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**Federal Budget**

**Federal, State, Local Budget Cuts Compounded by Shrinking Private Funds**

A person can't open a newspaper these days without catching sight of at least one article reporting on recent slashes in some local or state budget or in one of the many threads of the country's social safety net. From coast to coast, over the course of just the last two weeks, cuts have been announced: Oregon Governor Ted Kulongoski (D) announced that several million dollars [will be cut this year and next from the state's Medicaid program](#), which had been heralded for its success in providing mental and dental benefits, in addition to the traditional hospital care, to Oregon's poor, elderly, and disabled residents; newly-elected Maryland Governor Bob Ehrlich (R) has proposed a \$25 million cut in state-funding for child care for low-

**EPI, Campaign for America's Future and State Groups Release Reports Detailing Damage Caused by Bush Tax Cuts**

Check for [the report](#) on the problems your state will face if the Bush tax cut goes through – and find out how to work to stop it.

income parents – this is on top of a 70% cut in funds for Maryland’s Child Care Resource Centers Network, which provides families of all income levels with guidance and information on available local child care providers.

This year’s cuts are not limited to state-level funding. The President’s proposed budget for FY 2004, which was released earlier this month, dramatically changes the nation’s current housing voucher program for low-income residents by forcing the responsibility and much of the costs onto states, underfunds vital programs such as Head Start and education assistance for disadvantaged students, and weakens clean water protections, among many other changes.

Any one of these cuts would, undoubtedly, be bad enough on their own, but as is the case with so much of the President’s budget, the real damage comes in a powerful “one-two-three-four punch,” if you will, that unites federal, state, and private funding cuts to dramatically undermine this country’s social protections of those who need them most.

A Recipe for Disaster:

1. **Enact tax cuts** – the more costly and the more skewed to the upper crust, the better. If it’s not possible to make the first round of cuts permanent, keep trying, but also add more cuts – even bigger than the first round of cuts. This step is crucial as it is the most efficient way of sucking up revenue so that it simply isn’t available for spending on other purposes. Even better is to bring the country into an extended period of fairly large deficits, since this will help to augment the case for the need for “belt tightening.” (Note: An added benefit of these tax cuts is that they also provide for automatic reductions in state revenue, much of which is tied to federal tax calculations.)
2. **Emphasize a commitment to compassionate government** – Ignore what many will understand this to mean, i.e., do not provide adequate funding for education reform, protection of the environment, health care for low-income children and their families, etc. Instead, show that a compassionate national government actually provides mandates to states to provide these services (without sufficient funds or oversight) and outsources this responsibility to nonprofits. Require states to increase the work demands on low-income mothers most in need of government aid, while funding for child care (so these mothers can work) is cut. Do not worry about whether, in a time of historical state budget deficits and an erratic stock market, these nonprofits will be able to secure the necessary funding from local government, individual donors, and foundations to provide treatment to drug addicts, after-school care to young children, job training to undereducated adults, or access by all to the arts and cultural activities.
3. **Deny fiscal relief to states** – Though, in this plan, state governments are fundamental to keeping up the appearance of a national commitment to “compassionate government,” do not provide fiscal relief to states that are facing an estimated cumulative budget deficit of nearly \$80 billion for the coming year. Sure, it would be easier for states to actually pick up the slack the federal government intends to drop in the way of providing housing assistance to low-income families and medical care and prescription drug coverage to the working poor if the states had adequate resources, but such resources would require funding from the federal government – which isn’t available (see Step 1).
4. **Repeat, as necessary.**

Few aspects of the nation’s social safety net and service providers are spared the ramifications of this process:

States, whose Constitutions require them to balance their budgets, are trying desperately to break even in the face of huge budget gaps, increased homeland security costs, and an increased number of out-of-work residents who need their help:

- [The Washington Post reports](#) that Maryland's cuts in child care funding means that "families on the edge of poverty, earning 50 percent of the state median income or less" will be placed on a waiting list to receive vouchers for child care. The new restrictions limit this assistance to only those families currently on welfare – even though only a small percentage of current recipients fall under this category. According to the article, the office of the Governor "does not consider child care a 'core' mission, as it does public safety in these times of terror."

