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BUSH ADMINISTRATION FY 2008 BUDGET REQUEST DEVASTATING TO DISABILITY COMMUNITY

President Bush unveiled his Fiscal Year 2008 budget proposal to Congress on February 5, 2007. The Bush Administration's \$2.9 trillion budget seeks large increases in military spending, anticipates continuation of tax cuts and squeezes human services spending. There would be a slight reduction in the federal deficit, from \$248 billion to \$244 billion, although the five-year budget projection anticipates a balanced budget three years (FY 2012) after President Bush leaves office. The Administration's budget proposal would make serious cuts in entitlement programs such as Medicaid and Medicare and essentially level fund most human services programs, while eliminating and consolidating some key programs.

Disability Policy Collaboration Staff Director Paul Marchand said, "I have carefully analyzed from the disability perspective every President's budget since the last one offered by President Nixon in 1973. The FY 2008 Administration budget is, by far, the most dangerous budget proposal that the disability community has ever faced. It is staggering in its attack on virtually all segments of the federal government's initiatives that allow millions of Americans with disabilities to survive and thrive in their communities."

One complicating factor in assessing the Administration's figures is that no FY 2007 appropriations bills exist for all non-defense and homeland security funding. The next article in this edition of Washington Watch reviews the FY 2007 appropriations status.

The FY 2008 budget proposal would cap all discretionary spending at \$929.8 billion, an increase of \$57 billion, almost all of which would be spent by the Pentagon. FY 2008 discretionary spending for non-defense/homeland security programs would be set at \$376 billion, which represents an approximate one percent increase over FY 2007 estimates. This is well below the rate of inflation so some reduction in services would be necessitated. One hundred and forty one federal programs would be eliminated or significantly cut, a reduction of \$12 billion. The Administration has yet to release the list of these programs.

What follows is a brief analysis of the FY 2008 Administration budget request for key federal disability programs. This is followed by a review of the immediate Congressional response and a snapshot of the anticipated calendar of events related to the Congressional budget process. The article concludes with a sense of how the DPC and the disability community will respond to this budget crisis.

Medicaid

The President's budget calls for legislative changes to the Medicaid program that would result in \$11.3 billion in savings over five years and calls for administrative changes (which would not need legislation) resulting in savings of \$12.7 billion over five years, for a total of \$24 billion in savings over five years. In addition, for the State Children's Health Insurance Program (SCHIP), the budget assumes a reauthorization of the SCHIP program with approximately \$5 billion in expenditures over five years.

In response to the budget, House Ways and Means Committee Chairman Charles B. Rangel (D-NY) was quoted as saying, "It is disingenuous for the President to suggest cuts to Medicare and Medicaid that he knows the Congress will not support. It's not going to happen."

In the Senate, Senator Max Baucus (D-MT), Chairman of the Finance Committee, noted "Medicaid plays a critical role in serving our country's most vulnerable citizens, and we must not undermine states' ability to fund services or exchange the safety net for a promise of coverage that may not materialize. To truly address Medicare and Medicaid's long-term fiscal health, we must recognize that the programs are not the main problem – spiraling health care costs are."

The President's legislative proposals for cutting Medicaid expenditures include, among other things:

- Changing the federal matching rate for targeted case management from the current match to each state to 50 percent for all states;
- Streamlining all federal administrative matching rates (which currently range from 50 to 90 percent) and aligning them at 50 percent;
- Adjusting pharmacy reimbursement and formulary restrictions.

The President's proposals also call for administrative changes which include, among other things:

- Capping payments to government providers to no more than the cost of furnishing services to Medicaid beneficiaries;
- Phasing out Medicaid reimbursement for some services, including transportation and administrative costs related to Medicaid services provided in schools to special education students;
- Defining allowable services that can be reimbursed as rehabilitation services (to restrict reimbursement for medical services); and

- Clarify provider tax policy and allowable Disproportionate Share Hospital (DSH) reimbursement.

