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WHAT DO THE ACROSS-THE-BOARD CUTS MEAN FOR DOMESTIC APPROPRIATIONS?

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Summary

To comply with budget targets it set last April, Congress cut fiscal year 2006 funding for domestic programs by \$9 billion, or 2.3 percent on average, below the 2005 level adjusted for inflation.¹ In addition to the specific cuts or increases contained in the 2006 appropriations bills, which netted to a cut of \$9 billion, the Congressional leadership insisted on a further one percent across-the-board cut in all non-emergency funding in 2006 appropriations except for veterans' programs. The across-the-board cut was inserted in the Department of Defense appropriations conference report. (The across-the-board cut nominally affects defense as well as domestic programs. However, as a previous Center analysis has discussed, the effect on defense spending is largely illusory.²)

Pressure to make these additional cuts stemmed from concern about the costs associated with relief and rebuilding efforts related to Hurricane Katrina, although Katrina costs do not materially affect the nation's long-term deficit problems.³ Pressure to offset Katrina's costs also led Congress to cut entitlement programs more deeply than the 2006 congressional budget resolution called for.

KEY FINDINGS

- To reach its budget targets, Congress passed appropriations bills that cut domestic programs about \$9 billion below the 2005 funding level, adjusted for inflation.
- Congressional leaders also insisted that domestic appropriated programs be cut by an additional one percent, on top of the cuts contained in the appropriations bills.
- The additional one-percent cut was applied across the board. Many domestic programs have been reduced significantly from the *combination* of the specific cuts made in the appropriations bills and the across-the-board reduction. This analysis examines the size of these combined cuts in a number of programs, including Community Development Block Grants, Head Start, child care, EPA clean water grants, Title 1 education for the disadvantaged, special education for people with disabilities, and Section 8 tenant-based housing vouchers.

¹ These figures do not include emergency appropriations made in fiscal year 2005 or fiscal year 2006, almost exclusively for hurricane-related costs.

² See Richard Kogan and Jim Horney, "Why the Application of the Across-the-Board Appropriations Cut to Defense Is Likely to Be Purely Cosmetic" www.cbpp.org/12-16-05bud.htm.

³ For a discussion about the impact of hurricane relief efforts on the long-term deficit and why focusing on the temporary increase in the short-term deficit, rather than our longer-run deficit problems, is misplaced, see Robert

“Reconciliation” legislation approved by the House and pending in the Senate reportedly totals almost \$40 billion over five years, up from the \$35 billion in cuts that the budget resolution requires.

The House Leadership does not intend to scale back either existing tax cuts or new tax cuts. These tax cuts — which include over \$56 billion in a tax reconciliation bill as well as other separate tax cut bills enacted last fall or passed by the House — could cost more than \$110 billion over five years. As a result, the proposed cuts in appropriations and entitlements would not fully offset the cost of the new tax cuts, much less cover any of the costs of hurricane relief. Consequently, appropriated programs of benefit to families with low incomes, middle-class Americans, and state and local governments would essentially be cut more deeply *not* to reduce the deficit, but to finance a portion of the cost of tax cuts, which primarily benefit the well-off.

This analysis focuses on the effects of this year’s appropriations bills on domestic appropriated programs, including the additional one percent across-the-board cut. An examination of the *combined* effect of the specific reductions enacted by Congress *and* the enacted one percent across-the-board cut shows that funding for many domestic programs has been pushed well below the 2005 level adjusted for inflation (that is, well below the CBO baseline, or the level needed to maintain the current level of services). For instance, after the one-percent across-the-board cut, funding for —

- Community Development block grants has been reduced a total of \$777 million, or 15.7 percent;
- Children and Families Services Programs (which includes Head Start) has been reduced by \$350 million, or 3.8 percent. Head Start itself has been cut 2.8 percent, eliminating Head Start slots for about 25,000 low-income children; and
- EPA’s state revolving funds for clean water and drinking water has been reduced by \$243 million, or 12.3 percent.

The report concludes with tables that show the state-by-state effects of these cuts. Each table provides notes on the data used to determine the state-by-state distribution of the funding reductions in the particular program that the table covers.

Greenstein, “Getting Serious about Deficits? Calls to Offset Hurricane Spending Miss the Point; Balanced Set of First Steps Toward Fiscal Discipline Needed,” www.cbpp.org/10-6-05bud2.htm.

