



# Capitol Watch for Children

**An update on state and federal policies  
affecting Pennsylvania's children**

## **Rendell Proposed Budget in Challenging Fiscal Times**

Governor Rendell presented his fiscal year 2005-06, \$52.5 billion state/federal operating budget, to the General Assembly on February 9th. The Governor proposed an increase in state spending of \$815 million. However, the \$815 million increase in state funding doesn't fully paint the picture. A large share (\$378 million) of the increase in state spending was included in the budget to offset a reduction in federal financial support. The budget also included over \$400 million in expenditure reductions – mostly from government operations. The real net increase in the state budget is 1.9% or a rate that is less than inflation.

Unlike the federal government, the state must live within a balanced budget. Stressors on the budget came in the most part from escalating health care costs in the Medicaid program. Increases in enrollment and the high costs of prescription drugs and long term care fueled the funding demands. To further exacerbate the problem, the state was faced with the loss of funding from the federal government. Over the past few years we have enjoyed strong federal financial support in a number of ways including: one-time federal fiscal relief, surpluses in the Temporary Assistance for Needy Families (TANF) block grant, and resources from the intergovernmental transfer. All these sources of funding

have dried up or will dry up in the very near future.

While it is a commonly known fact that state revenue collections are improving and the state has been successful in getting approval for some federal Medicaid waivers that will provide additional support – the bottom line remained too small to fully fund all the current initiatives of state government and extend greater support for many important priorities. Tough decisions were clearly on the table for consideration by the Administration.

The \$815 million in state General Fund spending is slated to primarily go to the Department of Public Welfare (DPW) to address rising Medicaid costs and the elimination of federal TANF dollars from Child Welfare, along with some small increases in Education. At the same time the Governor proposed cuts to services in the Medicaid program and continued lessening the cost of general government operations. Most TANF program funding outside of DPW was eliminated and the TANF child welfare line item decreased by \$227 million.

Another key element of the Governor's proposal included a new initiative: Job Ready PA that included \$101 million to boost economic development and expand opportunity. Highlights included a 10% increase in funding for community colleges; \$10 million in PHEAA grants for

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Published by Pennsylvania Partnerships for Children, a strong, effective, and trusted voice to improve the the health, education, and well-being of the Commonwealth's children. Joan L. Benso, President and CEO. 1-800-257-2030; [www.papartnerships.org](http://www.papartnerships.org).

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working adults trying to obtain credentials in high priority occupations; and, enhanced usage of Area Vocational Technical Schools which will be providing education that will provide young people with industry standard credentials helping them effectively transition to the workplace.

### For children, highlights include:

#### Education, pre-K through grade 12

- 2.5% increases for basic and special education.
- \$30 million for Head Start, a proposed doubling of funding from the current \$15 million appropriation. The additional \$15 million is estimated to serve an additional 2,500 children.
- Level funding for the Education Accountability Block Grant (EABG) at \$200 million. The grants provide school districts' choice of education enhancements including prekindergarten, full-day kindergarten, small class sizes, tutoring or other initiatives designed to improve student achievement. Currently, school districts are using \$2 out of every \$3 of the EABG for early childhood education.
- \$85 million for tutoring, an increase of \$38 million. The increase in funding is targeted for school districts in which one or more of their schools has failed to meet at least one academic performance target.

#### Child care

- A total increase of \$33 million in state and federal funding for child care, including \$24 million in new state child care funding for quality and slots. Total state and federal child care funding proposed at over \$565 million. \$523 million is available for subsidy and \$42 million is available to improve quality. New funding would be utilized to expand access for subsidy by 1,000 slots; continue support for Keystone Stars and TEACH; and improve pay-

ment levels for services to vulnerable children. The proposal also calls for a realignment of training, technical assistance and professional development resources through the "PA Keys to Quality" initiative.