State Children's Health Insurance Program (SCHIP)

The budget includes \$4.8 billion for the State Children's Health Insurance Program (SCHIP), although experts, including the Congressional Research Service, estimate that it will cost between \$12-15 billion to cover the 6.2 million children currently in the program. The Administration also proposes to restrict SCHIP eligibility to children in families (applied only to new children entering the program, not those already in it) with incomes less than 200 percent of the Federal Poverty Level (approximately \$38,000 for a family of four). Approximately 17 states have expanded SCHIP eligibility to include children in families with incomes up to 350 percent of the federal poverty level.

Medicare

The FY 2008 budget proposes to reduce Medicare spending by \$76 billion over five years. Most of the savings would come from reductions in payments to home health agencies, hospitals and nursing homes. In addition, the budget proposes to increase prescription drug premiums for higher income Medicare beneficiaries.

Housing

Overall, the President is requesting \$36.2 billion in funding for the Department of Housing and Urban Development (HUD) for FY 2008, nearly \$2 billion below the amount that Congress is soon expected to approve for the agency for Fiscal Year 2007 in the Continuing Resolution.

Section 811 Supportive Housing for Persons with Disabilities

Once again the Administration's budget seeks a deep cut for the Section 811 Supportive Housing for Persons with Disabilities program, the only federal program that produces affordable and accessible housing for low-income people with severe disabilities.

The President's budget would cut Section 811 nearly in half, dropping funding down to \$125 million from its expected FY 2007 level of \$237 million. Nearly all of this proposed reduction would come from the portion of the 811 program that produces new units of permanent supportive housing. The capital grants and project-based rental assistance is directed to non-profit disability groups that develop supportive housing for people with severe disabilities.

The President's FY 2008 budget proposes to direct most of the \$125 million in the Section 811 program to the renewal of existing rent subsidies (both tenant-based and project-based), with a small amount left to fund new capital advance/project-based grants and new tenant-based subsidies. The \$125 million would be allocated as follows:

- \$75 million would be directed to tenant-based renewals – to renew the existing 811 tenant-based vouchers now in use,
- \$20 million for project-based renewals (also known as PRACs) – renewing rent subsidies that are tied to 811 properties,
- \$15.8 million for new capital advance/project-based grants to non-profit disability groups, and

- \$15 million for a new demonstration program that would allow funding from the Low-Income Housing Tax Credit (LIHTC) program to be integrated into 811 housing developments.

This is the third consecutive year that the President's budget proposes to slash the capital advance/project-based side of the 811 program. Both the House and Senate rejected these proposals in FY 2005 and FY 2006. What makes this budget proposal different is the addition of the new demonstration initiative that marks an important step forward in the effort to reform Section 811 so that additional sources of capital can be used to supplement the production of additional units of supportive housing. Although The Arc and United Cerebral Palsy appreciate the need to leverage Section 811 funds with other sources of funding, we will vigilantly work to restore the deep cuts in this budget.

Section 8 voucher program

The President's budget is seeking \$16 billion for the Section 8 tenant-based rental voucher program for FY 2008. The Section 8 tenant-based rental assistance program funds vouchers that pay the difference between rental costs and a percentage of tenant income. There is no funding for new vouchers and \$113.5 million would be used to boost in administrative fees (funding for state and local agencies administering the program). The budget also requests \$5.8 billion in funding for the Section 8 project-based rental assistance program for FY 2008. The project-based program ties rental assistance to specific affordable units, as opposed to tenant-based vouchers that are assigned to individual tenants and are portable.

Education

The Administration budget proposal for the Department of Education represents a freeze over the current levels. The No Child Left Behind Act (NCLB) programs receive some increases while other departmental programs are cut or eliminated. In total, Department of Education discretionary funding would be \$56 billion, of which \$14.4 billion would fund the Individuals with Disabilities Education Act (IDEA), the Vocational Rehabilitation (VR) Act and the Assistive Technology Act. The NCLB would be boosted by \$1.2 billion, primarily to expand its reach into high schools. Another \$300 million would be available to allow students from failing public schools to obtain vouchers for private schooling and an additional \$500 million to impact on low performing schools.