TABLE A

**Cuts in Funding Levels for 2006, Including
One Percent Across-the-Board Reduction
(Relative to 2005 funding levels adjusted for inflation, i.e., the CBO baseline)**

| | CBO baseline | Combined cut | |
|--|-----------------|---------------------------|------------|
| | | In millions of dollars | In percent |
| Education for the disadvantaged | \$15,001 | -\$520 | -3.5% |
| Special Education | 11,805 | -164 | -1.4 |
| School Improvement Programs | 5,708 | -452 | -7.9 |
| Impact Aid | 1,270 | -41 | -3.3 |
| Vocational and Adult Education | 2,037 | -45 | -2.2 |
| Children and families services programs | 9,171 | -350 | -3.8 |
| Child care & development block grant (CCDBG) | 2,127 | -65 | -3.0 |
| Section 8 housing vouchers* | 14,332 | -383 | -2.7 |
| Ryan White HIV/AIDS Activities | 2096 | -52 | -2.5 |
| Maternal and Child Health Block Grant | 740 | -47 | -6.4 |
| Community Development block grants (CDBG) | 4,955 | -777 | -15.7 |
| EPA Clean Water/Drinking Water State Revolving Funds | 1,976 | -243 | -12.3 |

* In the case of Section 8 housing vouchers, we use an adjusted baseline, as explained in the notes attached to Table 5.

Programs Examined in this Report

To illustrate the broad range of programs affected by the reductions, we have selected the following programs for examination: Elementary and Secondary Education (consisting of Title 1 Education for the Disadvantaged, Special Education for students with disabilities, school improvement programs, and Impact Aid); Vocational and Adult Education; Children and Family Services, which includes Head Start; the child care and development block grant (CCDBG); Section 8 rental assistance vouchers; the Ryan White anti-AIDS program; the maternal and child health block grant; Community Development Block Grants (CDBG); and EPA clean water funds.

Methodology

For each program that we examine, we start with the fiscal year 2006 funding level specified in enacted appropriations bills. We then reduce that funding level by one percent to reflect the impact of the one percent across-the-board cut.

We compare the resulting level of fiscal year 2006 funding for a given program with that program's funding level in 2005, adjusted for inflation. For all programs that we examine except for one, we use, as our figure for the 2005 funding level adjusted for inflation, the 2006 "baseline projection" of funding for these programs that the Congressional Budget Office issued in August, since this is the approach that CBO takes in preparing its baseline. (The one exception is in the case of the section 8 tenant-based housing voucher program. In that case, we use an alternative benchmark explained later in this report, because peculiarities in the Section 8 financing structure make it inappropriate to use the CBO baseline level for this purpose.)

Finally, we distribute the resulting national funding reductions by state. We assume that the share of the funding reduction for a given program that a particular state will absorb will equal that state's share of the program's overall level of funding. In other words, if a state receives five percent of the funding for a program, we assume that the state will absorb five percent of the cuts made in that program.

The enacted appropriations bills already reduced many domestic programs below the CBO baseline (that is, below the 2005 level adjusted for inflation). A one-percent cut reduced funding further. In programs where the cuts are shown in this analysis to be deep, the principal reason for the depth of the cut is that Congress passed specific and sizeable funding reduction in those programs.

To illustrate this point, consider EPA's program of clean water/drinking water funds for states. This program received \$1.934 billion in funding in 2005. Adjusting for inflation, the equivalent 2006 funding level would be \$1.975 billion. The Department of Interior appropriations bill for fiscal year 2006 reduced funding for this program to \$1.750 billion in 2006, which is \$225 million — or 11.4 percent — below CBO's baseline level. Because the program is cut an additional one percent, the 2006 funding level will decline to \$1.733 billion, a reduction of \$243 million, or 12.3 percent, below CBO's baseline level.

A few programs would receive funding increases under the appropriations bills Congress has passed. In these cases, the one-percent across-the-board cut shrinks the size of the increase or turn a small increase into a small decrease.