These cuts don't affect only state programs, but extend all the way down to local-level community and nonprofit service providers:

- [Jan Richter of Connect for Kids follows](#) the real trickle-down effect of budget cuts at the national and state levels, all the way down to community-level programs. In a recent report, she notes that Washington State's Lutheran Community Services Northwest has had to reduce "services aimed at strengthening and preserving families at risk;" another faith-based group in North Carolina can't find the funding necessary to meet its challenge grant to provide support for children whose parents are going through a divorce; and Connecticut has ended its contract with the Connecticut Children's Health Council, which serves as a watchdog over health care for children in low-income families.

For many of these nonprofit service providers, the slowed economy and federal, state and local budget cuts only compound cuts they have had to enact due to a drop in contributions and grants from individual and foundation donors that have seen their own budgets shrink:

- The [New York Times reported last week](#) that New York City's great museums, concert halls, theatres, and other arts programs have suffered dramatic cuts from all sources. One of the city's, and the country's, finest arts institution, the Metropolitan Museum of Art, is projecting a budget gap of more than \$5 million, which follows on the heels of a budget gap this year of similar size. To meet this gap, the MET will increase its suggested admission price to \$12, among other tactics. The cuts to the MET and other institutions, including the American Museum of Natural History, the Bronx Museum of the Arts, and the Brooklyn Academy of Music, reflect economic effects such as drops in donor contributions, and a drop-off in attendance, as well as proposed city budget cuts of 20 percent to 30 percent.
- Another [recent New York Times article](#) reveals that New York City's funding crisis is not unique. Arizona, California, Massachusetts, Missouri, and New Jersey have already, or soon will, cut funding for the arts – with some states, such as Missouri, eliminating their state arts councils. The effects of these state-level cuts, according to the Times article, extend further by eliminating funds from federal and private matching grants. In addition, though in better times, other wealthy donors could be relied upon to step in and meet the funding gaps, the nation's economy has also shrunk many private revenues, as well.

One bit of good news in all of this is that the investments of some private funders still seem to be doing well – enabling them to do good: New York City's billionaire mayor Michael Bloomberg made a donation of \$10 million that will be distributed to the city's cultural institutions.

Perhaps this will start a trend whereby policy makers at the state and national levels dip into their well-padded private purses to bail out the programs their governments are supposed to be funding. If Bush secures his next round of tax cuts (see Step 1, above), estimated to grant those earning more than \$375,000 each year an additional \$30,000, they'll certainly have enough money to go around.

## Estate Tax Moves to the “Top Ten” in the Senate

With approval of the FY 2003 spending bills finally accomplished, Senate Republican leaders unveiled their legislative agenda for the 108th Congress on February 15, 2003. Permanent repeal of the estate tax made their list of top-ten legislative items. In January 2003, Sen. Jon Kyl (R-AZ) [introduced a bill](#) to accelerate full repeal (currently scheduled for one year in 2010 by the 2001 Bush tax cut) to 2005 and permanently eliminate the estate tax thereafter. Several other bills have since been introduced to make repeal permanent after 2010.

While the rationale for eliminating the estate tax is to “save” small family farms and businesses from harm, most of the bills that have been introduced are for complete repeal of the estate tax. However, Sen. Blanche Lincoln (D-AR) also [introduced a bill](#) to make qualified family farms and businesses completely exempt from the estate tax. Essentially, this would allow a giant loophole through which even the largest, wealthiest businesses could escape estate tax liability.

None of the bills provide for a reasonable reform that would protect the few actual small family farms and businesses or others who might truly be harmed by the estate tax while preserving our most progressive tax. The estate tax is a valuable source of federal and state revenue, provides an incentive for charitable giving, and is the only way we have to tax appreciated wealth that is passed down through generations. It primarily affects only the top one to two percent of the very wealthiest. Preventing permanent repeal and seeking reasonable reform must be a priority of the progressive community, especially with the daily news of proposed cuts in services because of increasing federal budget deficits and the state fiscal crises, and the continued growth of income and asset inequality in the US.

In addition to permanent repeal of the estate tax, the other high-priority issues identified by Senate Republicans are passage of a Medicare prescription drug benefit, tax cuts for “economic stimulus and growth,” prohibiting “late-term” abortions, increasing local flexibility and federal financing for education initiatives, enacting stricter work requirements for welfare, limiting medical liability for malpractice, increasing funds to fight the global AIDS epidemic, promoting a reliable domestic energy supply, and enacting measures to protect against biological attacks.