Disability programs within the Office of Special Education and Rehabilitative Services (OSERS) would be cut by \$118 million. The President would level fund the IDEA State Grant at the Administration's projected FY 2007 level, although Congress is expected to increase this program in the FY 2007 Continuing Resolution. Thus, the Administration's IDEA State Grant request would actually be a cut, possibly as high as \$200 million. In other IDEA programs, the Administration would freeze the Preschool State Grant and the Part C Early Childhood program. The proposal would eliminate the \$51 million State Personnel Development program and cut the Technology and Media Services program by \$13.5 million, a 30 percent reduction.

Of the President's IDEA budget, the new Chairman of the House Education and Labor Committee, Cong. George Miller (D-CA) is quoted as saying, "The cuts in this budget for students with disabilities and for young children are reprehensible and undermine the efforts of students and teachers who are working hard in classrooms across the country."

Employment

The President recommended level funding for the Title 1 Vocational Rehabilitation State Grant program. The Vocational Rehabilitation Act, the authorizing statute, includes a mandatory cost of living increase for the program. This is the first time an administration has not requested the cost of living adjustment. In FY 2008 the cost of living adjustment would mean an additional \$36.9 million for the basic state grant program.

As in previous years, the Administration did not request any funding for the Supported Employment State Grant Program (\$29.7million in FY 2006), the Projects with Industry programs (\$20 million in FY 2006), recreational programs (\$3 million in FY 2006) or migrant and seasonal farm worker programs (\$2 million in FY 2006).

The President proposed a 17 percent reduction from 2006 in the employment and training programs at the Department of Labor (DOL) from \$5.2 billion in FY 2006 to a proposed \$4.3 billion in FY 2008. Once again the Office of Disability Employment Policy (ODEP) is slated for a large reduction (\$27.7 in FY 2006 to \$18.6 in FY 2008). ODEP is also the only department within DOL scheduled for any reduction in staff size. The budget proposed shrinking ODEP by 19 staff positions. The President has again proposed eliminating the work incentive grant program (\$19.5 million in FY 2006).

The President's budget reflects the Administration's legislative proposals to combine the youth, adult, dislocated worker, work opportunity tax credit, labor market information, and employment service state grants into a single state grant.

Social Security

The President's budget requests \$9.6 billion to cover the administrative costs of the Social Security Administration, known as the Limitation on Administrative Expenses (LAE). Expenditures for SSA's LAE in FY 2006 were \$9.1 billion. The FY 2007 appropriation is not yet known but is expected to avoid the 10-day furloughs of all SSA staff that had been looming if the FY 2007 appropriation remained at FY 2006 levels. At the proposed level of \$9.6 billion, SSA's LAE would continue to represent less than two percent of overall SSA program expenditures.

Although the budget requests an increase in SSA's LAE, the supporting documents make it clear that SSA and the state Disability Determination Services (DDS) would have reduced staffing levels totaling 227 work years. Even with the reduction in work years, SSA is predicting a productivity improvement of at least two percent. Performance targets include such things as increasing the number of initial disability claims processed; increasing the number of hearings conducted; and increasing the number of Social Security statements issued and 800-number transactions handled. However, it appears that the average processing times for initial disability claims and hearings would increase at this level of LAE appropriations.

The President's budget also includes a legislative proposal to extend Supplemental Security Income (SSI) eligibility to 8 years for refugees, asylees, and other non-citizens in refugee-like immigration statuses. Currently, such individuals who have not become citizens can only receive SSI for 7 years after entry. The proposal would continue the 8-year policy through 2010.

Solvency of the Social Security Trust Funds

According to the President's budget proposal, he supports a "framework for Social Security reform that strengthens the safety net for future generations, protects those who depend on Social Security the most, and offers workers the chance to experience the opportunity of ownership through voluntary personal retirement accounts."

In his budget proposal, the President reiterated "his commitment to a bipartisan reform process in which participants are encouraged to bring different options for strengthening Social Security to the table." However, many in Washington are questioning his commitment to a bipartisan approach, since this budget again pushes for the partial privatization proposal rejected by Democrats in the 109th Congress.

While Administration officials have recently sent signals of interest in attempting a bipartisan solution to long term funding shortfalls, the statements in the budget and recent statements by other Administration officials simply reinforce the skepticism of many Democrats.

