

March 13, 2014



## Overview of President Obama's FY 2015 Budget Proposal

On March 4, President Obama unveiled his \$3.9 trillion budget blueprint for FY 2015, laying out his proposals and spending priorities for the coming years. The Children's Defense Fund was pleased that the budget largely met our budget principles: 1) protecting investments in children and low-income families from cuts; 2) investing in children to create jobs and promote economic growth for the nation, and; 3) ensuring the most advantaged Americans and corporations pay their fair share, described in more detail below:

### **Protects investments in children and low-income families from cuts.**

The President's budget would significantly increase investment in early childhood programs. It also expands the Earned Income Tax Credit (EITC) to make work pay for childless adults, including non-custodial parents, and expands the credits to young adults ages 21-24. And while the budget stays within the caps established in the Budget Control Act (BCA) of 2011, it manages to repeal a portion of future sequester cuts by adding back a fully paid for \$56 billion in discretionary spending next year as an "Opportunity, Growth, and Security Initiative," split evenly between defense and non-defense priorities. This would protect many programs serving low-income children and families from additional devastating cuts.

### **Invests in children to create jobs and promote economic growth for the nation.**

The President's budget invests billions in new spending to boost economic growth, strengthen the middle class, alleviate poverty, and build the ladder of opportunity that will help millions of children live to their fullest potential. It makes significant new investments in areas such as early childhood development and learning that are necessary for future economic growth. The budget increases the minimum wage and calls on Congress to extend unemployment insurance for the long term unemployed. It continues funding for critical nutrition and anti-hunger programs, and fully funds implementation of the Affordable Care Act to expand health coverage to millions of Americans. The President's budget includes multiple initiatives to support job creation. It also calls for comprehensive immigration reform. All these proposals will improve equality of opportunity for our nation's children and vulnerable families, giving children a better chance of success in life.

### **Ensures the most advantaged Americans and corporations pay their fair share.**

The President's budget proposes raising billions in new revenues. Its proposals to make the tax code more equitable and close some tax loopholes that disproportionately favor the wealthy would provide a much needed down payment on investments to help reduce or eliminate childhood poverty. In an era of strict budget caps, new revenues are the only way to fund such critically important investments.

### **Key features for children and families in President Obama's FY 2015 budget:**

*Builds on investments in early childhood that the President proposed in his FY 2014 budget and his 2014 State of the Union Address by increasing investments in crucial programs for children and families and laying the foundation for a high-quality continuum of early childhood development and learning supports for all children from birth through age 5, starting with the poorest and most vulnerable children.*

- Extends and expands the **Maternal, Infant and Early Childhood Home Visiting (MIECHV)** program by investing \$500 million in the program for FY 2015 and \$15 billion over the next 10 years.
- Expands funding for **Early Head Start-Child Care** partnerships from \$500 million to \$1.45 billion, providing access to full-day, full-year high-quality infant and toddler care for more than 100,000 children.
- Increases funding for the **Child Care and Development Fund** by \$807 million. This includes a \$57 million increase in discretionary funding through the Child Care and Development Block Grant (CCDBG) and an annual \$750 million increase in mandatory funding through the Child Care Entitlement to the States. The discretionary CCDBG funding sets aside \$200 million in formula grants for states to improve the quality of child care, in addition to the existing set-asides for quality programs for infants and toddlers. This total request will support 1.4 million children in FY 2015, 74,000 more than could have been served without the additional funding, according to the Department of Health and Human Services. The President's request for the mandatory Child Care Entitlement provides a total increase of \$19 billion over 10 years, and is intended to increase service levels and the quality of child care programs simultaneously.
- Triples the 2014 allocation for **Preschool Development Grants**, bringing the total funding for the program from \$250 million to \$750 million to help prepare states to benefit from the Preschool for All initiative.
- Provides \$75 billion over 10 years for the President's **Preschool for All** initiative that would establish a federal-state partnership to provide high-quality preschool for 4-year-olds under 200 percent of the federal poverty level, while incentivizing states to put in place full-day kindergarten policies. The President's budget allocates \$1.3 billion for this program in FY 2015.

