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To: Supervisor Mark Ridley-Thomas, Chairman
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From: William T Fujioka
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WASHINGTON, D.C. UPDATE ON THE FEDERAL BUDGET

Executive Summary

This memorandum provides an update on the enactment of H.R. 2775, which ends the partial Federal government shutdown and avoids the threat of a default on debt service by funding Federal programs and operations through January 15, 2014 and suspending the Federal debt limit through February 7, 2014. It also would require the Secretary of Health and Human Services to ensure that the eligibility of individuals for Affordable Care Act health exchange subsidies is verified.

Federal Fiscal Year (FFY) 2014 Continuing Resolution (H.R. 2775)

On October 16, 2013, the President signed into law, H.R. 2775, a FFY 2014 Continuing Resolution (CR), which was passed, 81 to 18, by the Senate and 285 to 144 by the House earlier in the day. All of the no votes in both houses were casted by Republicans. H.R. 2775 funds discretionary programs and operations at their annualized post-sequester FFY 2013 funding levels with a relatively few exceptions through January 15, 2014. Exceptions were made to provide additional funding for fighting wildfires, certain disaster assistance, disability reviews and claims processing, and a few other programs and activities, none of which include programs through which the County receives Federal funding.

Other provisions of County interest include:

- Temporarily extends the funding authorization for the Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP), formerly called Food Stamps. Both programs had been operating using previously enacted appropriations after their previous authorizations expired on September 30, 2013.

- Suspends the Federal debt limit through February 7, 2014. The Secretary of the Treasury previously had indicated that its ability to fully pay all Federal obligations and debts would have ended on October 17, 2013 - a deadline which prompted both houses to act so quickly to pass H.R. 2775 after agreement had been reached on its language.

- Requires the Secretary of Health and Human Services (HHS) to ensure that the eligibility of individuals for Affordable Care Act (ACA) health insurance premium tax credits and cost-sharing reductions is verified and to submit a report to Congress on the eligibility verification procedures by no later than January 1. 2014. The bill language neither requires HHS to change current procedures nor limits its authority over setting such procedures.

County Impact

The enactment of the FFY 2014 CR ends the partial Federal government shutdown that resulted from the failure of Congress to enact any of the 12 annual appropriations bills which fund discretionary programs and activities for FFY 2014, which began on October 1, 2013. To date, the County's Federal revenue had not been affected by the lapse of new FFY 2014 appropriations because most of the County's Federal revenue is received through mandatory programs, such as Medicaid, Title IV-E Foster Care and Adoption Assistance, and Child Support Enforcement, which did not require a new FFY 2014 appropriations and because previously enacted appropriations have been sufficient to cover all of the County's funding needs under all other Federal programs.

It is noteworthy that the grant periods for discretionary programs through which the County receives Federal funding typically begins in the latter half of the Federal fiscal year in which funds are appropriated. This means that the County currently is mainly administering and/or receiving funds appropriated in FFY 2013. The one notable exception is that the Section 8 Housing Program, which operates on a calendar year funding cycle, received a $4 billion advance FFY 2014 appropriation under the FFY 2013 CR that was enacted on March 26, 2013. On October 11, 2013, the

Department of Housing and Urban Development notified housing authorities that it had sufficient funds to fund Section 8 housing vouchers through December 2013.

The bill's most positive fiscal impact on the County is its language to extend SNAP and TANF, which helps fund CalWORKs in California. Both programs are mandatory programs, which typically do not rely on annual appropriations, but their funding authorizations expired on September 30, 2013. H.R. 2775 funds TANF through January 15, 2014, and funds SNAP food assistance benefits into February 2014. Without these funding extensions, California would have had to accelerate its TANF State maintenance-of-effort spending to fund CalWORKs beyond October, and it is unclear that SNAP benefits would have been issued for November or December.

It is widely expected that Congress ultimately will extend TANF through the end of fiscal or calendar year 2014. The 2013 Farm Bill, which is pending conference committee negotiations, is the vehicle for a multi-year reauthorization of SNAP. However, there are major differences between the House and Senate SNAP reauthorization provisions with the House reducing SNAP spending by $39 billion over 10 years - far more than the $4 billion reduction in the Senate version. These wide differences will make it difficult for both houses to reach a final agreement on a Farm Bill.

FFY 2014 Budget Resolution

The final deal between the two parties on the FFY 2014 CR and suspension of the debt ceiling included an agreement to establish a conference committee on a FFY 2014 budget resolution, which would establish non-binding spending and revenue targets to guide Congressional action on fiscal legislation, including appropriations and tax reform. The Congress has not jointly adopted a budget resolution since 2009.

It is far from certain that both houses will be able to agree on a budget resolution, which would set the framework for finalizing FFY 2014 appropriations and increasing the Federal debt ceiling. This is because the House and Senate-passed FFY 2014 budget resolutions greatly differ. The House version would balance the Federal budget within 10 years entirely by cutting spending by $4.6 trillion while the Senate version would reduce the deficit by $1.8 trillion through a combination of spending cuts and $975 billion in revenue increases. Other major differences include:

- The Senate budget would replace the roughly $109 billion a year in sequestration cuts that are required over the next eight years under current law with an equal mix of spending cuts and revenue increases. The House budget, instead, would replace defense sequestration cuts with deeper cuts in non-defense spending - especially with significantly lower annual ceilings for non-defense discretionary spending.

- The House Budget would reduce FFY 2014 discretionary spending to $967.5 billion from the $1.042 trillion in enacted FFY 2013 appropriations and $986.4 billion in post-sequester FFY 2013 appropriations. In contrast, the Senate version would increase FFY 2014 discretionary spending to $1.058 trillion.

- The House Budget assumes major mandatory (entitlement) spending cuts over the next 10 years, including $1.7 trillion in savings by repealing the ACA, $810 billion by converting Medicaid into a state block grant, and $125 billion by converting SNAP into a state block grant. The Senate budget calls for far smaller mandatory spending cuts, which would include $275 billion in savings from health programs, such as Medicaid, without making major structural or eligibility changes.

- The Senate budget includes a total of $100 billion in economic stimulus funding, which is not included in the House version.

We will continue to keep you advised.

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MR:MT:ma

c: All Department Heads
Legislative Strategist