## President Signs FY 2003 Appropriations Omnibus Bill

On February 20, nearly five months after the October 1 start of federal fiscal year 2003, the President signed into [law an omnibus bill](#) providing funding for the departments and programs covered by the 11 appropriations bills that were not completed by the October 1 deadline last fall.

The bill, which covers nearly all federal programs except for defense, Social Security and Medicare, came to a total of \$397 billion. As reported in the [last OMB Watcher](#), Vice President Dick Cheney was said to have played a lead role in ensuring that differences over funding levels – including the President’s conflicting requests that the bill accommodate added funding for military activities in Afghanistan and funding for the FBI and that the total bill not exceed his initial request of \$387 billion – not further slow the bill’s completion.

According to an analysis from the Coalition on Human Needs, negotiators enacted a 0.65 percent cut to pack in the President’s subsequent intelligence and military funding, as well as to allow for some basic increases for a few education programs, drought relief for farmers, and Medicare payments to physicians. This is considerably less than the 2.9 percent originally used by Senate appropriators in passing their version of the omnibus bill in January. The final version of the bill also exempted Head Start, the Women, Infants and Children nutrition program (WIC), and medical payments by the Veterans Administration.

For additional overviews of the final FY 2003 appropriations, see [the Republican-led House Appropriations Committee Press Release](#), as well as [this response from the Democratic staff of the House Appropriations Committee](#).

## **Nonprofit Issues**

### **OMB Watch Comments on Charitable Choice Rules Seek Accountability, Less Discrimination**

In December the Department of Health and Human Services (HHS) released proposed rules on “equal treatment” of faith-based organizations competing for grants in the Temporary Assistance to Families in Need (TANF), Community Service Block Grant (CSBG) and Substance Abuse and Mental Health Services Administration programs. The public comment period ended last week, with OMB Watch filing comments calling for stronger financial and programmatic accountability rules and opposing rules that allow discrimination against program beneficiaries and employees based on religion.

Read the [full text of the comments](#).

The OMB Watch comments also “noted that these regulations propose to increase competition for federal funding at a time of diminishing federal financial commitment to our nation's social safety net. This is a cause of grave concern to us, and to the people served by the nonprofit community. Shifting diminishing funds from one provider to another through increased grant competition will not expand the reach of services.”

OMB Watch supported the goal of equal treatment, but said the proposed rules fail to “distinguish between discrimination and application of special rules required to protect the character of religious organizations, make grants to them consistent with the Establishment Clause, and guard the religious freedom of program recipients. Such special rules address financial and programmatic separation of religious and government activities and make funding houses of worship possible. They do not constitute discrimination.”

#### **Other key points in the comments are that:**

- All federal grantees – faith-based and secular – must qualify as a tax-exempt organization under 501(c)(3) of the Internal Revenue Code, and must file annual publicly available tax returns (i.e., IRS Form 990).
- All federal grantees – faith-based and secular – must comply with accounting standards established in OMB Circulars A-122 and A-133 in order to insure that no federal funds are used for unallowable religious activity and that larger grants will trigger a single-entity audit.
- The increased use of intermediaries to redistribute federal funds necessitates improved accountability standards. These include a requirement for intermediary tracking and reporting on the use of re-granted funds. It also requires subgrantees to follow the same accountability standards.
- More specific guidance is needed to ensure that government funded services do not contain religious content or are not presented in a religious context, and that program beneficiaries are not subjected to religious indoctrination.
- The use of indirect funding (e.g., vouchers) is not a “free and independent choice” that should allow accountability principles to be dropped. In other words, indirect funding should not become a back door approach to allow the commingling of federal funds with religious activity.
- Faith-based and secular grantees must face high standards and be treated equally. For example, the acceptance of federal funds should require all recipients to practice non-discrimination in hiring as it relates to those funds. Rules should not favor religious congregations that cannot

separate their religious character, when, in fact, such organizations can establish affiliated organizations that meet required standards of independence.

- The proposed rules interchangeably use the terms “religious organizations” and “faith-based organizations” without definition. They should provide definitions and note that faith-based organizations have been receiving federal funding – both directly and as subgrantees – for many years, complying with existing accountability standards. The new rules seem to be directed to religious congregations and should be so noted.
- The requirement that state and local governments must provide access to alternative providers if TANF participants object to the religious character of federally funded providers is ill-conceived. The opt-out provision is nearly unworkable. Moreover, the proposed rule creates an unfunded mandate on state or local governments to pay for the creation of new secular services and, at a minimum, is subject to Section 202 of the Unfunded Mandates Reform Act of 1995, which requires a budgetary impact statement.

