

## **How the 2006 Federal Budget Agreement Matters to Washington State: Impact on Low and Moderate Income Washingtonians**

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### ***Introduction***

The federal budget reconciliation bill was signed into law by the President on February 8, 2006. The new law includes policy changes and funding cuts to health care, student loans, child care, welfare, housing, and many other critical public benefit programs. Every resident of Washington State benefits from these programs through revitalized neighborhoods, healthy well-educated children, and employees with the skills to perform on the job. The policy changes and reduced funding could jeopardize the ability of Washington State to continue its current commitment to these services. This paper outlines the impact of the 2006 federal budget agreement on low and moderate income Washingtonians.

#### **Major provisions of the budget agreement include:**

- **Medicaid - Over 22 billion dollars cut over ten years nationally– affecting over a million Washingtonians**
- **Temporary Assistance to Needy Families (TANF) – Washington State could face penalties of tens of millions in reduced federal funds if the state does not meet increased work requirements**
- **Child Care – Inadequate child care funding will cover less than 20 percent of costs added by new TANF requirements**
- **Child Support Enforcement – Over five years Washington State will lose \$48.5 million in federal funds, and \$85.9 million in uncollected child support payments**
- **Child Welfare – Up to a \$112 million cut to Washington over five years**
- **Supplemental Security Insurance (SSI) - Budget gimmick will prevent beneficiaries from receiving timely disability payments**
- **Student Loans – Higher federally fixed interest rates increase costs of higher education to students and reduce access**

## Medicaid

Medicaid is the largest health care program in Washington State, providing care to nearly one million state residents. The majority of beneficiaries earn less than \$35,000 a year and 75 percent are working. Medicaid also provides coverage for one in three Washington children. Medicaid is a cost-effective program providing continuous care for individuals who might otherwise require higher cost emergency room visits. Most of the savings in the budget agreement come from measures that shift costs to beneficiaries.<sup>1</sup>

The changes to Medicaid could significantly impact the ability to provide for access to healthcare. Changes include:

- **Steep increases in co-payments and premiums** that directly shift costs to beneficiaries. (Currently states can implement a three dollar co-payment for adults, other than pregnant women, for each appointment; Washington State does not currently do so).
- **Providers would be allowed to deny services when individuals cannot afford the co-payment** potentially leading to increases in uncompensated emergency room care. Currently, individuals remain financially responsible for the payment but cannot be denied services.
- **Fewer health care services covered by Medicaid.** Washington will be allowed to reduce health care services currently provided under Medicaid for parents at any income level as well as for children over six and above 100 percent Federal Poverty Line (FPL) and children under six above 133 percent of FPL.
- **Requirements to verify U.S. citizenship will affect an estimated 1,085,000 Washington residents** imposing new barriers to new Medicaid applicants and current participants.<sup>2</sup> Because enrollees cannot be required to pay to apply for services, obtaining these documents will be an added cost to the state in addition to administrative resources necessary to verify eligibility. Individuals without these documents can be denied coverage or experience a delay in needed services.

Fully implementing these cost sharing measures will result in low-income Washington families bearing up to 30 percent of Medicaid cost “savings” over five years.<sup>3</sup> Raising costs and administrative barriers can lead to a reduction in the number of eligible individuals receiving health care. For example, when Washington State added new Medicaid administrative requirements in 2003, enrollment decreased by 20,000 individuals over an eight month period.<sup>4</sup>

## Temporary Assistance for Needy Families

The Temporary Assistance for Needy Families (TANF) program provides services along with work activities and education programs for low-income families including, but not limited to, those receiving cash assistance. WorkFirst, Washington's welfare program emphasizes moving parents from welfare to work. Over time, as fewer families have remained on the caseload, TANF funds have been dedicated to providing services such as child care to insure parents can keep their jobs.

The federal funding bill makes the most significant policy changes to TANF since its creation in 1996. They include:

- Thousands of additional families will be required to participate in qualified work activities because of substantial increases in the work participation rate that Washington State must meet in the WorkFirst program.
- New federal rules for WorkFirst that will increase the operation costs for the state, and may create additional barriers for families struggling to maintain necessary assistance.
- Declining real dollars for TANF. Federal funding has been flat since the WorkFirst program started in 1997.
- Washington will only receive an additional four million dollars per year in child care funding – an amount that is inadequate to cover the additional families needing child care.