*Strengthens and maintains the safety net for low-income workers.*

- Expands the **Earned Income Tax Credit (EITC)**, which in 2012 kept 3.3 million children out of poverty. It extends and expands the EITC for childless workers and doubles the maximum credit to \$1,000. It makes the credit available for the first time to 3.3 million childless workers ages 21-24 to help incentivize work and make work pay for future parents. It also benefits an estimated 1.5 million non-custodial parents whose children might benefit from increased child support payments. These changes are estimated to cost \$60 billion over 10 years, and would be paid for by closing two high-income tax loopholes: the "carried interest" loophole that allows hedge fund managers to treat the bulk of their compensation as capital gain rather than income, and the "S corporation" loophole that allows lawyers, accountants, doctors, consultants and entertainment professionals to avoid paying payroll taxes by characterizing much of their income as profits of a business instead of salaries.
- Assumes the changes to the EITC and the Child Tax Credit first made as part of the American Recovery and Reinvestment Act of 2009 and later extended through 2017 in the fiscal cliff deal will be permanently extended before they expire. These include reducing the marriage penalties of the EITC and providing a larger tax credit for families with three or more children, and lowering the earnings threshold of the Child Tax Credit to \$3,000 (from above \$10,000).
- Raises the **minimum wage** to \$10.10 and indexes it to inflation, as well as increasing the tipped wage for the first time in 20 years.
- Extends **long-term unemployment insurance** for the 1.7 million Americans looking for work who have had their assistance cut off, reviving a vital economic lifeline and boosting job creation and economic growth.

*Continues funding for critical nutrition and anti-hunger programs and promotes healthy eating by improving access to affordable, healthy foods in underserved areas.*

- Provides sufficient funding to support the 8.7 million individuals expected to participate in the **Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)** program and the 47 million Americans who benefit from the **Supplemental Nutrition Assistance Program (SNAP)**.
- Supports the ongoing implementation of the Healthy, Hunger-Free Kids Act of 2010, which includes funding for the **National School Lunch Program**, the **School Breakfast Program** and **Summer Feeding** program.
- Invests new money in a number of initiatives to help ensure healthy meals reach hungry children, including:
  - \$35 million in school equipment grants to aid in the provision of meals and continued support for other school-based resources;
  - \$30 million to support summer electronic benefit pilots, which use the electronic benefit infrastructure of the SNAP and WIC programs to give low-income families with school-age children who qualify for free and reduced price lunch during the school year more resources to buy food during the summer months. These projects are proving successful in reducing childhood hunger during the summer by improving access to food; and
  - \$13 million in a newly authorized Healthy Food Financing Initiative, which will provide funding to improve access to affordable, healthy foods in underserved areas.

*Ensures access to health coverage for children and parents by protecting Medicaid and the Children's Health Insurance Program (CHIP), funding implementation of the Affordable Care Act (ACA), and giving states tools to help ensure all eligible children get enrolled and stay enrolled in health coverage.*

- Continues implementation of **the Affordable Care Act (ACA)**, including full funding for the **Medicaid** expansion for the 26 states and the District of Columbia already moving forward with the expansion, and any others that choose to take up the expansion.
- Proposes to extend the **Children's Health Insurance Program's (CHIP)** "performance bonus fund" that gives money to states that do well enrolling eligible but uninsured children and meet targeted enrollment gains in Medicaid and CHIP in anticipation of working with Congress to ensure children's coverage.
- Updates the criteria to qualify for these funds to include eliminating waiting periods for CHIP, reporting on child health quality measures, and eliminating the five-year waiting period in CHIP and Medicaid for legal immigrant children.
- Permanently extends the express lane eligibility (ELE) option, which expires at the close of 2014, for children in CHIP and Medicaid. It has been very successful in enrolling hard-to-reach children in coverage.
- Extends the Medicaid Primary Care Payment Increase to provide enhanced access to care for one additional year, through 2015, and expands the enhanced rate to mid-level providers, including physician assistants and nurse practitioners. The provider payment increase was originally included in the ACA for only two years.

*Protects critical education programs and builds on the Administration's earlier reform initiatives to support student success through college completion by focusing on equity, redesigning high schools, strengthening teachers and school leaders, and improving outcomes in higher education.*

- Includes a new \$300 million **Race to the Top Equity and Opportunity** competitive grant. It is designed to aggressively target opportunity and achievement gaps. Building on previous Race to

the Top competitions, RTT-Opportunity aims to support, spotlight, and drive systemic changes at state and local levels.

