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## **Bay Area Democrats Release Report Showing Region Will Lose Over \$40 Billion Under the Republican's Contract with America.**

Washington, DC-- Federal Representatives Pete Stark (CA-13), Norm Mineta (CA-15), Nancy Pelosi (CA-8), George Miller (CA-7), Lynn Woolsey (CA-6), Ron Dellums (CA-10), Zoe Lofgren (CA-16) and Sam Farr (CA-17) released a joint report documenting the impact of the GOP's Contract With America on the Bay Area. The report, which covers 11 Northern California counties, shows that residents will likely lose a total of approximately \$40.125 Billion in federal aid, if the spending and tax cuts from the Republican Contract are enacted.

"The Republicans have taken out a Contract on America's most vulnerable," said Stark. "When the American people see what's really in this Contract, they're going to want to renegotiate."

"This is a \$40 billion contract on the Bay Area," said Mineta.

"The Republican Contract is a bad deal for San Francisco," said Pelosi. "The fine print of this Contract will decrease job opportunities by eliminating funding for infrastructure and research, while also increasing the hardship of seniors, the poor, the infirm and the needy of the San Francisco Bay Area."

The Bay Area Democrats used the simplest and most likely method of balancing the budget by fiscal year 2002. The cuts will be across the board and will have a great impact on necessary programs like Medicare, Medicaid, harbor dredging and public transit.

"For some seniors, cutting Medicare benefits will be a death sentence," said Farr.

"Republicans are being dishonest when they say they simply want to turn programs over to the states," said Miller. "In fact, they want to gut the safety net, leaving states and localities no alternative but to raise taxes or let their needy citizens wallow in the streets."

Federal spending for Bay Area counties as of Fiscal Year 1993 was \$32.651 billion annually. The total projected cuts suffered by the counties over the 7 year period are: Alameda -- \$10.934 Billion; Contra Costa -- \$3.432 Billion; Marin County -- \$807 Million; Monterey -- \$1.679 Billion; San Benito -- \$249 Million; San Francisco -- \$8.345 Billion; San Mateo -- \$2.517 Billion; Santa Clara -- \$8.8 Billion; Santa Cruz -- \$1 Billion; Solano -- \$762.3 million and Sonoma -- \$1.6 Billion.

# **THE CONTRACT WITH AMERICA: IMPACT ON THE SAN FRANCISCO BAY AREA**

## **Executive Summary**

Over the next 100 days, the new Republican leadership of the House of Representatives has committed to voting on a series of measures which will have a dramatic impact on the structure of federal programs, the amount and nature of federal government spending, and taxes and fees collected by the federal government.

Taken together, these proposals constitute the Contract With America, signed by virtually all Republican Members of the House of Representatives prior to the November 8, 1994 elections. These programs, in aggregate, will have the effect of drastically reducing federal revenues while simultaneously mandating that the federal budget be balanced by Fiscal Year 2002.

As a result, the Contract With America will have profound effects on the economy and federal funds available to the State of California, the counties in the San Francisco Bay Area, and the cities and school districts within their boundaries. This report attempts to lay out the parameters of the possible impact on our local jurisdictions and the citizens and residents of our Congressional Districts.

In directing the cuts in spending necessary to comply with the Balanced Budget Amendment and the tax cuts outlined by the Contract With America, the GOP has declared that the areas of defense and Social Security will be exempt from cuts. Combined with interest on the current national debt, which must be paid, these exemptions take 50.5% of the federal budget off the table. As a result, the necessary cuts must come from the remaining 49.5% of the budget and will therefore be exceptionally harsh.

The affected programs include federal and military employees retirement programs, Medicare, Medicaid, SSI (which is NOT exempt under the contract), education, highway funding, school lunch programs, community health centers, nutrition programs, housing assistance, veterans hospitals and pensions, civilian research and development contracts, mass transit operating assistance, water treatment programs, and airport and airways maintenance and improvement programs.

**In total, the counties of Alameda, Contra Costa, Marin, Monterey, San Benito, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano, and Sonoma will lose roughly \$40.1~~2~~ billion in federal funding over the next seven years.**

For Alameda County, the cuts required to comply with the Contract With America will result in the loss of roughly \$10.934 billion in federal funding over the next seven years.

For Contra Costa County, the cuts required to comply with the Contract With America will result in the loss of roughly \$3.432 billion in federal funding over the next seven years.

For Marin County, the cuts required to comply with the Contract With America will result in the loss of roughly \$807 million in federal funding over the next seven years.

For Monterey County, the cuts required to comply with the Contract With America will result in the loss of roughly \$1.679 billion in federal funding over the next seven years.

For San Benito County, the cuts required to comply with the Contract With America will result in the loss of roughly \$249 million in federal funding over the next seven years.

For San Francisco County, the cuts required to comply with the Contract With America will result in the loss of roughly \$8.345 billion in federal funding over the next seven years.

For San Mateo County, the cuts required to comply with the Contract With America will result in the loss of roughly \$2.517 billion in federal funding over the next seven years.

For Santa Clara County, the cuts required to comply with the Contract With America will result in the loss of roughly \$8.8 billion in federal funding over the next seven years.

