Federal Budget Update: A Surplus of Risk
A Surplus of Risk

- FY 2018 budget
- Health care reform
- Expiring programs
- Tax reform
- Debt limit
- Infrastructure
- Mandatory reforms
- BCA changes
Most risks in three areas of federal budget

Federal Outlays, FY 2016
Source: OMB Historical Tables, FY 2017
These three areas fund state and local grants

$631 Billion

Medicaid, $381 billion (60%)

Discretionary, $157 billion (25%)

Other Mandatory, $92 billion (15%)

Source: FFIS Grants Database, FY 2016
Non-Medicaid grants relatively flat

Per Capita Federal Grants, FYs 2011-2016
Source: FFIS Database
<table>
<thead>
<tr>
<th>Ambitious agenda, little time, less progress</th>
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</table>

**Budget**
- BCA changes
- Appropriations
- Budget resolution, reconciliation

**Debt Limit**
- Sept. deadline
- Include spending cuts?

**Programs Extensions**
- CHIP
- Other HHS programs
- Airport Improvement

**Major Reforms**
- ACA repeal/replace
- Tax reform
- Infrastructure
- Other (TANF, SNAP)
Current plan for action

Regular Process

☐ Appropriations
☐ BCA changes
☐ Discretionary program changes
☐ Debt limit
☐ CHIP, other program extensions

Reconciliation

☐ ACA repeal, replace
☐ Mandatory reforms
☐ Tax reform
☐ Infrastructure
Sequestration cuts = $109 billion/year (FYs 2013-2021)

Split equally: defense/non-defense;
Divided proportionally: mandatory/discretionary

Sequestration reduces annual spending caps

Exempts some spending (OCO, disaster relief, emergency spending, program integrity)

Congress increased caps in FYs 2014-2017

Non-exempt mandatory programs subject to ATB rescission through FY 2025
Key features of reconciliation

- Simple majority in Senate
- Directives included in budget resolution
- Every provision must affect revenue or spending
- Can’t raise deficit outside specified window
- Can be used only once per year for its three functions (outlays, revenues, debt limit)
- Previously used to pass TANF, CHIP, tax reform, portions of ACA, and Medicaid reforms
FY 2017 budget

- Passed 7 months into fiscal year
- Adhered to caps
- Largely benign for S/L grants
- TANF extended for 2 years
- Rejected president’s supplemental

- House-passed bill: most savings from Medicaid
- Senate negotiations on-going, few details
- Prospects uncertain
## Elements of House bill

| Medicaid Financing | • Per capita caps  
|                   | • Block grant option |
| ACA Medicaid Expansion | • Prohibits new states from receiving enhanced match rate  
|                    | • Halts phase-up of higher match rate for pre-ACA expansion states  
|                    | • Repeals enhanced match rate, except grandfathered enrollees |
| New Funding Streams | • Safety net funding for non-expansion states  
|                     | • Patient and State Stability Fund  
|                     | • Federal Invisible Risk Sharing Program |
| Other Changes | • Eliminates Prevention and Public Health Fund  
|               | • Repeals Medicaid DSH cuts  
|              | • State waivers  
|            | • Medicaid work requirements option |
How the cap works

Per capita cap for 65+ * enrollees = base allocation

Per capita cap for disabled * enrollees = base allocation

Per capita cap for children <19 * enrollees = base allocation

Per capita cap for expansion * enrollees = base allocation

Per capita cap for others * enrollees = base allocation

Sum of each = aggregate cap. It is recalculated each year, adjusting the per capita cap for each group (based on FY 2016 spending) to reflect growth rate and enrollment. States draw down funds (up to aggregate cap) based on FMAP.
Per capita cap considerations:

✓ Federal savings increase over time
✓ Impacts depend on growth rate
✓ Wide variation among states
✓ Locks in funding based on earlier state choice
✓ Penalizes states with most efficient programs
✓ No additional support for unanticipated costs or shifts in demographics
FY 2018 budget process

**BCA Changes**
- President would:
  - eliminate BCA defense sequestration
  - reduce non-defense cap by -10% in FY 2018, -2% per year through FY 2027

**Appropriations**
- Congress proceeding w/o top-line spending levels
- Real progress depends on those levels
- Already talk of CR/omnibus/shutdown

**Reconciliation**
- Tax reform
- Infrastructure
- Mandatory programs
<table>
<thead>
<tr>
<th>FY 2018 president’s budget</th>
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<tbody>
<tr>
<td>Modifies BCA</td>
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<tr>
<td>Eliminates scores of programs</td>
</tr>
<tr>
<td>Reduces funding</td>
</tr>
<tr>
<td>Targeted increases</td>
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<tr>
<td>A few new programs</td>
</tr>
<tr>
<td>Lots of restructuring</td>
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</table>
Non-defense cap