Human services

Traumatic Brain Injury

The President's budget, just as it has for the past several years, provides for no funding for the Traumatic Brain Injury Act state programs.

Assistive Technology

The President has proposed cuts in the amount of \$4.4 million to the Assistive Technology Act programs. The cut reflects a recommendation by the President for no funding for Protection and Advocacy (P&A) services for Assistive Technology programs. The President also recommends no funding for the separate Alternative Financing Program.

DD Act Programs

The Administration budget proposal for the programs funded under the Developmental Disabilities Assistance and Bill of Rights (DD Act) for the 50 states, the District of Columbia and six territories reflects a freeze at current levels. The programs under the Act are Councils on Developmental Disabilities (\$72 million); Protection and Advocacy Systems (\$39 million); University Centers for Excellence in Developmental Disabilities Education Research and Service (\$33 million); and Projects of National Significance, including Family Support (\$11 million).

Autism

The Administration did not request any funding for the new programs authorized by the Combating Autism Act.

Title XX Social Services Block Grant

The Administration recommended \$1.2 billion, a \$500 million decrease in the Title XX Social Services Block Grant. Title XX provides a wide range of community based services to people with disabilities that would be significantly hurt by such a large decrease in funding.

Family to Family Health Information Centers

The budget proposes \$4 million to fund Family to Family Health Information Centers. The Deficit Reduction Act of 2005 (DRA) originally authorized these centers to provide information to parents of children with disabilities and special health needs so that they can make informed decisions about health care (e.g. treatment decisions, cost effectiveness and improved health care for their children including available resources, identify successful health care delivery models, develop a model for collaboration between health care professionals and these families, and provide outreach and training to health care professionals and other appropriate entities). The DRA anticipates that centers will be operational in 40 states by the end of FY 2008.

Transportation

The President's budget request for transit programs is \$300 million below the amount guaranteed by the Safe, Accountable, Flexible, Efficient Transportation Equity Act- A Legacy for Users (SAFETEA-LU). While the DPC is concerned that the overall funding level is lower than we support, we were pleased that the Administration specifically recommended the fully authorized levels for the New Freedom program, (\$87.5 million in FY 2008) and the Section 5310 program for the elderly and people with disabilities (\$127 million in FY 2008).

Prevention

The total discretionary budget request for the Centers for Disease Control and Prevention (CDC) is \$5.8 billion, a net decrease of \$20 million below the FY 2007 House Joint Continuing Resolution. CDC's National Center on Birth Defects and Developmental Disabilities (NCBDDD) would remain level funded at \$124.5 million.

Research

The President's budget proposes to fund the National Institutes of Health at approximately \$28.6 billion. While there is some uncertainty about the actual numbers due to the pending Continuing Resolution, this appears to indicate a decrease of \$310 million below the FY 2007 Continuing Resolution passed by the House last week. The FY 2008 budget proposes to level fund the National Institute of Child Health and Human Development (NICHD) at \$1.3 billion.

Congressional Reaction

The FY 2008 budget request is the first by President Bush delivered to a Congress controlled by the Democratic Party. The President expected and received less than glowing reactions from the House and Senate majority leaders. For example, Senate Budget Committee Chairman Kent Conrad (D-ND) said "This budget is filled with debt and deception, disconnected from reality, and continues to move America in the wrong direction." Leaders within the Administration will now attempt to

convince Congressional Committees when testifying at hearings on the budget to be held over the next several weeks. These hearings are already underway and the Administration officials are being pressed hard by the Democrats on their economic assumptions and their funding priorities.

Many of the Administration's proposals were rejected or ignored in previous Congresses when the President's own party was in the majority. It is highly unlikely that these proposals would be any more successful with a Democratic majority in both House of Congress.