Read the [full text of the comments](#).

## Church Electioneering Bill Gains Sponsors

Rep. Walter Jones' (R-NC) bill to allow houses of worship to engage in partisan electioneering, including endorsing or opposing candidates, during religious services and similar events has gained [54 co-sponsors](#) in the House. The bill, [H.R. 235](#), is a scaled back version of legislation that failed to pass the House last year. While the new bill limits electioneering to religious services, it has still raised concerns about houses of worship becoming soft money conduits and indirect tax subsidies for partisan activity based on tax deductibility of donations to religious organizations.

The [Campaign and Media Legal Center](#) recently published an analysis of the new bill that illustrates its potential for campaign finance abuses. These include:

- lack of restrictions on mass media broadcast of religious services with partisan content. This would make it possible for soft money donors to finance broadcasts of endorsement speeches and other activities through donations to churches.
- lack of definitions or limitations on re-distribution of partisan statements made in religious services;
- no limits on who makes electioneering statements. As written, the bill would allow candidates to make appearances and speeches asking for votes.
- no limit or restriction on campaign fundraising during religious services.

Although the bill says that it does not repeal or amend last year's campaign finance reform legislation in any way, that law only applies to federal elections. The Jones bill would apply to all electioneering in houses of worship, including state and local elections.

Because donations to houses of worship are tax deductible, the bill raises issues about the fairness of using such donations for partisan purposes. Tax deductibility would make houses of worship very attractive to soft money donors seeking to avoid the limits of the new campaign finance law.

The President's faith-based initiative, which is seeking increased participation by religious organizations in competition for federal grants, raises serious questions about corruption, or the appearance of corruption,

as one possible result of allowing houses of worship to endorse candidates and compete for federal grants.

OMB Watch opposes the bill because of the problems cited above. However, we also oppose any effort to expand advocacy rights to religious organizations, but not to secular groups also exempt under 501(c)(3) of the tax code. There should be no preferences for religious speech over non-religious speech.

The bill has been referred to the House Ways and Means Committee. [Click here](#) to see our summary of H.R. 235.

## **Regulatory Matters**

### **EPA Extends Deadline for Comments on New Source Review Proposal**

The Environmental Protection Agency (EPA) has extended the deadline for public comments on [its proposal](#) to relax air pollution standards under the New Source Review (NSR) program by 60 days, from March 3 to May 2. The proposal (part of a [broader effort to overhaul NSR](#)) would expand the definition of “routine maintenance,” allowing older power plants to make more extensive upgrades without having to install new anti-pollution equipment required of a “new source.”

A bipartisan group of 63 House members, concerned that the rule could lead to increased pollution, sent a letter to EPA Administrator Christie Whitman requesting a 180-day extension of the comment period, as well as a series of hearings in each of EPA’s 10 regions around the country. [EPA responded](#) by splitting the difference, committing to the 60-day extension and five public hearings.

### **CPSC Finds Dangers to Children, Decides Not to Act**

Staff at the U.S. Consumer Product Safety Commission (CPSC) [are recommending](#) that the agency defer action on a petition to ban chromium copper arsenate (CCA) pressure-treated wood, despite finding that children who play on equipment made from such wood face an increased risk of developing lung or bladder cancer.

CCA-treated wood is used in nearly 90 percent of all backyard decks and wooden play sets, and releases arsenic for up to 20 years after installation, according to the [Environmental Working Group](#), which brought the petition seeking a ban.

The CPSC staff prefers that the agency await finalization of an agreement between CCA manufacturers and the Environmental Protection Agency (EPA) to phase out CCA treatment of wood for most consumer uses by the end of 2003. Last year, EPA reached an agreement on a voluntary industry phase-out of CCA-treated wood, but at the time, EPA [claimed that the wood did not pose a health risk](#). The February 7 report marks the first time a federal agency has acknowledged a heightened danger to children using CCA-treated playground equipment. A CPSC briefing on the issue is scheduled for March 12.

In a similar case, CPSC staff recommended in November 2002 that the commission deny a 1998 petition to ban the use of harmful soft polyvinyl chloride (PVC) plastic in toys for children under five, despite finding that it causes damage to the liver and kidneys, [according to the National Environmental Trust](#). The commission voted to support the staff recommendation of inaction on February 21, declining to even issue a health warning.