In addition to estimating the funding reductions, where possible we also project the potential effect on program participation for selected programs: Head Start, child care, and Section 8 rental vouchers. These estimates generally are straightforward calculations based on the most recent program data available. For instance, the one percent across-the-board cut, coming on top of the cuts included in the enacted Labor-HHS appropriations bills, leaves funding in the Head Start program for 2006 approximately 2.8 percent below the 2005 level, adjusted for inflation. The Head Start Bureau reports that about 906,000 low-income children were served by the program in fiscal year 2005. This analysis thus assumes that a 2.8 percent reduction would translate into about 25,000 fewer children being served (which is 2.8 percent of 906,000).

To distribute the reduction in the number of recipients in a particular program by state, we rely on the most recent data about the number of recipients across states. Thus, if five percent of Head Start participants reside in a particular state, our method assumes that this state will absorb five percent of the decline nationally in the number of participants that the program serves. If 25,000 fewer children are served nationwide, the number of children that would be served in that state would decline by five percent of 25,000, or approximately 1,300.

In some programs, states and localities could choose to cut their programs in different ways — for example, by cutting benefits per person rather than the number of participants. In this analysis, we provide estimates of the number of individuals or families who would lose assistance under the proposed funding reductions if states or localities responded to the funding reductions by serving fewer people.

Effects by Program

Education

K-12 Programs. With education programs cut by one percent below the levels specified in the Labor-HHS appropriations bill, elementary and secondary education programs lose nearly \$1.2 billion in 2006, compared with the 2005 funding level adjusted for inflation. These cuts include:

- **Education for the Disadvantaged.** Although the President's budget proposed to *increase* funding in 2006 for education for the disadvantaged (the main source of federal funding for schools to serve low-income children), Congress initially cut this funding by 2.5 percent below the 2005 level, adjusted for inflation. Together with the additional one percent across-the-board cut, funding for education for the disadvantaged has been reduced a total of \$520 million in 2006, or 3.5 percent.
- **Special Education.** Special education funding, which serves children with disabilities and other special needs, has been cut in 2006 by a total of \$164 million, or 1.4 percent, compared with the 2005 level adjusted for inflation.
- **School Improvement.** This program includes several funding sources designed to improve school quality, including grants to states for teacher quality initiatives, educational technology grants, funding for school assessment mechanisms (such as testing), and before- and after-school enrichment programs in low-income communities. With the one percent across-the-board cut, funding for school improvement has been reduced a total of \$452 million in 2006, or 7.9 percent, compared with the 2005 level adjusted for inflation.
- **Impact Aid.** This funding helps school districts that lose property tax revenue because the children they serve live on federal property, which is exempt from local property taxes. With the across-the-board cuts, Impact Aid has been cut in 2006 by \$41 million, or 3.3 percent, compared with the 2005 level adjusted for inflation.

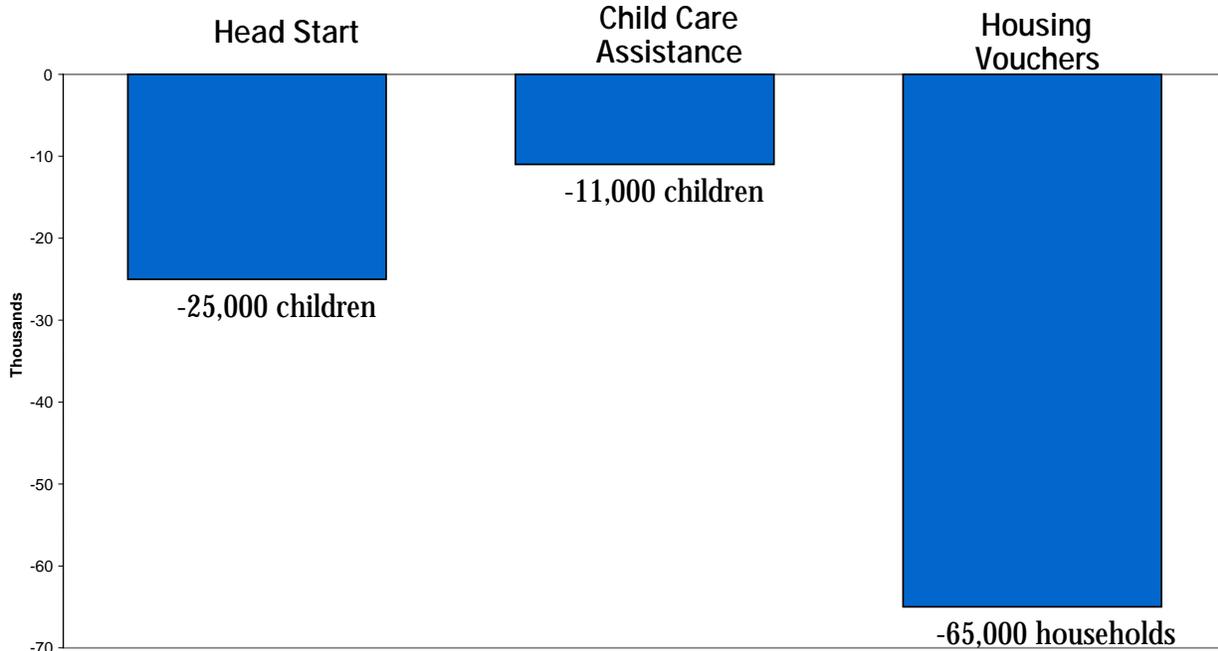
(See Table 1 for state-by-state estimates on cuts in overall K-12 funding, including detailed estimates for education for the disadvantaged, special education, and school improvement funding.)

