

**ASSEMBLY BUDGET COMMITTEE
SUBCOMMITTEE NO. 1 ON HEALTH AND HUMAN SERVICES
ASSEMBLYMEMBER HOLLY J. MITCHELL, CHAIR**

***Informational Hearing on Federal Deficit Reduction and Potential
Budget Impacts on California Health and Human Services Programs***

**Thursday, September 29, 2011, 2:00 p.m.
State Capitol, Room 4202**

Background

The purpose of this hearing is to educate Legislators, staff, and the public on: the federal deficit reduction and sequestration process; the Super Committee's parameters and process; and potential budget actions absent adoption of a Super Committee proposal.

The hearing will focus primarily on the potential fiscal impacts to California's health and human services programs and the impacts on the individuals these programs serve.

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BACKGROUND ON FEDERAL DEFICIT REDUCTION PROCESS

On August 2, 2011, President Obama signed into law the Budget Control Act of 2011 (BCA). The agreement between the Administration and Congress provided a mechanism to increase the federal debt ceiling, avoiding a potentially disastrous default on federal debt. The BCA created a complex multi-step process designed to reduce the federal deficit by at least \$1.2 trillion over the next decade, to exceed the \$900 billion of reductions included in the debt service agreement.

Annual Appropriation Caps. The first step that will occur is the establishment of caps on annual appropriations bills. The caps apply to “discretionary” or non-entitlement programs such as defense, education, the Environmental Protection Agency, low-income housing assistance, medical research, and many others. The caps reduce projected funding for these programs through 2021, relative to the existing 2011 funding levels adjusted for inflation. These reductions will begin in January 2013. The Congressional Budget Office (CBO) estimates that the caps will cut spending by about \$900 billion, with the remaining savings coming from reduced interest payments on the debt attributable to the spending reductions.

Charge to and Membership of Super Committee. The second step involves the Joint Select Committee on Deficit Reduction (Super Committee). The BCA created this unique committee to develop a proposal to achieve between \$1.2 and \$1.5 trillion in additional deficit reduction solutions between 2012 and 2021. The members of the Super Committee include: Senate Democrats Patty Murray (WA), Max Baucus (MT), and John Kerry (MA); Senate Republicans Jon Kyl (AZ), Pat Toomey (PA), and Rob Portman (OH); House Democrats James Clyburn (SC), Chris Van Hollen (MD), and Xavier Becerra (CA); and House Republicans Jeb Hensarling (TX); Fred Upton (MI), and Dave Camp (MI).

While the BCA requires the Super Committee to propose between \$1.2 and \$1.5 trillion in reductions, some members of Congress have called on the Super Committee to make recommendations that would reduce the deficit by an even greater amount. The BCA requires the Super Committee to make its recommendations by November 23, 2011, however, some reports have indicated that the CBO needs the plan sooner in order to analyze its impact in time for Congress to vote on it. Congress is required to vote up or down on the Super Committee’s proposal without amendments. Any proposal supported by Congress also would require the President's signature to become law.

There are no limitations on the types of deficit reduction measures that the Super Committee can recommend. Proposals could include reductions to discretionary programs as well as to so-called “entitlement” programs, such as Medicare, Medicaid, SNAP (“food stamps”), and Social Security. The Super Committee may also propose increases in revenues that would reduce the federal deficit measures. Finally, the Super Committee could cut more deeply into annual appropriations.

Effects of Super Committee Action or Inaction. If the Super Committee's recommendations are not enacted into law by December 23, 2011, or if the Committee does not recommend at least \$1.2 trillion in savings over ten years, automatic cuts (known as "sequestration") will be triggered. The BCA requires that these reductions total \$1.2 trillion through 2021, with \$54.7 billion a year coming from defense programs and \$54.7 billion a year from non-defense programs. The non-defense cuts would come from both entitlement and discretionary spending. The cuts would begin January 1, 2013, a full year after the trigger is pulled. If the Super Committee proposes less than \$1.2 trillion in deficit reduction measures, automatic cuts making up the balance of this amount would take effect.