- Establishes a new \$150 million **high school redesign** competitive grant program to support school districts and their partners to redesign high schools in innovative ways. It seeks to expand efforts to better prepare students for college and career success.
- Adds a new \$300 million **ConnectEducators** program to provide funding to help teachers and principals better leverage new resources made available through technology to improve college- and career-ready instruction and to personalize learning.
- Includes a *new* \$5 billion program, **RESPECT** (Recognizing Education Success, Professional Excellence, and Collaborative Teaching), to support the development and advancement of teachers and school leaders.
- Increases funding to \$165 million for the **Investing in Innovation** (i3) program which encourages innovation and seeks to improve educational outcomes for students by developing, identifying, and scaling up effective practices.
- Creates a new **College Opportunity and Graduation Bonus** for \$647 million (\$7 billion over 10 years). It will reward colleges that successfully enroll and graduate a significant number of low- and moderate-income students on time. A *new* **State Higher Education Performance Fund** (\$4 billion over four years) would provide four-year matching grants to states that adopt higher education reform policies such as allocating state financial aid primarily based on student need and improving information about the return on investment for students.
- Maintains funding at the current level for the **Title I** program (\$14.4 billion), school turnaround grant program (\$506 million), and programs for migrant children (\$375 million), children in the juvenile justice system (\$48 million), and homeless children (\$65 million). It also maintains the current funding level for the 21<sup>st</sup> century learning centers program (\$1.15 billion). A new program for **Successful, Safe and Healthy Students** (\$214 million) is a consolidation of the safe and drug-free schools and communities national activities program, the elementary and secondary school counseling program, and the physical education program.

*Invests in initiatives for vulnerable children, youth, and families.*

- Enables local communities to take steps to address the Cradle to Prison Pipeline<sup>®</sup> crisis by developing and implementing effective and coordinated prevention programs that reduce arrests and keep youth in school, as well as provide resources during detention and after release. These increased investments include:
  - \$42 million for **Title V** (Local Delinquency Prevention Incentive Grants) of the **Juvenile Justice and Delinquency Prevention Act** (JJDP), including \$2.5 million for gang and youth violence education, prevention and intervention, and related activities, as well as \$10 million for competitive grants to police and juvenile justice authorities in communities that have been awarded Department of Education School Climate Transformation Grants to collaborate on use of evidence-based positive behavior strategies to increase school safety and reduce juvenile arrests.
  - \$30 million for the **Juvenile Accountability Block Grant** (JABG) Program.
  - \$18 million for community-based violence prevention initiatives, including for public health approaches to reducing shootings and violence.
- Increases funding for **Promise Neighborhoods**, an initiative that provides grants to community-based organizations to provide a continuum of services and supports to children in distressed communities

from birth through college and career entry. Funding in the budget will support current awardees and provide up to 40 more awards to communities across the country.

- Developing a new five-year collaborative demonstration with the Administration for Children and Families (ACF) and the Centers for Medicare & Medicaid Services (CMS) to encourage states to provide **evidence-based psychosocial interventions to children and youth in the foster care system** to reduce the over-prescription of psychotropic medications and improve outcomes for these children. Children and youth in foster care are prescribed psychotropic medications at higher rates than children outside of foster care, with a GAO report estimating that 21 to 39 percent of children in foster care are being prescribed one or more psychotropic medications. This new demonstration would include a \$250 million investment in mandatory funding over five years in ACF for state infrastructure and capacity building, paired with \$500 million a year in new CMS performance-based incentive funds to improve outcomes for these children.
- Creates a new **child-support payment initiative** (\$2 million in FY 2015 and \$266 million over 10 years) that would require child support payments made on behalf of children in foster care to be used in the best interests of the child.
- Increases by \$15 million (bringing it to a total of \$124 million) funding for "Now is the Time," the President's FY 2014 initiative in response to Sandy Hook designed to promote **mental health**, prevent violence, identify mental illness early, create a clear pathway to treatment for those in need, and expand the behavioral health workforce.
- Provides an increase of \$8 million to expand **services to victims of domestic trafficking**. Funding will be awarded through competitive grants and will be used for demonstrations of transitional and long-term housing for victims who cannot be reunited with their families. These investments will also be used to expand the hotline operated by the National Human Trafficking Resource Center.
- Recommends reauthorizing competitive **Family Connection Grants**, established through the Fostering Connections to Success and Increasing Adoptions Act of 2008 at \$15 million through FY 2016.
- The majority of other programs that support vulnerable children and families, prevent child maltreatment, promote adoption and permanency for children and youth in foster care, and provide supports for older youth in and aging out of foster care remained at their estimated FY 2014 funding levels, which in some cases were less than their pre-sequestration levels.

