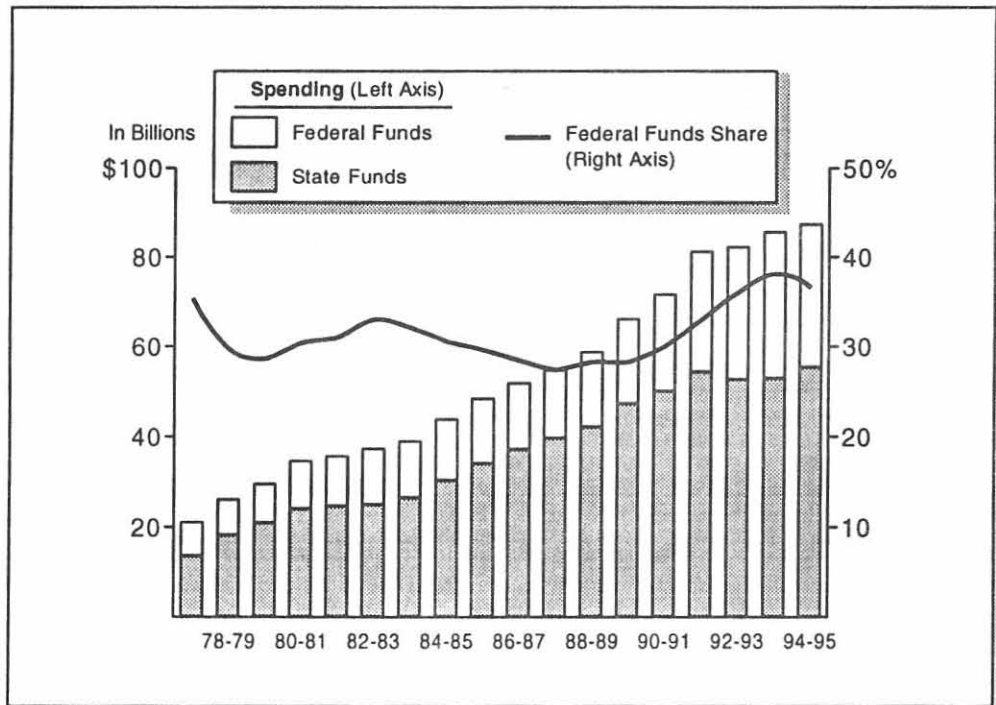
State Budget Expenditures of Federal Funds—1994-95 Health and Social Services Have Largest Shares



- ☑ Two-thirds of the federal funds spent by the state are for programs in the health or social services areas. Most of the health spending is for Medi-Cal. Major social services expenditures include unemployment benefits, AFDC grants, and payments to counties for welfare administration.
- ☑ Federal spending for higher education includes several billion dollars to UC to support the national laboratories operated for the Department of Energy and for research grants.



Federal Funds' Share of Total State Spending 1977-78 to 1994-95



- ✓ The federal funds share of state spending tends to rise in recessions and fall during economic expansions. Recessions slow state revenue growth and spending and increase caseloads for health and social services programs that receive the largest portion of federal funds.
- ✓ Most of the rapid growth in federal funds spending since 1987-88 has occurred in two programs. Federal spending for Medi-Cal has more than tripled, in part due to new "intergovernmental transfer" matching programs. Unemployment benefit costs increased by more than 250 percent in response to job losses and displacement during the recent prolonged recession.



House and Senate Rescission Bills Reductions in Federal Funds

(In Millions)

Proposal	Direct Effect on State Budget		Comments
	House	Senate	
HR 1158 and S 617			
Education Programs			
Higher Education			
Student Incentive Grant	\$9.7	—	House version eliminates federal funds for Cal Grant financial aid program. This amount of General Fund support would be needed to maintain the existing program level.
K-12 Education			
Safe and drug-free schools	48.0	—	House version eliminates funding.
Goals 2000 grants	16.5	\$0.7	Reduces expected increase in 1995-96.
Title 1—Education for disadvantaged students	15.2	—	Reduces expected increase in 1995-96.
Bilingual education	13.6	9.8	House version reduces funding by 31 percent.
Eisenhower professional development grants	11.0	7.6	Reduces expected increase in 1995-96.
Vocational education	3.5	3.5	Eliminates funding for consumer and homemaking education.
Education technology grants	3.0	0.5	House version cuts first-year funding for this program by 75 percent.
Other related programs			
National service program	45.2	11.4	House version cuts funding for this program by 72 percent.
Health and Social Services			
Center for Disease Control/ Health Research	0	0	State budget does not anticipate receipt of funds.
Health Care Financing Administration/ Medi-Cal staffing	0	0	State budget does not anticipate receipt of funds budgeted.
Water infrastructure state revolving funds	0	0	Funds for local safe drinking water projects (state revolving funds) have not been allocated and no funds were budgeted by the state.
Women, Infants, and Children Program	17.0	—	Under the House Bill, 75 percent of reduction would affect fund supplements for an estimated 35,000 clients.