For Santa Cruz County, the cuts required to comply with the Contract With America will result in the loss of roughly \$1 billion in federal funding over the next seven years.

For Solano County, the cuts required to comply with the Contract With America will result in the loss of roughly \$762.3 million in federal funding over the next seven years.

For Sonoma County, the cuts required to comply with the Contract With America will result in the loss of roughly \$1.6 billion in federal funding over the next seven years.

## THE TAX CUTS

The Contract With America outlines several cuts to federal government revenues, including a cut in the tax applied to income from capital gains, a reduction in the amount of Social Security benefits subject to income tax for senior citizens with relatively high incomes, and a substantial increase in the tax credit provided to families with children.

Table 1 shows the Fiscal Year 1995 through 2002 revenue reductions that will result from the GOP tax cuts. Table 2 shows the effect on the Fiscal Year 1995 through 2002 deficit projections:

Table 1.

### GOP TAX CUTS AND EFFECTS ON FEDERAL RECEIPTS

FY95	+	\$	3.1 Billion
FY96	-		7.3 Billion
FY97	-		26.4 Billion
FY98	-		39.6 Billion
FY99	-		55.1 Billion
FY00	-		71.8 Billion
FY01	-		84.6 Billion
FY02	-		94.5 Billion
 Total	 -	 \$	 376.2 Billion

(NOTE: While supply-side economics, if accepted as valid economic theory, would predict increased economic growth in response to these cuts, this is very unlikely to occur given current Federal Reserve fiscal policy. The Fed has made it abundantly clear that it will raise interest rates as necessary to hold GDP growth to 3% or less as a means of heading off inflation. Any economic stimulus provided by these tax cuts will likely be offset by increases in the interest rates Americans pay on credit cards, personal loans, and for home mortgages.)

Table 2.

### GOP TAX CUTS AND YEARLY DEFICIT PROJECTIONS (All numbers in billions)

<u>Year</u>	<u>CBO Deficit Estimates</u>	<u>GOP Tax Cuts</u>	<u>Revised Deficit Estimates</u>
FY95	\$ 162	\$ - 3.1	\$ 158.9
FY96	176	+ 7.3	183.3
FY97	193	+ 26.4	219.4
FY98	197	+ 39.6	236.6
FY99	231	+ 55.1	286.1
FY00	257	+ 71.8	328.8
FY01	287	+ 84.6	371.6
FY02	319	+ 94.5	413.5
Total	\$1,822	\$ 376.2	\$ 2,198.2

## THE BUDGET CUTS

Even without the proposed cuts in federal revenues, and with current expected levels of growth in federal entitlement spending, approximately \$1 trillion in budget cuts will be necessary over the next seven years to bring the budget into balance.

The tax cuts put forward by the Contract with America will reduce federal revenues by an aggregate of \$376.2 billion over the same period, requiring even more draconian cuts.

In addition, the Contract specifically exempts two areas from potential cuts: Social Security and Defense. Interest paid on the national debt already accumulated, likewise, must be exempted. Together, these items constitute the majority of federal spending -- 50.5%

This leaves 49.5% of federal spending against which to target the necessary cuts.

The most likely method of balancing the budget would be to make across the board spending cuts each year sufficient to steadily lower the deficit. This would be accomplished by setting a "ceiling" on the deficit in each fiscal year that is \$23 billion lower than the ceiling for the previous fiscal year.

Table 3 details the percentage of federal spending eligible for cuts that would have to be eliminated in order to meet that schedule, and balance the budget by Fiscal Year 2002.

Table 3.

### CUTS NECESSARY TO MEET CONTRACT BALANCED BUDGET REQUIREMENT (amounts in billions)

<u>Year</u>	<u>Deficit w/Tax Cuts</u>	<u>Target Deficit</u>	<u>Cuts</u>	<u>Cut as % of eligible programs</u>
FY95	\$ 158.9	\$ 162	\$ 0	0 %
FY96	183.6	139	44.6	5.9 %
FY97	219.4	116	100.6	12.5 %
FY98	236.6	93	134.3	15.9 %
FY99	286.1	70	197.8	21.5 %
FY00	328.8	47	250.0	25.3 %
FY01	371.6	24	298.2	28.1 %
FY02	413.5	0	342.3	29.8 %

If the necessary cuts are applied across the board, a particular federal grant or contract (other than a defense contract) would have to be reduced by the percentages listed in the last column to reach a balanced budget.

## THE CURRENT LOCAL PICTURE

Federal spending for Bay Area Counties as of Fiscal Year 1993, the last fiscal year for which complete figures are available, was \$32.651 billion annually.

Table 4 calculates the amount of that spending which would be considered eligible for cuts under the Contract.

Table 5 lists the expected deficits with the GOP tax cuts, the spending cuts necessary to reduce the deficit to zero by FY 2002, and the "share" of those funds which the Bay Area Counties would lose.

These figures assume that the cuts will be apportioned around the country according to the share of federal spending currently received. For most of the counties covered in this report, however, this assumption will underestimate the cuts. In general, the cuts contemplated by the GOP will disproportionately impact urban areas and other areas with large social services budgets.