## Child Support Enforcement

The 2006 budget cuts to child support enforcement funds will have serious consequences for children. Funding for child support enforcement insures non-custodial parents fulfill their financial obligation to their children. Federal enforcement funds have helped states double the amount of child support collected. Child support significantly improves resources to children providing an average of 15 percent of total family income for families with incomes between \$16,000 and \$35,000 (for a family of three).<sup>5</sup> The Congressional Budget Office estimates that cuts to federal enforcement funds will result in \$8.4 billion dollars worth of uncollected child support nationally, more money lost to children than the government will save.<sup>6</sup>

Under the 2006 cuts, Washington State will lose \$48.5 million in federal enforcement funds over five years.<sup>7</sup> Reduced federal enforcement funds will translate to \$85.9 million dollars of uncollected child support statewide that would otherwise go to low and moderate income parents to help insure the basic needs of children are met.<sup>8</sup> The Urban Institute found that the child support program more than pays for itself in reduced caseloads in TANF, Medicaid, food stamps, and other needs-based programs. This cut could lead to direct increases in those programs by families seeking necessary assistance.

## Supplemental Security Income (SSI)

SSI payments provide income to individuals certified as permanently disabled and unable to work. In 2004 112,000 individuals in Washington State received SSI payments because of their disability.<sup>9</sup> Currently the approval process can take many months. Once approved individuals receive a lump sum payment which includes back payments for delays in the approval process.

The recent changes “save” federal dollars by delaying back payments from one fiscal year to the next. As a result of the federal budget bill, payments which would have been disbursed in a lump sum can instead be provided over the course of a year. As a primary source of income, delaying these payments could have serious consequences

for eligible individuals with disabilities while saving very little.<sup>10</sup>

## Child Welfare

Funding for foster care and other child welfare services help protect children from abuse and neglect. Services typically emphasize efforts, when possible, to place children with relatives to maintain family connections. The policy implications of the changes in the budget bill include:

- Reduced funds for abused and neglected children. Some children placed with low-income relatives will no longer be eligible for federal foster care funds. Federal case management funds for children who are placed with unlicensed relatives will be curtailed. Medicaid services to foster children will be cut significantly – the State estimates that it will lose between \$10 and \$12 million annually.
- Fewer foster children may be placed in relative care because fewer funds will be available to support these children and manage their cases.
- Other limited funds for vulnerable populations will be affected. The state will need to fill gaps in funding, possibly through WorkFirst child-only grants which are smaller amounts than the foster care payments. This could increase the pressure on WorkFirst that currently has a \$100 million dollar shortfall.

## Student Loans

The federal budget raised the interest rate on student loans from a current variable rate of 5.3 percent to a fixed rate of 6.8 percent. The federal “savings” accrue from the increased payments of students to lenders recaptured by the federal treasury.

This change will impact students seeking post-secondary education in Washington. Tuition has risen dramatically over the last few years. Federal need based loans make up 49 percent of the total financial aid available to students in Washington.<sup>11</sup> The Higher Education Coordinating Board estimates an additional \$200 million dollars in aid, the majority of which is loans, goes to students who

needed financial assistance but did not qualify for need based aid. Currently, average loan payments already comprise 10 percent of a graduate's income once he or she enters the workforce.<sup>12</sup> The increase in the interest rate on loans reduces the affordability of and access to post-secondary education.