- FY 2018: PB 462, Current Law 516
- FY 2017: PB 504, Current Law 519

Dollars in Billions

PB  Current Law
Defense cap

FY 2017:
- PB: 551
- Current Law: 576

FY 2018:
- PB: 549
- Current Law: 603

Dollars in Billions

- PB
- Current Law
Scores of eliminations

<table>
<thead>
<tr>
<th>LIHEAP</th>
<th>CDBG</th>
<th>Teacher Quality</th>
<th>SSBG</th>
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<tbody>
<tr>
<td>21st Century</td>
<td>HOME</td>
<td>CSBG</td>
<td>TANF Contingency</td>
</tr>
<tr>
<td>TIGER Grants</td>
<td>Student Support Block Grant</td>
<td>Senior Community Service</td>
<td>Preschool Development</td>
</tr>
<tr>
<td>Weatherization Assistance</td>
<td>Pollution Control</td>
<td>Supp. Ed. Opportunity</td>
<td>SCAAP</td>
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Other budget features

<table>
<thead>
<tr>
<th>Reductions</th>
<th>Increases</th>
<th>New</th>
<th>Restructuring</th>
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<tbody>
<tr>
<td>• Workforce</td>
<td>• Charter schools</td>
<td>• America’s Healthy States BG (CDC)</td>
<td>• Hospital preparedness</td>
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<tr>
<td>• Public health</td>
<td>• Private school choice evaluation</td>
<td>• Emergency response fund</td>
<td>• Public health emergency preparedness</td>
</tr>
<tr>
<td>• Health workforce</td>
<td>• Healthy Start</td>
<td>• Public school choice (FOCUS)</td>
<td>• FEMA match rate (25%)</td>
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<tr>
<td>• EPA</td>
<td></td>
<td>• Paid family leave/RESEA</td>
<td>• LWCF/GOMESA</td>
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<tr>
<td>• Capital Investment Grants</td>
<td></td>
<td>• Safe Neighborhoods BG</td>
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<tr>
<td>• Career and adult ed</td>
<td></td>
<td></td>
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<tr>
<td>• Public housing</td>
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Mandatory proposals

<table>
<thead>
<tr>
<th>Cut TANF, eliminate contingency fund</th>
<th>Eliminate CHIP match increase</th>
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<tr>
<td>SNAP match, work requirements</td>
<td>Eliminate SSBG</td>
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<tr>
<td>Student loan consolidations</td>
<td>Large unspecified Medicaid cuts</td>
</tr>
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FY 2018 Reconciliation

**Tax Reform**
- Deficit neutral?
- One package or smaller bills?
- Tax expenditures: implications for tax-exempt bonds, S&L tax deduction

**Infrastructure**
- Public-private partnerships preferred tool
- Reduce review, permitting time
- Prevent S&L governments from reducing investments

**Other Mandatory**
- TANF
- SNAP
- Others?
## Upcoming expirations

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 2017 Funding (in millions)</th>
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<tr>
<td><strong>September 30:</strong></td>
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<tr>
<td>Children's Health Insurance Program</td>
<td>15,952</td>
</tr>
<tr>
<td>Community Health Centers (mandatory funding)</td>
<td>3,528</td>
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<tr>
<td>Airport Improvement Program</td>
<td>3,350</td>
</tr>
<tr>
<td>Maternal, Infant, and Early Childhood Home Visiting</td>
<td>372</td>
</tr>
<tr>
<td>Health Profession Opportunity Grants</td>
<td>79</td>
</tr>
<tr>
<td>Personal Responsibility Education Program</td>
<td>70</td>
</tr>
<tr>
<td>Abstinence Education</td>
<td>70</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$23,421</strong></td>
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Reiterating the risks

Budget Control Act
• Absent agreement, BCA is law
  – slight reductions to defense, non-defense
• With agreement, increases in both

Reconciliation
• Medicaid, other mandatory programs in play
• No bipartisan support needed, but a tough sell

Debt Ceiling
• An “action forcing event”
• Spending cuts? BCA changes? Timing? Chaos?
FFIS resources

- FY 2017 omnibus: *Budget Brief 17-08*
- FY 2018 budget: *The VIP Series, Volume 17 Number 2*
- FY 2018 budget: *Budget Brief 17-09*
- Budget timelines and deadlines: *Budget Brief 17-02*
- BCA: *Budget Brief 16-09*
- Reconciliation process: *Budget Brief 17-01*
- House health care bill: *Issue Brief 17-10*
- FFIS’s crystal ball: *Budget Brief 16-11*
Questions?

• Check for updates:
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  – ttomsic@ffis.org
  – 202-624-8577