



CWDA

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To: County Welfare Directors Association of California

From: Tom Joseph, Director, CWDA Washington, D.C. Office

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Re: Federal Update

The House and Senate will return to Washington on November 13 for a very uncertain lame duck session. No matter what the election results may bring today, the legislative path to finding even a temporary solution to avoid the 'fiscal cliff' at the end of the year is unclear at best.

This update provides a brief summary of the status of the appropriations process and the exact amounts that would be cut from programs under a sequester. It then describes the political and budgetary landscape facing Congress and the administration over the remainder of 2012.

The Federal Budget and Sequestration

FFY 2013 Appropriations: Before recessing in September, Congress adopted and the president signed a six-month extension of all federal funding through March 27, 2013. Funding for the new federal fiscal year (FFY) 2013 is essentially frozen at current levels, leaving it up to the new Congress to decide whether to make changes to the FFY 2013 levels early next year or to begin the FFY 2014 budget and appropriations process and extend current FFY 2013 funding for the remainder of the FFY.

The funding extension also reauthorized the Temporary Assistance for Needy Families (TANF) program through March 27, 2013. No further action on TANF is expected this year.

OMB Sequester Report: The Office of Management and Budget (OMB) reported in September on the effect of the across-the-board cuts that would begin on January 2, 2013 should Congress and the administration fail to craft an alternative deficit reduction package during the lame duck session. Each domestic program subject to sequester would be cut from 7.6% for mandatory programs not subject to the appropriations process (e.g., Social Services Block Grant) to 8.2% for all other discretionary programs. Defense programs are also subject to similar cuts.

In addition to calculating the percentage cuts, OMB also determined that the child support enforcement (CSE) program would be exempt from sequestration. CSE joins other entitlements such as Medicaid, SNAP, IV-E, TANF, and SSI as programs protected from the cuts.

Taxes, Sequester and Debt Ceiling

Before it adjourns for the year, Congress must act on the Bush-era tax cuts, alternatives to the across-the-board cuts and, perhaps, raising the federal debt ceiling. Normally, any one of those issues would take weeks if not months of negotiations between the House, Senate and administration to resolve. At best, there are about five weeks in which to find some sort of solutions to these huge fiscal issues. While there is a lot of speculation of what impact the elections may have on the issues, the odds of reaching any sort of long-term budget agreement this year is very slim, with the very difficult decisions again likely delayed into next year.

Bush-Era Tax Cuts: If Congress does not act by December 31, 2012, all of the Bush-era tax cuts expire. Of note to human services is the one-time adoption tax credit that can give families nearly \$13,000 in assistance for adopting a child. Unless it is extended, the only adoption credit will be a \$6,000 credit for parents adopting a special needs child.

That credit is among many others that would expire on January 1, 2013. Many of them, however, could be renewed and made retroactive later in the year, but the uncertainty of whether indeed that would occur will likely give pause for those who may be considering taking advantage of the financial incentives.

The bigger tax issues will include whether to allow taxes to increase on all or some households with earnings, and whether tax rates on capital gains and dividend income would revert back to pre-Bush levels. Acting on those taxes would not necessarily have to occur before the end of the year, but individual households and the financial markets would still absorb a financial hit immediately, even if it is just in terms of smaller paychecks at the beginning of the year or uncertainty as to the financial impact on investments.

Two tax items, however, do need to be addressed before December 31. The Alternative Minimum Tax (AMT) needs to be frozen before then, or the number of taxpayers affected by it will increase from approximately 5 million to as many as 30 million when they file their taxes next spring. Another temporary 'fix' is indeed likely for the AMT, given the thousands of dollars in extra taxes each household would owe if it expires.

The payroll tax cut enacted in the economic stimulus package also expires this year. The two percentage point reduction -- from 6.8% to 4.8% -- has translated into a \$1,000 increase in take home pay for a typical family. Both sides of the aisle appear to be ready to allow this tax cut to expire.

Sequestration: Neither party wants the \$55 billion in cuts to domestic spending and \$55 billion in cuts to defense to occur. Given the short period of time before the cuts begin, and the significant effect the cuts will have on jobs and the overall economy, most Capitol Hill observers believe that policymakers will agree to at least a short-term delay of the cuts, with explicit instructions given to the new Congress to devise a longer-term budget solution.

Debt Limit: Sometime within the next few months, the current debt ceiling of \$16.4 trillion will be reached and Congress will have to increase it to avoid defaulting on government obligations. The August 2011 debate on raising the ceiling roiled the financial markets and brought the U.S. to the brink of default. Neither party appears to want to repeat that scenario, so the debt limit itself will likely be used as a bargaining chip for action on a larger budget package.