

August 15, 2011

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Budget Control Act of 2011

Bringing months of negotiations to an end, on August 2nd President Obama signed the Budget Control Act of 2011 (S. 365) into law. The bill passed the US Senate by a vote of 74-26 and the US House of Representatives by a vote of 269-161. The Act allowed the federal government to avoid default by raising the debt limit to \$2.1 trillion through FY 2013. In exchange for an increase in the debt ceiling, the plan also includes up to \$2.5 trillion in immediate and future cuts to defense and non-defense programs through FY 2021. While entitlement programs like Medicaid, CHIP, Medicare, Social Security and the Supplemental Nutrition Assistance Program are spared from immediate cuts, the future of these programs remains uncertain.

Overview of the Budget Control Act

- Allows the President to raise the debt ceiling by at least \$2.1 trillion through 2013 in two stages.
- Caps **discretionary** funding over the next 10 years starting in FY 2012 to generate an estimated \$900 billion in savings.
- Creates a **Joint Select Committee on Deficit Reduction** consisting of 12 members appointed by House and Senate Democratic and GOP leadership, which have already been announced.
 - By *November 23, 2011* the Joint Committee must identify and recommend to the President and Congress an additional \$1.2 - \$1.5 trillion in deficit reduction to be made **over the next 10 years**, which may include revenue as well as program cuts.
 - By *December 23, 2011* Congress must vote on the Joint Committee's proposal.
- Includes a **sequester** (automatic across-the-board cuts) that takes effect *January 2, 2013* if either the committee fails to produce a proposal worth at least \$1.2 trillion in deficit reduction, the plan is not

passed by Congress, or the plan is vetoed by the President and the veto stands.

- Sequester will either be the full amount or any difference between what is passed and \$1.2 trillion. It also will be split equally between defense and domestic spending, but exempt Medicaid, CHIP, Social Security, unemployment insurance, low-income programs, and civilian and military retirement. Medicare is exempt except for provider payments which may be cut by up to 2%.
- Requires a vote on a **Balanced Budget Constitutional Amendment (BBA)** (see Health Matters June 2010 at www.chc-inc.org/health-matters), which if passed would allow the debt ceiling to increase to \$2.4 trillion. The amendment must be passed with a 2/3rds majority in both chambers and must then be ratified by 3/4ths of state legislatures (38 of 50 states) for it to take effect. A BBA vote must happen by *December 31, 2011*.

Public Programs at Risk

No matter how you slice it, the Budget Control Act paints a frightening picture for the future of public programs in California and nationally. Given that approximately one-third of all state budgets rely on federal funding for critical services, any spending or funding caps at the federal level would drive state budgets deeper into the red.

Discretionary Spending Caps & Domestic Programs

Discretionary spending accounts for 40% of the federal budget. More than half of discretionary funding goes to defense spending with the remaining going to programs like education, workforce training, affordable housing, healthcare services, and environmental programs and services. The spending cap for FY 2012 is 4% lower than the current FY 2011 spending. This will result in a \$44 billion reduction in 2012 discretionary spending. Moreover, cuts required by the caps will grow larger in subsequent years up to 9% in FY 2021 regardless of inflation or increased demand for programs and services. Programs that could be subject to cuts include:

- Affordable housing programs including Section 8, public housing, homeless assistance, or Community Development Block Grant programs

- Health and social services like the WIC nutrition assistance program, family planning services, the Head Start program and public health programs such as Ryan White CARE programs
- Highway and public transportation projects
- Federal agencies such as the Food and Drug Administration, the National Institutes of Health, and the National Parks Service
- Local K-12 public schools that may be forced to operate with fewer funds.

Entitlement Programs

Entitlement programs (i.e. Medicaid and Medicare) are exempt from the discretionary spending caps and any sequester (except for Medicare Provider Rates). However, nothing in the law bars the Joint Select Committee from instituting cuts to these programs as part of their deficit reduction proposal to Congress.

Impact on ACA Implementation

Funding for key provisions of the Affordable Care Act could be slashed if a sequester were enacted. The federal government could be forced to cut cost-sharing subsidies for patients, funds for prevention programs and community health centers, grants to states for insurance exchange implementation, funds for temporary high-risk pools for pre-existing conditions, and grants to improve maternal and child health.

Balanced Approach Is Essential

The Joint Select Committee will be required to identify \$1.2 trillion in additional reductions. In order to improve our short- and long-term financial future and restore equity to our tax code, committee members must take a balanced approach to deficit reduction. President Obama has indicated he would like the committee to balance program cuts with equal increases in revenue. A proposal without revenue solutions (see www.americanprogress.org/issues/2011/08/pdf/debt_deal_choices.pdf) unfairly supports corporations and the wealthiest at the expense of America's working families and low-income communities. To bring down the deficit the federal government could adopt well-accepted policy changes that reduce the "tax entitlements" such as:

- Eliminating outdated tax expenditures for corporations and individuals
- Letting the Bush Tax Cuts expire for individuals earning more than \$250,000.

What's Next?

Decisions made in the next few months will have a profound and lasting effect on critical programs for years to come. Congress will be on recess through September 6th. As the Joint Committee begins to meet, it will be the work of advocates to ensure the voices of low-income families, children, seniors, individuals with disabilities, and communities of color are heard. Visit, call or send an email to your congressional members and Joint Committee members urging them to Protect Medicaid (go to www.chc-inc.org/action-alerts for an electronic email) and take a balanced approach that includes revenue solutions.

Key Dates & Activities

2011

Aug. 16th Joint Select Committee members announced.

Sept. 16th Joint Committee must hold its first meeting (not required to be public).

Oct. 14th House & Senate Committees may submit recommendations to the Joint Committee for deficit reduction.

Nov. 23rd Joint Committee members must vote on a report for \$1.2 - \$1.5 trillion in deficit reduction.

Dec. 2nd Joint Committee must submit approved report to the President & Congress.

Dec. 9th Congressional committees must report out the Joint Committee's bill w/ any recommendations, but no amendments.

Dec. 23rd Congress must vote up or down without amendment on the Joint Committee's report.

By Dec. 31st House & Senate must vote on a Balanced Budget Constitutional Amendment.

2012

Discretionary spending caps for FY 12-FY 21 take effect. Programs such as education, low-income housing assistance, national parks, the EPA, and others may be impacted. Entitlement programs are exempt.

Early 2012 President can raise debt ceiling by \$1.2 trillion, subject to a vote of disapproval that can be vetoed. If BBA is passed, debt limit can be raised by \$1.5 trillion.

Jan. 15th Congress must approve deficit reduction plan of at least \$1.2 trillion or automatic across the board cuts take place in Jan 2013. Cuts will be divided 50/50 in defense & non-defense programs (\$109 billion/yr).

2013-2021

Jan. 2nd If Congress has not adopted the \$1.2 trillion in deficit reduction, sequester takes effect.

**FOR MORE INFORMATION ... CONTACT
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