#### Medicaid and CHIP

- No cuts were proposed in Medicaid eligibility. However, cuts in services are proposed through caps on the number of visits or services for adults and increased co-payments for services. Limits would apply to the following services: prescriptions, inpatient hospital, outpatient visits, behavioral health inpatient and outpatient hospitalization, and ambulance. Exceptions would apply to pregnant women. Other exceptions are expected but have yet to be detailed. Co-payments would apply for prescription drugs and Medicaid transportation.
- For non-poor families (incomes over \$40,000 per year) with a child or children with severe disabilities (loophole children), a new sliding scale premium is proposed to cost share.
- Total increase in state Medicaid funding of \$285 million. Funding increases will pay for rising health care costs and an expected enrollment increase of nearly 100,000 recipients next fiscal year.
- Overall, CHIP funding including administration decreases by about one percent. However, funds continue to be appropriated to serve all children enrolled in the CHIP program, projected to be over 145,000 in 2005-06.

#### Family support

- Nurse Family Partnerships is slated to move from the Pennsylvania Commission on Crime and Delinquency into DPW's Office of Child Development. State budget support for NFP was slated to be reduced by 25% this year according to original program design. The Governor's Budget documents include

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\$2.959 million in support for NFP, a funding level lower than anticipated. PPC has learned that the Governor's plan is to fund NFP at \$3.827 million (the expected appropriation level) and includes additional funds requested through the county Needs Based Budget in the amount of \$5.927 million. County NBB includes \$3.786 million in the current fiscal year for NFP. With more details yet to be sorted out, it appears that NFP will have \$9.754 million in available funding next fiscal year or an increase of \$886,000.

- Family centers remain level funded at just over \$10 million.
- Parent Child Home Program level funded at over \$3 million.

### Other Programs

- 11% increase for state Early Intervention funding for children ages birth to three, to nearly \$90 million. Early Intervention funding for children ages three to five increases by 5% to \$123.5 million.

- Child Welfare funding will see a transition in reliance on TANF funds to state funds along with a "TANF Transition" line item of \$45 million.
- Mental Retardation Service receives increased funding allowing for a 42% reduction in the waiting list.
- A 2% increase for direct care workers in mental health, mental retardation, drug and alcohol and Office of Social Program waiver providers was also included.

The Administration used the message of "shared sacrifice" to present their budget. Careful budget students realize that the 2005-06 budget is just a warning signal for what is likely to come in 2006-07 when additional federal financial support is slated to expire.

The legislature now begins consideration of the Governor's budget proposal through the appropriation hearing process. Now is an important time to remind your local legislators that supporting funds for children and families should be a top priority.

## President Outlines 2006 Plan

President Bush introduced his federal fiscal year (FFY) 2006 budget on February 7. The \$2.6 trillion dollar budget shows an overall increase in spending of about \$125 billion or 5% from the current year. The Departments of Defense and Homeland Security would receive relatively healthy increases in funding while many domestic non-defense discretionary programs would be cut, including programs in human services and education. 150 programs are targeted for large funding decreases or elimination in 2006. Funding cuts are targeted to discretionary programs that make up a smaller percentage of the overall federal budget. Such cuts include cuts in education, local law enforcement, community development, etc.



## Washington Update

While the President's proposal lacks many specifics, broad implications include: likely cuts in some entitlement programs such as Medicaid and Food Stamps, cuts in grants in aid to states, making permanent the tax cuts from 2001 and 2003 and including additional tax cuts, and no deficit reduction. The federal deficit, which is estimated at \$368 billion for the current year (not including supplemental appropriations for the war in Iraq), would not decrease relative to the baseline after five years under the proposed budget according to the Administration's documents.