Continued



House and Senate Rescission Bills Reductions in Federal Funds *(Continued)*

Proposal	Direct Effect on State Budget		Comments
	House	Senate	
Foster Care and Adoptions Assistance	\$0 -\$14	—	House bill caps federal payments for administration and training costs. Impact unclear and could range up to \$14 million.
Community Service Employment Program for the Elderly	0.3	\$0.3	Would result in reduction of about 41 employment slots in 1995-96.
Low-Income Home Energy Assistance Program	59.0	—	House bill eliminates funding for federal fiscal year 1996.
Community Services Block Grant	1.2	0	Reduces funding for Emergency Homeless Program. House: about 514,000 fewer clients would be served. Senate: No effect on state budget because Senate action does not effect state budget programs.
Job Training Partnership Act (JTPA)			
Title IIA Adult	5.5	5.5	About 1,700 fewer clients would be served in 1995-96.
Title IIB Summer Youth	294.1	195.0	House: eliminates Summer Youth Program for the summers of 1995 and 1996. Approximately 70,000 youth would not receive services in each summer. Senate: eliminates program in 1996. Approximately 70,000 youth would not receive services.
Title IIC Youth in 1994-95	7.9	7.9	About 4,556 fewer clients would be served in 1994-95.
Title IIC Youth in 1995-96	19.3	47.2	House: about 7,600 fewer clients would be served in 1995-96. Senate: About 18,000 fewer clients would be served.
Title III Dislocated Workers	15.8	3.1	House: about 5,200 fewer clients would be served in 1995-96. Senate: about 1,700 fewer clients would be served.
Job Service			
90 percent Labor Exchange	0.8	0.8	About 8,000 job seekers would not receive services.
10 percent Governor's Discretionary	0.1	0.1	Unknown impact.
SLIAG (education for immigrants)	—	4	Estimated reduction of \$4 million for Californians.
Jobs (GAIN) Program	—	20.0	About 13,000 fewer persons would be served.
SSI Program	—	0	Senate rescission—affects federal agency administration.

Continued



House and Senate Rescission Bills Reductions in Federal Funds *(Continued)*

Proposal	Direct Effect on State Budget		Comments
	House	Senate	
Housing and Community Development			
Rural housing construction (U.S. Department of Agriculture)	\$0	\$0	House version reduces funds to construct and repair rural rental housing by \$3.5 million (about 50 percent).
Various housing programs (Housing and Urban Development)	0	0	Senate rescission (\$490 million) and House rescission (\$560 million) reduce funds for growth in the number of Section 8 housing vouchers, preservation of low-income housing developments at risk for conversion to market-rate developments, public housing development and operations, and other housing programs.
Community Development Block Grant (HUD)	3.0	—	House version reduces grants to localities for economic development projects by \$35 million (about 6 percent). Approximately \$3 million of this amount would have been allocated by the state's Department of Housing and Community Development. Senate version proposes no CDBG rescissions.
Affordable Housing Program (FDIC)	0	0	Both House and Senate versions reduce funds to developers of low-income housing by about \$1.1 million.
Criminal Justice			
Federal Crime Bill—Drug Courts	0	0	The state budget did not anticipate receipt of funds.
Federal Crime Bill—Ounce of Prevention Council	—	0	The state budget did not anticipate receipt of funds.
Transportation			
U.S. Department of Transportation (USDOT) operating expenses	0	0	Operating expenses for the USDOT and are not allocated to the states.
Federal Highway Administration (FHWA) operating expenses	0	0	Operating expenses for the FHWA and are not allocated to the states.
Federal-Aid Highways Emergency Relief (ER) for earthquake damage	Less than \$40 million.	—	California has spent all of the federal funds it needs for the Northridge earthquake (about \$350 million). For the Loma Prieta earthquake, about \$102 million remains unallocated for three projects. If Caltrans can obligate this remaining amount prior to enactment of the rescission measure, there would be no impact on California.
Federal Transit Administration—bus facilities and guideways	0	0	Eligible California projects are not able to expend the funds due to project delays.