Vocational and Adult Education: Programs in this area provide funding for states for vocational education, adult education, and English literacy and civics classes for immigrants. After the one percent across-the-board cut, funding for these programs declines by a total of \$45 million in 2006, or 2.2 percent, compared to the 2005 level adjusted for inflation. (See Table 2 for state-by-state figures on Vocational and Adult Education.)

Human Service Programs

The combined effect of the appropriations bills and the one percent across-the-board cut imposes significant cuts on some of the nation's most vulnerable families and individuals.

Figure 1
Reduction in Number of Recipients in
Three Programs in 2006
Including the One Percent Across-the-Board Cut



- **Children and Family Services.** This set of programs includes Head Start, services for abused and neglected children, adoption-related services, and several small programs such as abstinence education and services for homeless youth. Including the one percent across-the-board cut, this set of programs has lost \$350 million in 2006, or 3.8 percent, compared with the 2005 level adjusted for inflation.

Funding for Head Start — which currently constitutes 76 percent of the funding for this set of programs — has been cut in 2006 by approximately \$195 million, or 2.8 percent, compared with the 2005 level adjusted for inflation. If such cuts were implemented by reducing Head Start enrollment, rather than cutting the Head Start’s inflation-adjusted expenditures per child, about 25,000 children would lose Head Start in 2006.⁴ (See Table 3 for state-by-state figures.)

Programs in the remainder of the Children and Families Services account has been cut more deeply. These programs include the Promoting Safe and Stable Families program (PSSF), which is used to support adoptions and to help prevent the removal of children, and the Child Abuse

⁴ These estimates may be too low because, consistent with the CBO baseline, they implicitly assume that the cost of serving a Head Start child will rise in 2005 and 2006 at the same rate as the cost of providing government services generally (based on the GDP price deflator). Alternative estimates, using another common adjustment for inflation (the Consumer Price Index), would put the loss of Head Start slots at more than 30,000 children. This higher estimate is consistent with a methodology used by the National Head Start Association and others. It is illustrative of the fact that a range of reasonable assumptions about inflation could be applied in a number of the programs that we examine. Our approach could be considered conservative.

Prevention Treatment Act (CAPTA), which helps states respond to reports of child abuse. Taken together, these programs have lost a total of \$155 million in 2006, or approximately 7.0 percent, compared with the 2005 level adjusted for inflation.

- **Child Care.** The one percent across-the-board cut affects discretionary child care funding under the Child Care and Development Block Grant for low- and moderate-income working families. The fiscal year 2006 Labor-HHS appropriations conference agreement froze funding for this discretionary program in fiscal year 2006. Yet the cost of child care rises each year, in tandem with increases in wage and benefit costs for child care workers, the cost of renting space, and the cost of supplies. The effect of this failure to address inflation-driven increases in costs, plus the one percent across-the-board cut, has been to cut the value of discretionary child care appropriations by \$65 million, or 3 percent, below the 2005 level adjusted for inflation. (See Table 4 for state-by-state figures.)

This funding reduction, if implemented by reducing participation, would result in approximately 11,000 fewer low-income children receiving child care assistance in 2006, based on estimates of the cost of child care by the Center for Law and Social Policy. These cuts would come in a program that already serves only a small fraction of the children in low-income working families that need child care assistance for their parents to work. This reduction of 11,000 in the number of children who would be served would be in addition to cuts in other child care programs.