For the first time since 1989, the federal budget does not include program specific funding levels beyond the budget year. This

## President Outlines 2006 Plan

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means that while overall areas of funding can be determined, funding in any one program is not available beyond 2006. Therefore, some programs that receive funding increases in 2006 may actually be slated for reductions in funding over the next several years. For example, Medicaid is shown to increase in funding by a few billion dollars in 2006. However, this budget also calls for a \$45 billion reduction in federal Medicaid funding over the next ten years. These cuts are likely to come from a tightening of how states finance their state share of Medicaid and changes to policies regarding funding nursing homes (both situations that Pennsylvania should be very concerned with) or with a Medicaid modernization proposal. Specifics on the Medicaid proposals are fuzzy and without details, it is hard to say exactly what the outcome will be.

Federal funding makes up one third of total Pennsylvania expenditures. The loss of federal funds is something Governor Rendell had to grapple with in developing his FY 2005-06 budget proposal. Looking to the future, the amount of funding Pennsylvania may receive could get smaller under the President's budget. In 2006, Pennsylvania could lose an estimated \$455 million in federal grants in aid (other than Medicaid) if funding remains currently distributed and cut by the magnitude the President proposes. Pennsylvania has also received approval for Medicaid assessments in some health care facilities. These assessments are targeted for elimination, according to the new Secretary of the Department of Health and Human Services. MA assessments will bring about \$700 million into the PA coffers next fiscal year. Less funding or even level funding, due to inflation and program cost increases over time, would mean fewer services provided or less children and families served. While the early indications are clearly worrisome, more details are needed to understand the full impact of the

President's proposals.

### Some proposed FFY 2006 funding specifics include:

#### Department of Education

- Title I: Education for the Disadvantaged grants to local educational agencies, \$13.3 billion, 4.7% increase
- IDEA state grants, \$11.9 billion, 4.5% increase. However, funds used to support early intervention through IDEA were level funded.
- Even Start – currently \$225 million, eliminated
- Reading First (\$1 billion) and 21st Century Community Learning Centers (\$1 billion), level funded
- Adult Education state grants, \$.2 billion, 65% decrease
- Educational Technology state grants, Drug-Free Schools state grants, Vocational Education state grants, and Even Start, funding eliminated

#### Health and Human Services

- Head Start, \$6.8 billion is frozen. An additional \$45 million is proposed for a 9 state pilot program that would promote better coordination of state pre-k programs, child care and Head Start into a comprehensive system.
- Maternal and Child Health Block Grant (\$724 million), Child Care and Development Block Grant (CCDBG) discretionary (\$2.1 billion), Social Services Block Grant (\$1.7 billion), CCDBG mandatory (\$2.7 billion), and TANF (\$16.9 billion), all level funded
- Community Services Block Grant, funding eliminated

**To be sure you are receiving updates on the state and federal budget, please register at our Action Center.**

<http://www.capwiz.com/papartnerships/mlm/>

## US Senate Action on TANF and Child Care Slated for March

Word from savvy child advocate and PA Welfare Coalition coordinator, Cathleen Palm, is that it looks like Congress will take on another TANF extension in March. The current TANF extension will expire on March 31st. Congress begins a two week district work period on March 18th indicating any action that will take place on a TANF extension is likely to occur prior to members leaving Washington. Senators from both sides of the aisle have been hard at work hammering out the details of a bi-partisan compromise and it appears that they are making good headway. The latest information is that TANF will receive a six-month extension with no strings attached in mid March.

Some good news seems to be emerging on the child care front as part of TANF consideration. There is a preliminary indication that off-set funding has been identified to ensure that significant new child care dollars will flow to states (reports are that we're talking about approximately \$5 billion new dollars). This

preliminary report, while appearing positive, however also includes an indication that the child care dollars will materialize at the cost of another, yet unidentified by staff, low-income program. Not the kind of trade off advocates would like to see.

Consideration of a bipartisan TANF bill in the Senate Finance Committee seems likely on March 9th.

A group of Pennsylvania advocates will be making visits to key members of our congressional delegation in the coming days. Plan on hearing an update on necessary action in the weeks to come.