Continued



House and Senate Rescission Bills Reductions in Federal Funds *(Continued)*

Proposal	Direct Effect on State Budget		Comments
	House	Senate	
Federal Aviation Administration	\$0	\$0	Eligible California projects are not able to expend the funds due to project delays.
Coast Guard	0	0	Potential \$4 million reduction to locals for a Coast Guard medical facility in southern California.
Resources			
Army Corps of Engineers, Energy, and Water—construction	0	0	Given total federal funds available, rescissions will probably have minimal impact on local flood control projects in California in the current year. (The state budget has not provided any funds to pay its current share of costs—about \$135 million.)
Bureau of Reclamation	0	0	Affects federal water projects. No significant impact on state anticipated.
US Forest Service—state and private forestry	0	0	A potential small impact on state operations and grants for resources protection and improvement.
US Fish and Wildlife Service National Biological Survey	0	0	State has pending applications for \$500,000 of these funds, but these funds are not included in the 1995-96 Governor's Budget.
National Park Service (NPS)—Urban Park and Recreation Fund	0	0	Funds provide local grants to rehabilitate urban parks.
Department of Energy			
Nondefense Environmental Restoration and Waste Management	0	—	Fewer funds could be made available to state for environmental protection activities on behalf of federal energy facilities.
Defense Environmental Restoration and Waste Management	0	0	Fewer funds could be made available to state for environmental protection activities on behalf of federal energy facilities.
US EPA			
Hazardous Substance Superfund	—	0	S 617 rescinds amount available for federal superfund sites, which at the state's option, may involve state match.
Waste infrastructure	—	0	Rescinds unobligated funds for grants given directly to local coastal communities for waste water treatments facility construction.

Continued



House and Senate Rescission Bills Reductions in Federal Funds *(Continued)*

Proposal	Direct Effect on State Budget		Comments
	House	Senate	
Commerce			
Department of Commerce	\$0	\$0	Funds used for various economic development projects, such as, defense conversion and technology developmental projects. Projects of this kind in California would be threatened by this rescission.
Proposal	Direct Effect on State Budget		Comments
HR 889 (Enacted)			
Tri-Service Standoff Attack Missile (TSSAM)		\$0	This program was cancelled by the Department of Defense in December 1994. The prime contractor for the TSSAM is Northrop Grumman Corporation in California. The contractor was to receive about \$320 million for the contract in the current year.
Technology Reinvestment Project (TRP)		0	Reductions in this program could lead to loss of federal funds of about \$120 million for defense conversion projects in the state.
Title IIC Youth in 1995-96		34	About 13,000 fewer clients would be served.
Department of Energy—defense environmental restoration and waste management		0	Fewer funds could be made available to state for environmental protection activities on behalf of federal energy facilities.
US Fish and Wildlife Service (USFWS)			
Resource management—endangered species funding		0	No immediate impact on state—state has already received funds under Federal Endangered Species Act ("Section 6 funds") for 1994-95 (about \$1 million).



Personal Responsibility Act— House Version Summary of Act's Titles

Title	Subject
I—Temporary family assistance	Consolidates AFDC, Jobs, and Emergency Assistance Programs into one block grant.
II—Child protection	Consolidates into one block grant various child protection programs, including foster care, child welfare services, and adoptions assistance.
III—Child care and nutrition assistance	Consolidates funding for child care and nutrition programs into three block grants—child care, school nutrition, and family nutrition.
IV—Restricting welfare for aliens	Makes immigrants, with certain exceptions, ineligible for the following federal benefits: (1) Family Assistance Block Grant, (2) SSI, (3) Medicaid, (4) food stamps, and (5) Title XX Social services.
V—Food stamps	(1) Caps annual food stamp benefit increases, (2) restricts eligibility for recipients without children, and (3) consolidates several food distribution programs.
VI—Supplemental Security Income	(1) Eliminates eligibility based on drug addiction and alcoholism, (2) eliminates benefits to children who are relatively less disabled, (3) establishes new block grants for certain children.
VII—Child support enforcement	Makes various changes primarily affecting federal incentive payments to states and treatment of collections.
VIII—Miscellaneous	Various provisions.