*Includes significant investment in multiple initiatives to support job creation.*

- Supports subsidized jobs for low-income parents by redirecting \$602 million from the Temporary Assistance for Needy Families (TANF) Contingency Fund to a **Pathways to Jobs initiative**, which will support state partnerships with employers to provide subsidized job opportunities for low-income individuals.
- Supports **Apprenticeships and Job-Driven Training at Community Colleges** by awarding grants to partnerships of community colleges, employers, and others to launch training for in-demand jobs, and double the number of apprenticeships in America over the next five years.
- Invests \$2.5 billion in a new **Summer Jobs Plus initiative** to provide summer and year-round job opportunities for 600,000 youth as well as innovation grants to improve skills and career options for disadvantaged youth.
- Improving **Training and Employment Services** by increasing State and local capacity through greater innovation and performance incentives; targeting additional resources to populations that face significant barriers to employment; and reaching a total of 50,000 households in public housing with Jobs-Plus job training and financial incentives, an approach that has been shown to boost annual incomes by \$1,300 on average. In addition, the defense portion of the Opportunity, Growth, and Security Initiative, discussed below, would provide funding for additional teens to participate in

**National Guard Youth Challenge**, an evidence-based residential training and mentoring program that has been shown to increase employment, education, and earnings for at-risk youth.

*Decreases funding for programs that will result in many vulnerable children and families going unserved.*

- Cuts funding to the **Low Income Home Energy Assistance Program (LIHEAP)** by \$875 million.
- Eliminates the **Children’s Hospitals Graduate Medical Education (CHGME)** program, which since its creation in 1999, has trained nearly half of all pediatricians and pediatric specialists and helped to increase access to care for children. While the budget does call for \$100 million in funding to support training at children’s hospitals under a new future initiative (the Targeted Support for Graduate Medical Education grant program), it is substantially less than half of what has previously been used to support CHGME and puts at risk the gains that have been made for children’s health as a result of the program.
- Cuts Title II (State Formula Grants Program) of the **Juvenile Justice and Delinquency Prevention Act of 1974 (JJDPA)** from \$51 million in FY 2014 to \$50 million in FY 2015. Although this may appear to be a slight cut, this funding is almost \$30 million below levels urged by the Act 4 JJ campaign. More money would help address the JJDPA’s core protections, including keeping children out of adult jails, sight and sound separation, deinstitutionalization of status offenders, and eliminating racial and ethnic disparities.
- Proposes to significantly cut **youth mentoring** from an estimated \$83 million in FY 2014 to \$58 million in FY 2015.
- Provides no funding for the **adoption tax credit**, an important tax credit offered to adoptive parents to encourage adoption and help move children into permanent homes. The Affordable Care Act modified the existing adoption tax credit to make it refundable for 2010 and 2011, but this provision expired and no funding to continue it was included for FY 2015.
- Cuts nearly in half (from \$674 in FY 2014 to \$350 million for FY 2015) funding for the **Community Services Block Grant (CSBG)**. CSBG would become competitive grants to fund high-performing agencies that are most successful at meeting community needs.

## What's Next

The President’s budget is simply a statement of the administration’s priorities and is non-binding; the power of the purse ultimately lies with Congress. House Budget Chairman Ryan is slated to release his own budget shortly that is expected to look dramatically different than the President’s budget. Keeping in line with previous budgets, we expect that a FY 2015 Ryan budget would include sharp cuts to Head Start, Medicaid, and other critical safety net investments. Senate Budget Committee Chair Murray has announced that the Senate Democrats will **not** draft a budget this year, which means there will be no Congressional budget, eliminating the possibility of fast-tracking other budget matters, as can happen under budget rules.

Regardless of how Congress moves forward, as long as the budget caps set in place as part of the Budget Control Act (BCA) of 2011 remain in place, it will be difficult to make the investments that are needed to significantly reduce child poverty and improve equality of opportunity for America’s youth. Additionally, more significant efforts to raise revenue and make the tax system fairer are needed in order to invest in further reducing child poverty and ensuring all children are given the supports and opportunities to live up their full potential.