For more information on TANF reauthorization and its impact on related issues such as child care and housing, see a series of white papers posted on the PPC website at [www.papartnerships.org/capitolTANF05.asp](http://www.papartnerships.org/capitolTANF05.asp).

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## Federal Budget Needs Attention Now

The budget season has officially begun in Washington with the release of President Bush's budget proposal on February 7th. While the federal fiscal year (FFY) doesn't begin until October 1st, things are already heating up in Washington. Those of us who focus on state activity tend to put federal action on the back burner but this year has to be different. The activities that will take place in Congress over the coming six weeks will lay the foundation for the level of federal support to states not only for the coming fiscal year but for many years to come.

To further complicate things, the process that is used in Washington is different than what advocates are accustomed to in Harrisburg. The timelines and terminology aren't the same and most people understand

that the federal budget is almost never wrapped up in time for the new fiscal year. So what's the rush? Why worry? The Pennsylvania state budget gets 34% of its funding from the federal government each year. The stakes for us couldn't be higher.

The President released his budget proposal on February 7th and proposed a number of dramatic changes to many domestic programs. Congress is now holding hearings on the budget. In early March, both the House and Senate Budget Committees will establish their own budget blueprint called a "budget resolution". The budget resolution will set the maximum amounts for discretionary spending (spending that needs to be appropriated each year, such as education spending) and for entitlement or mandatory spending (spending

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## Federal Budget Needs Attention Now

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that is permanently authorized by law, such as social security and Medicaid spending). Once those amounts are set, appropriations must fit within that framework. By April 15, Congress should have agreed to one overall budget resolution.

A special procedure known as “reconciliation” may be used in conjunction with the budget resolution. If Congress uses the reconciliation procedure, a reconciliation directive, which mandates committees with jurisdiction over funding for targeted entitlement programs to write legislation that meets determined spending cuts over so many years and requires their inclusion in the budget resolution. Cuts spelled out through reconciliation must be met. The possibility of a reconciliation bill this year is quite real.

Congress is unlikely to be in full agreement with the President’s budget proposal. The budget resolution process leaves a great degree of discretion in the hands of Congress. Depending on their goals – the outcomes could be very problematic. For example, Congress may decide that they would like to achieve more deficit reduction and set out the spending parameters in the budget resolution that will achieve deficit reduction. In order to do so, they may consider cuts or spending caps on both entitlement and discretionary programs. An entitlement cap would impose an annual limit on the total amount of spending in a program such as Medicaid. That cap would become a permanent budget feature regardless of enrollment in the entitled pro-

gram, leaving states to make eligibility and/or benefits changes or pick up the tab.

Both Congress and the White House have said that they will not consider raising revenues. Therefore, deficit reduction is likely to occur only through spending caps or cuts.

The rest of the budget process is focused on the appropriations and ultimately the 13 appropriations bills that will need to be considered by Congress. This process will take place through the spring and summer – but the rules that Congress sets through the budget resolution process must be followed.

Now is the time for advocates to send messages to our members of Congress that stress the following:

1. Pennsylvania relies heavily on federal funding to balance our state budget.
2. Entitlement programs like Medicaid and Food Stamps are vital to the health and well-being of Pennsylvania’s children and families. Please do not support cuts to or caps on entitlements.
3. Domestic discretionary funding in education, child care, transportation and other services are vital to the economic health of Pennsylvania. Don’t allow them to be cut – now or in the coming years.

To contact Senator Specter, Senator Santorum and your member of the US House of Representatives go  
[http://www.capwiz.com/papartnerships/mail/oneclick\\_compose/?alertid=7020326](http://www.capwiz.com/papartnerships/mail/oneclick_compose/?alertid=7020326)

### LAST CALL FOR BUDGET BRIEFING CALL

**FEBRUARY 23, 2005  
9:00 AM TO 10:30 AM**

RSVP with your contact information to [asmith@papartnerships.org](mailto:asmith@papartnerships.org) and you will receive an email with the toll-free dial-in and conference call access code.