Cuts to mandatory non-defense spending would include reductions in Medicare payments to providers and insurance plans that would be limited to 2 percent of such payments in any year, approximately \$10.8 billion in 2013. Approximately \$5.2 billion in cuts to other mandatory programs would also occur, with the largest reductions occurring in farm price supports. A number of programs are exempt from the automatic reductions under the BCA, including Social Security, Medicaid, Children's Health Insurance Program (CHIP), SNAP/food stamps, SSI, some child care spending, the Earned Income Tax Credit, veterans benefits, Pell Grants, and federal retirement benefits.

The remaining non-defense cuts would come from discretionary programs. In 2013, the cuts would be across the board for each discretionary program in the appropriations bill. In subsequent years, the Appropriations Committees would have discretion as to how to meet the caps.

Finally, the BCA requires both Houses of Congress to vote, by December 31, 2011, on a constitutional amendment, which would require the federal budget to be balanced each year. This outcome of this vote would not affect the other required deficit reduction efforts.

The Subcommittee has prepared a one-page flowchart for the hearing, attempting to capture the basic elements of this process. For a more detailed description of the process, the Subcommittee refers readers to the Center on Budget and Policy Priorities at www.cbpp.org.

POTENTIAL IMPACTS ON CALIFORNIA HEALTH AND HUMAN SERVICES

Virtually any budget decision at the federal level would have an impact on California's economic recovery, state and local budgets, and services for the most vulnerable Californians. Although it is unclear what additional deficit reduction solutions will ultimately be recommended and adopted, or if the Super Committee will be deadlocked, we do know that California's families, children and safety net have been hit hard by the economic crisis, consistent with national trends.

As recently reported by the U.S. Census Bureau, the number of Americans living below the official poverty line is the highest number in the 52 years the Bureau has been publishing figures on it. The Bureau's report states that the percentage of Americans living below the poverty line last year, 15.1 percent, was the highest level since 1993. The number of Californians living in poverty in 2010 was 16.3 percent. Nearly one out of four children in California (2.2 million children) were living in poverty in 2010. Undeniably, California's low-income working families have suffered greatly by the recession, as only three out of five working-age Californians have jobs.

Any federal reductions in health and human services funding will compound the reductions of the 2011-12 Budget, which eliminated more than 60 percent of the ongoing structural deficit in part by closing the gap with over \$11 billion in spending reductions, over half of which were to health and human services programs and education. These reductions were adopted after several years of either flat or reduced funding in these programs.

Many individuals and entities throughout the nation are anxiously awaiting the proposal from the Super Committee and are concerned about its ultimate impacts on health and human services, and on states in general. The National Conference of State Legislatures wrote an open letter to the Super Committee on August 9, 2011 regarding potential impacts on states, stating, "NCSL understands the need for the federal government to reduce its deficit and manage its long-term debt. However, states should not be disproportionately targeted in this process through unfunded or underfunded mandates and cost shifts to states... We respectfully urge you to request a Congressional Budget Office analysis of the intergovernmental fiscal ramifications of the legislation developed by the Joint Select Committee."

QUESTIONS TO PANELISTS

1. The first step of deficit reduction consists of caps on annual appropriations from FY 2012 – 2021, with specific caps in the first two years on “security” and “non-security” spending. What do you see as the impact of these cuts on health and human services programs and the Californians these programs serve?
2. If the Super Committee is deadlocked, automatic cuts (known as “sequestration”) will be triggered. What impacts do you anticipate these cuts will have on vulnerable individuals and California's budget and economy?
3. What recommendations would you make to the Super Committee in terms of principles to guide their work and specific proposals that should be avoided or considered in light of likely impacts on California?
4. What overall recommendations would you make for federal action to encourage economic recovery, create jobs, and maintain health and human services programs and a safety net for California's most vulnerable residents?