The Budget Control Act requires that Congress adopt a FY 2008 Budget Resolution (BR) by April 15. The last Congress was unable to approve a BR at all. The BR is an internal congressional tool through which spending caps for discretionary spending are set and reconciliation instructions are given to committees with jurisdiction over adjustments to tax and entitlement policy. The President plays no role in the BR process. House Majority Leader Steny Hoyer (D-MD) has announced that the House Budget Committee will mark up its version of the BR during the week of March 12. Action on the Budget Resolution by the full House will occur the next week. Thus the House is scheduled to complete action on its BR three weeks before the deadline. The Senate has yet to release a schedule for movement on its BR.

Ultimately, a compromise between the House and Senate versions will need to be reached. Looking ahead, the Senate will be hard pressed to obtain consensus on a BR since the slim Democratic majority will need the approval of at least nine Republican Senators to achieve the sixty votes necessary to ward off any filibuster. Once the CR is completed, if it is, the House and Senate Appropriations Committees will begin work on the twelve FY 2008 appropriations bills to develop the actual spending for the hundreds of discretionary programs. The House appropriations bills are scheduled to be voted on by the full House before the Independence Day recess. The Senate usually does its appropriations floor voting in July with September being reserved for House/Senate conferences to resolve the differences between the bills on time for the start of the fiscal year on October 1.

The table on the next page compares the actual appropriations in Fiscal Year 2006 with the Bush Administration's Fiscal Year 2008 budget request. The table contains no numbers for Fiscal Year 2007, since this Congress has yet to complete action on a Fiscal Year 2007 Continuing Resolution.

Disability Community Response

The disappointing budget request by the Administration will require major work by disability advocates to circumvent the program eliminations, major cuts and the flat discretionary spending. There are multiple steps in the process and The Arc, United Cerebral Palsy and the Disability Policy Collaboration must be diligent and involved in each step. The first step is to develop a set of program-specific recommendations to counter, where necessary, the Administration figures. This activity will be accomplished with other disability groups and completed before the end of February. The next step will be to work with the House and Senate Budget Committees as they frame the FY 2008 Budget Resolution (BR). The BR will cap overall discretionary spending by large category (e.g. health) and provide reconciliation instructions to the committees of jurisdiction who deal with entitlement and tax policy.

Once the BR is completed, if it is completed, one next step will be to influence the committees (Senate Finance and House Ways and Means and Energy and Commerce) that will deal with Medicaid, Medicare and Social Security. Simultaneously, the House and Senate Appropriations Committees will begin working on the eleven appropriations bills that fund all discretionary

spending. This work will take place with the deadline of October 1, 2007 as the start of Fiscal Year 2008.

It will be vital for the disability community to develop convincing arguments that disability programs are worth saving and increasing. Where possible, entitlement reform recommendations that bring Medicaid and Medicare closer to meeting the needs of our constituency may be required. Personal stories of constituents that need assistance or that would be badly hurt by budget cuts and entitlement reductions will frame the dialogue. Working together, the disability community can be instrumental in making inroads in the budget process. The work has just begun and the DPC hopes advocates will rise to the challenge and contribute to this critical effort.

The table on the next page compares the actual appropriations in Fiscal Year 2006 with the Bush Administration's Fiscal Year 2008 budget request. The table contains no numbers for Fiscal Year 2007, since this Congress has yet to complete action on a Fiscal Year 2007 Continuing Resolution.

FISCAL YEAR 2007 CONTINUING RESOLUTION DEADLINE LOOMS AHEAD

Right before assuming power in the 110th Congress, the new Democratic majority announced its intent to enact a year-long Continuing Resolution (CR) to deal with the unresolved Fiscal Year 2007 appropriations. This would allow the 110th Congress to quickly resolve the FY 2007 spending issues in order to place their full attention on the FY 2008 budget process. The 109th Congress had passed only two (Departments of Defense and Homeland Security) FY 2007 appropriations bills. Since the start of FY 2007 on October 1, 2006, all domestic spending has been operating under a series of Continuing Resolutions. The current CR expires on February 15. Congress is attempting to complete action on the full year CR before that date.