Personal Responsibility Act— House Version Summary of Fiscal Effects on California Federal Funds

(In Millions)

Program	1995-96	Five-Year Impact
Title I: Temporary Family Assistance	-\$230	-\$3,900
Title II: Child Protection	35	329
Title III: Child Care and Nutrition Assistance	-165	-1,985
Title IV: Restricting Welfare for Aliens	—	-5,600
Title V: Food Stamps	-105	-1,605
Title VI: Supplemental Security Income	-115	-108
Title VII: Child Support	—	-85
Title VIII: Miscellaneous Provisions	—	—
Total Net Effect	-\$580	-\$12,954



Personal Responsibility Act— House Version Summary of Fiscal Effects on California State Funds

Summary: State fiscal effect ranges from (1) costs of \$13 billion if state backfills for loss of federal funds to (2) savings of \$4 billion if state does not backfill lost federal funds and conforms its policy to federal restrictions on aid to immigrants.

Program	Five-Year Fiscal Effects
Title I: Temporary Family Assistance	<ul style="list-style-type: none"> • Potential costs of up to \$3.9 billion if the state backfills for reduced federal funds. • Unknown, potentially significant savings due to paternity establishment provisions and the effect of the work requirement.
Title II: Child Protection	<ul style="list-style-type: none"> • Potential savings of \$250 million to the extent increased federal funds offset state spending.
Title III: Child Care and Nutrition Assistance	<ul style="list-style-type: none"> • Child Care: Potential cost of \$200 million if the state backfills for reduced federal funds. • School Nutrition: Potential \$578 million cost if the state backfills for reduced federal funds. • WIC Program: Potential \$1.2 billion cost if the state backfills for reduced federal funds.
Title IV: Restricting Welfare for Aliens	<ul style="list-style-type: none"> • Potential costs of up to \$5.6 billion if the state backfills for loss of federal funds in order to maintain current eligibility and service levels. • Potential savings of up to \$7.2 billion in SSP, Food Stamps administration, Medi-Cal, and AFDC programs if state conforms to federal eligibility restrictions regarding aliens; partially offset by unknown costs, potentially several billion dollars, due to health and cash assistance cost shifts to counties. • Savings and costs would be less to the extent aliens become citizens.
Title V: Food Stamps and Commodities	<ul style="list-style-type: none"> • Unknown state administrative costs, probably in the tens of millions of dollars annually. • Potential cost of \$1.6 billion if state backfills for federal funds loss.
Title VI: Supplemental Security Income	<ul style="list-style-type: none"> • Savings of about \$250 million due to substance abuse provisions. • Potential cost of \$108 million if state backfills for federal funds loss.
Title VII: Child Support	<ul style="list-style-type: none"> • Costs of about \$5 million.
Title VIII: Miscellaneous Provisions	<ul style="list-style-type: none"> • No fiscal effect.



“Taking Back the Streets Act” Crime Provisions of the Contract With America

The proposed measure will significantly change many provisions of the federal crime bill enacted in September 1994. The changes are in three major areas:

Local Law Enforcement

- Increases federal funding authorizations nationwide from \$7.47 billion to \$10 billion.
- Changes requirements for local law enforcement to receive funds. The most significant of these changes is to allocate funds to agencies based on violent crime rate in the jurisdiction, instead of requiring grant applications.
- California's share of the proposed program could be \$1.4 billion through FFY 2000—an increase of at least several hundred million dollars over the amounts authorized in current law.

Prison Construction

- Increases federal funding authorizations from \$7.7 billion to \$10.3 billion through FFY 2000.
- Expands the uses of prison construction grant funds to include the construction of local jail facilities.
- California's share under the proposed legislation could be \$1.5 billion, an increase of a few hundred million dollars over current authorizations.



“Taking Back the Streets Act” Crime Provisions of the Contract With America *(Continued)*

Crime Prevention Programs

- Eliminates funding authority for 13 crime prevention programs contained in current law—“saving” \$5 billion in funding authorizations.
- The elimination of these programs “pays” for the proposed increases for law enforcement and prison construction grants.
- Elimination of these programs could result in California receiving several hundred million dollars less than it might otherwise receive under current law.