### **One Percent Cut to all Domestic Discretionary Programs**

In addition to the numerous cuts and changes to the programs already described, the budget bill includes a one percent cut to all domestic discretionary programs. Combined these cuts equal a reduction of nearly \$40 million federal dollars to Washington State. Selected cuts are estimated to include:<sup>13</sup>

- **\$19.9 million in elementary and secondary education** funds for disadvantaged and special education students and other school improvement programs.
- **\$811,000 in vocational and adult education** such as basic education, English as a Second Language and vocational programs for high school students.
- **\$5.1 million in children and family services** the bulk of which includes HeadStart funds. At current funding levels HeadStart and the state funded program serve only half of eligible children.<sup>14</sup> This reduction could mean 300 fewer HeadStart eligible children able to participate in the program.
- **\$230,000 in child care**<sup>15</sup> funds in addition to the inadequate mandatory funding described above further squeezing access to affordable child care.
- **1,800 fewer housing vouchers** available to low income families.
- **\$444,000 in Ryan White HIV/AIDS** funding (Titles I and II) which provide testing, counseling, and health care and medication for low income Americans diagnosed with HIV/AIDS .
- **\$607,000 Maternal and child health care** core formula grant for services including prenatal care, preventative health services for children and rehabilitation services for children with special needs.

- **\$8.4 million in the Community Development Block Grant funds** for services including job training, economic development initiatives such as neighborhood revitalization in low income neighborhoods, infrastructure development and improvement, and building rehabilitation to increase the stock of affordable housing.
- **\$4.3 million in EPA water quality funds** to improve clean water and drinking water.

### **Conclusion**

While the federal budget agreement does little address to the federal deficit it will cause a great deal of harm to the significant number of people affected by the funding reductions and policy changes. Providing affordable health care, child care, and housing and supporting education and job training should be priorities for state and federal spending. They are investments that pay out to the public as well as individual beneficiaries. As Washington State policymakers begin to deal with these in federal changes, they will need to weigh the importance of making additional state investments to continue the work of these key programs that impact the lives of low and moderate income Washingtonians.

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Endnotes:

<sup>1</sup> Park, Edwin. New Congressional Budget Office Estimates Indicate Millions of Low-Income Beneficiaries Would e Harmed by Medicaid Provision in the Budget Bill. Center on Budget and Policy Priorities. January 29, 2006, pg. 5.

<sup>2</sup>Broaddus, Matt and Leighton Ku. New Requirements for Birth Certificates or Passports Could Threaten Medicaid Coverage for Vulnerable Beneficiaries: A State by State Analysis. Center on Budget and Policy Priorities. January 5, 2006.

<sup>7</sup>Based on Center on Budget and Policy projections in which increases in co-sharing would account for about 3.2 billion of the 11 billion or 30% of savings over five years.

<sup>4</sup> Gardner, Mark, Terry Lew and Patricia Lichiello. The Cost of Enrollment Instability in Washington State's Medicaid Program. Health Policy Analysis Program. March 5 ,2004., pg. 4.

<sup>5</sup> How Cuts in Vital Services Now Before the House Will Hurt Washington State. Coalition on Human Needs. January 30, 2006.

<sup>6</sup> Turetsky, Vicki. Cuts to Child Support Enforcement in Budget Bill Will Cost Families \$8.4 Billion or More in Uncollected Child Support. Center for Law and Social Policy. January 18, 2006.

<sup>7</sup> Ibid

<sup>8</sup> Ibid

<sup>9</sup> How Cuts in Vital Services Now Before the House Will Hurt Washington State. Coalition on Human Needs. January 30, 2006.

<sup>10</sup> Greenstein, Robert and Sharon Parrott and Edwin Park. Assessing the Effects of the Conference Agreement on Low Income Families and Individuals. The Center on Budget and Policy Priorities. January 9, 2006.

<sup>11</sup> Key Facts about Higher Education. Higher Education Coordinating Board. January 2006

<sup>12</sup> How Cuts in Vital Services Now Before the House Will Hurt Washington State

<sup>13</sup> Sherman, Arloc and Richard Kogan. What do Across the Board Cuts Mean for Domestic Appropriations. The Center on Budget and Policy Priorities. January 6, 2006.

<sup>14</sup> Turning Promise into Practice: A Quality Education for Every Washington Student. League of Education Voters. January 2006.

<sup>15</sup> Based on assumptions provided by the Washington State Department of Social and Health Services. The Center on Budget and Policy Priorities estimated a loss of over one million dollars in discretionary child care funds.