Housing

The one percent across-the-board cut below the specified funding level leaves funding for renewal of Section 8 Housing Choice Vouchers — the government's main rental assistance program for low-income families — well below the funding needed to restore cuts made in 2005. Voucher funding in 2006 falls short of this benchmark by \$383 million, or 2.7 percent. (For this analysis, we compare voucher funding levels to an adjusted baseline, rather than the official CBO baseline.⁵)

Approximately 65,000 fewer low-income households would receive rental assistance in 2006 as a result of this cut, if the resulting funding shortfalls in the program are addressed by reducing the number of households the program assists. (See Table 5 for state-by-state figures.)

Health Care

- **Ryan White HIV/AIDS Funding:** Funding for HIV and AIDS treatment and services for low-income Americans is provided to states and cities through two sets of formula grants under Titles

⁵ The official CBO baseline does not correct for an unintended drop in the number of vouchers funded in the fiscal year 2005 housing appropriations act. Shortly after that legislation was enacted, HUD determined that insufficient funding had been provided and applied a prorated cut of 4.1 percent to each public housing agency's budget. In the appropriations bill for fiscal year 2006 that was signed into law in November 2005, Congress addressed this error by setting agency funding levels in part based on the 2005 funding level *before* the 4.1 percent prorated cuts were applied. Congress also included an adjustment fund to compensate for certain other anomalies in the 2005 voucher funding formula. We have therefore measured the cuts in this analysis against a baseline for 2005 and 2006 that essentially retains the lost funding by incorporating each agency's 2005 funding level before the prorated cuts and making the additional formula adjustments. In addition, the baseline we used takes into account funding needed to cover "tenant protection vouchers" issued to continue providing assistance for households that previously received subsidies through other federal housing programs.

I and II of the Ryan White Care Act. These funds are used for HIV/AIDS health services, counseling, and testing. In 2004, some 45 percent of these funds were used for the AIDS Drug Assistance Program (ADAP), which helps people living with HIV/AIDS afford antiretroviral drugs. With HIV/AIDS grants to states and cities funded at one percent below the level in the Labor-HHS bill, these funds would be cut in 2006 by \$52 million, or 2.5 percent, compared to the 2005 level adjusted for inflation. (See Table 6 for state-by-state figures.)

- **The Maternal and Child Health Services Block Grant** (Title V) provides core federal grants to support the efforts of state and local public health departments to reduce infant mortality, improve prenatal care for pregnant women, provide child health prevention services and provide rehabilitation and community services to aid children with special health care needs. The Maternal and Child Health Block Grant has been cut by \$47 million in 2006, or 6.4 percent, compared to the 2005 level adjusted for inflation. (See Table 7 for state-by-state figures.)

Community Development

The Community Development Block Grant (CDBG) is the largest source of federal community development funding. It provides funds to state and local governments for a range of community and economic development activities (such as improvements to roads, sidewalks, and other infrastructure), as well as housing-related activities (such as rehabilitation of blighted buildings and assistance for the homeless). Reducing funding by an additional one percent means that the CDBG account has been cut \$777 million, or 15.7 percent, below the 2005 level adjusted for inflation. The core formula funds within the account has been cut by \$492 million (See Table 8 for state-by-state figures.)

Environment

Clean Water. The Environmental Protection Agency (EPA)'s state revolving funds for clean water and drinking water provide federal funding to states to construct wastewater treatment facilities, improve drinking water infrastructure, and enhance water quality. Reducing funds by an additional one percent means that these funds have been cut in 2006 by \$243 million, or 12.3 percent, below the 2005 level adjusted for inflation. (See Table 9 for state-by-state figures.)

Conclusion

The low funding levels set by Congress in the fiscal year 2006 appropriations bills, combined with an additional across-the-board cut of one percent, has resulted in the loss of millions of dollars in grants and benefits for many states, as well as cuts in services for tens or hundreds of thousands of families and individuals who rely on Section 8 for affordable housing, Head Start to help their preschool children develop, or child care to go to work. The particular programs highlighted here are examples of a much broader array of services and benefits that would be subject to cuts under the proposed across-the-board reductions.