## EPA Publishes Weak Rule on Livestock Waste

The Environmental Protection Agency [published a weak final rule](#) on February 12 to limit runoff from livestock waste, requiring about 15,500 concentrated animal feeding operations (CAFOs) to obtain permits under the Clean Water Act.

The rule, [originally announced in December](#), waters down an earlier proposal by the Clinton administration, cutting the number of affected operations by more than half. The [Clean Water Network](#) provides a [side-by-side](#) comparison of the new rule with the Clinton proposal, as well as [a fact sheet](#) describing the administration's plan.

## EPA Scales Back Wastewater Rule for Metal Finishers

EPA has significantly weakened [a rule to address wastewater](#) from facilities that manufacture, rebuild or maintain metal parts, products, or machines, covering only 2,400 facilities rather than the 89,000 covered by the original [Clinton-era proposal](#).

The rule, signed by EPA Administrator Christie Whitman on February 14, lays out narrow standards that apply only to facilities that generate oily wastewater, one of eight industry subcategories included in the original proposal.

## **Right-to-Know**

### GAO Dropped Cheney Lawsuit Under Threat of Budget Cuts

[The Hill newspaper](#) is reporting that Republicans, who control both houses of Congress, threatened the General Accounting Office (GAO) with deep budget cuts unless GAO dropped its lawsuit against Vice President Cheney over Cheney's refusal to turn over documents related to the Vice President's Energy Policy Task Force.

The threats, if true, would deeply undermine the integrity and independence of the independent audit arm of Congress. Last year a district court dismissed GAO's case. Continuing to believe in its case, GAO was considering an appeal of the court ruling. Forced to choose between dropping the lawsuit and devastating funding cuts, U.S. Comptroller General David M. Walker had no choice but to drop the lawsuit, thereby dramatically weakening GAO's ability to investigate and report on executive branch activities.

In a political environment normally charged by partisanship, the GAO investigates and reports on a vast array of government practices, such as waste and abuse in defense programs and the independence and integrity of the government's scientific advisory committees. Oftentimes wonkish in tone, GAO reports on government programs are generally well-respected and influential in guiding government policy and programs.

### Plan for Disclosing Proxy Voting Records Appealed to OMB

An industry trade group for mutual fund companies, says it would be too burdensome for mutual fund companies to disclose how they voted when they cast votes for their investment clients in shareholder decisions. Until now, mutual fund companies have kept their voting records secret. The [Investment Company Institute \(ICI\)](#) is asking the Office of Management and Budget to overturn a decision by the

Securities and Exchange Commission (SEC) to require public disclosure of proxy voting records. (See ["Ray of Sunshine at SEC?" in the February 10, 2003, issue of the Watcher](#)).

The rule would require funds to develop policies and procedures that identify how the fund makes its proxy voting decisions and disclose those policies and procedures to clients. Those disclosures must also include a description of the procedures for handling "material conflicts of interest" that arise between the interests of the fund and its clients.

In the wake of the Enron, WorldComm and other scandals that have made the public eye the corporate world with suspicion, the SEC has focused on disclosure and the public's right to know as a key tool to create financial accountability in the corporate world.

ICI argues that the SEC requirements, as written, are overly burdensome and is appealing to OMB to reject the disclosure requirements under OMB's authority under the Paperwork Reduction Act (PRA). Industry groups have a long history of using the PRA as a tool to oppose public disclosure requirements designed to protect the environment and ensure consumer safety.

## **Tools You Can Use**

### **Contact State and Local Officials With OMB Watch's "Take Action"**

As part of the "Take Action" section of our website, users can contact state, county, and local officials, all from a [centralized page](#). Contact information for officials in all 50 states and five territories can be found by zip code, or by either searching or browsing a municipality name. Use this service to find names, addresses, phone numbers, fax numbers and email addresses for anyone from the president of the state legislature to the county executive to the town clerk.

Each state page also includes information and a method to contact each member of the state's Congressional delegation. Also included on every state's page is a media guide that allows you to contact broadcast and print media in the state, as well as look up and contact key personnel (look for more information on using the media guide in a future Watcher).

You can easily make this service available on your organization's website by [adding a web sticker](#) to any page on your site. It's free and only takes a few minutes! Feel free to encourage others you work with to use this service.