In announcing their intent, the House and Senate Appropriations Chairmen divulged a plan to strip all earmarked funding from the CR. The House passed its CR on January 31. Using several billion dollars made available by removing the earmarks, the House was able to fund some priority programs at increased levels from FY 2006. All other programs are frozen at the FY 2006 levels. Programs getting increases include No Child Left Behind (+\$125 million), IDEA State Grant (+\$200 million), Head Start (+\$104 million), NIH (+\$619.5 million) and transit programs (+\$470 million).

The Senate has not completed action on their FY 2007 CR. The Republican minority is demanding the ability to offer amendments to the CR while the majority leadership is working to avoid amendments on the floor. A cloture vote is scheduled for February 13. If the Democrats can't get the 60 votes needed to shut off debate, stalemate is possible.

With the expiration of the current CR on February 15, the Congress would have no choice but to pass another CR of unknown duration until a Senate strategy is acceptable to both parties. Meanwhile, over one third of the current fiscal year (FY 2007) has already been completed.

FISCAL YEAR 2008 APPROPRIATIONS
DEPARTMENTS OF LABOR, HHS, EDUCATION, HUD, TRANSPORTATION
(All numbers in millions)

DEPARTMENT OF LABOR	FY 2006 Final	FY 2007 Final	FY 2008 President
Workforce Investment Act			
Adult Employment	857.0		712.0
Youth Activities	942.0		840.5
Office of Disability Employment Policy	27.7		20.0
Work Incentives Grants	19.5		0
DEPARTMENT OF HHS			
Developmental Disabilities Programs			
Basic State Grants – Councils on DD	72.0		72.0
Protection & Advocacy Systems -- DD	39.0		39.0
University Centers for Excellence in DD	33.0		33.0
Projects of Nat'l Sig. & Family Support	11.0		11.0
Lifespan Respite Care Act	NA		0
Maternal & Child Health Block Grant	693.0		693.0
Centers for Disease Control & Prevention			
Birth Defects, D.D., & Health	124.5		124.5
Chronic Disease Prevention	834.0		818.7
National Institutes of Health			
Natl. Inst. - Child Health and Human Dev.	1,264.0		1,265.0
Natl. Inst. - Neurological Disorders & Stroke	1,533.0		1,525.0
Social Services Block Grant	1,700.0		1,200.0
Child Care and Development Block Grant	2,061.0		2,062.0
State Grants - Remove Barriers to Voting	10.9		10.9
Protection & Advocacy for Voting Access	4.8		4.8
DEPARTMENT OF EDUCATION			
IDEA			
State and Local Grants Part B	10,583.0		10,491.9
Preschool Grants	380.8		380.8
Early Intervention Part C	436.4		423.1
Personnel Preparation	89.7		89.7
Parent Information Centers	25.7		25.7
Transition Initiative	0		2.0
Rehabilitation Services Administration			
Rehabilitation State Grant	2,720.2		2,837.2
Rehabilitation Training	38.4		38.4
P&A for Individual Rights	16.5		16.5
Supported Employment State Grant	29.7		0
Natl. Inst. for Disability & Rehab. Research	106.7		106.7
State Assistive Tech Programs and TA	30.5		26.1
P&A for Assistive Technology	4.4		0
SOCIAL SECURITY ADMINISTRATION			
Limitation on Administrative Expenses	9,184.0		9,637.0
DEPARTMENT OF HUD			
Section 811 Supportive Housing	236.6		125.0
DEPARTMENT OF TRANSPORTATION			
Section 5310--Elderly and People with Disabilities.	112.0		127.0
Section 5317--New Freedom Program	78.0		87.5

NOTES ON THE APPROPRIATIONS TABLE:

- FY 2006 numbers reflect actual year-end expenditures as reported by the federal agencies.
- FY 2007 numbers are not shown due to the fact that there are no official FY 2007 Labor, HHS, Education, or HUD appropriations at press time. The House has passed Joint Resolution funding government programs through the 2007 fiscal year, but the Senate has yet to act. The DPC will revise the table as soon as the information becomes available.
- FY 2008 numbers are from official agency and White House FY 2008 budget documents.

Although not ideal, the most useful comparison figures for President Bush's FY 2008 budget recommendations are the actual fiscal 2006 spending levels. This comparison over a two-year budget period will provide a realistic idea of the President's spending priorities.