Overall Impact On California

- State and local law enforcement agencies would receive increased funding for police, jails, and prisons.
- Local governments, community-based organizations, and nonlaw enforcement agencies would lose funding for crime prevention grants.



Key Provisions of the “Contract With America Tax Relief Act of 1995” (HR 1215)

Provision	Description
Family tax credit	Provides taxpayers with a maximum nonrefundable tax credit of \$500 for each qualifying child. The credit would be phased out for AGIs between \$200,000 and \$250,000 and would be indexed annually for inflation.
Capital gains reforms	<ul style="list-style-type: none"> • Allows 50 percent capital gains deduction for individuals, thus making the maximum tax rate on individuals' capital gains 19.8 percent. • Indexes certain capital gains for inflation. • Lowers the maximum capital gains tax rate for corporations to 25 percent. • Provides that losses on the sales or exchanges of principal residences are tax deductible.
Social Security provisions	<ul style="list-style-type: none"> • Reduces the portion of Social Security benefits subject to income taxation from the current maximum of 85 percent down to 50 percent by 2000. • Phases in an increased earnings limit below which individuals may receive their full social security benefits.
Corporate alternative minimum tax reforms	<ul style="list-style-type: none"> • Repeals the corporate alternative minimum tax (AMT) for income years beginning in 2001, and makes certain changes to AMT calculations made prior to 2001.
Credit to reduce marriage penalty	Provides for a nonrefundable tax credit of up to \$145 to married couples filing joint returns, depending on how their tax liability compares to what the sum of their liabilities would have been if they were single taxpayers.
Increase in expensing treatment for small corporations	Provides for a phased-in increase in the maximum amount of qualifying depreciable expenses that small corporations may “expense” (that is, “write off” in the first year) from \$17,500 to \$35,000 by 1999.
Depreciation Provisions	Provides for a “neutral cost recovery” system which revises the way that depreciation deductions for assets are computed.
Other key provisions	<ul style="list-style-type: none"> • Allows Individual Retirement Accounts (IRAs) with nondeductible contributions but deductible distributions. • Changes tax treatment of home-care health insurance contracts and long-term health care. • Increases estate and gift tax exemptions. • Provides credits for adoption expenses and elderly care.



Changes In Federal Taxes Paid by Californians "Contract With America Tax Relief Act of 1995" (HR 1215)^a

(Dollars in Millions)

Provision	1995-96	1996-97	1997-98	1998-99	1999-00	Five-Year California Total	
						Amount	Share of Federal
Title I—American Dream Restoration							
Family tax credit	-\$571	-\$2,892	-\$2,991	-\$3,251	-\$3,313	-\$13,018	12.4%
Credit to reduce marriage penalty	-26	-257	-257	-257	-257	-1,053	12.8
American dream savings accounts	155	206	129	26	-258	258	12.9
Deductible spousal IRA	0	-13	-13	-13	-13	-52	12.9
Title II—Senior Citizen's Equity							
Repeal of increase of tax on social security income	-60	-227	-381	-513	-668	-1,848	11.9
Treatment of long term care insurance and services	-107	-119	-143	-167	-191	-727	11.9
Tax treatment of accelerated death benefits	0	-12	-12	-24	-24	-72	11.9
Title III—Job Creation and Wage Enhancement							
Capital gains reform	1,578	-726	-1,453	-1,816	-2,081	-4,456	14.0
Neutral cost recovery	1,167	1,268	799	-152	-1,116	2,118	12.7
Corporate alternative minimum tax (AMT) reform	-342	-457	-419	-469	-342	-2,131	12.7
Interaction between neutral cost recovery and AMT	89	89	51	13	0	292	12.7
Increase in unified estate and gift tax credits	0	-178	-203	-228	-266	-875	12.7
Increase in expense treatment for small corporations	-76	-178	-254	-266	-228	-1,002	12.7
Clarification of definition of principal place of business	-13	-25	-25	-25	-25	-114	12.7
Title IV—Family Reinforcement							
Credit for adoption expenses	0	-21	-21	-21	-21	-83	10.4
Credit for custodial elderly care	-13	-25	-25	-25	-25	-114	12.7
Title V—Social Security Provisions							
Social Security earnings provisions	-60	-131	-191	-250	-286	-918	11.9
Totals	\$1,722	-\$3,696	-\$5,408	-\$7,440	-\$9,115	-\$23,795	12.7%

^a Data are for federal fiscal years.
 Source: California Franchise Tax Board