



**WHAT'S GOING ON IN THE NATION?
Federal Policy and Its Impact on California and
Children and Youth with Special Health Care Needs?**

Edwin Park
Center on Budget and Policy Priorities
park@cbpp.org
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I. Health Reform Implementation at the Federal Level

- Progress on implementation.
- Efforts to block or delay progress.

Federal Funding to Support State Efforts

- Exchange planning and establishment grants.
 - Uncapped 100 percent federal funding intended to provide all the funds states need to set up exchanges through the end of 2015.
- Innovator IT grants.
 - Federal funding to develop eligibility and enrollment and other IT systems necessary for exchanges.
 - California, however, did not apply.
- Higher federal Medicaid matching rate for upgrading Medicaid eligibility systems.
 - 90 percent match for upgrades and 75 percent for ongoing operations.

Federal Guidance on Key Health Reform Provisions

- A number of regulations and guidance have already been issued related to the health insurance market reforms that took effect last fall including barring insurers from denying coverage to children with pre-existing health conditions.
- Next round of regulations expected this spring related to health insurance exchanges, Medicaid expansion and eligibility and enrollment.
- Further down the road: essential benefits package.

Repeal or Modification Efforts

- House passed full repeal of health reform law.
- Efforts to repeal or modify specific provisions of the Affordable Care Act.
 - Eliminating the maintenance of eligibility requirement for Medicaid and CHIP.
 - Increasing the repayment of overpayments owed by families related to the premium credits for exchange coverage.
 - Delaying various cost containment provisions.
- Using changes to the Affordable Care Act to offset the costs of other spending and revenue proposals, not all of which are health-reform related.

“Defunding” Health Reform Implementation

- “Riders” that prevent federal agencies from moving forward on implementation, several of which were included in the House-passed 2011 funding bill.
- Cutting funding for agencies that need to implement health reform.
 - CMS program management funding (23% cut through remainder of year).
- Failing to appropriate funding for grants and programs authorized in the Affordable Care Act.
- Blocking issuance of federal regulations, without which states and federal government cannot implement health reform law.

II. The Overall Federal Budget

- Federal budget and tax policies significantly and directly affect states like California.
- Nationwide, more than one-quarter of state general revenues come from the federal government. More in California.
- Much of it is provided through Medicaid.

Critical State Programs Depend on Federal Funding

- Federal funding levels determine whether vital state programs, like those serving children and youth with special health care needs, will be adequately funded over the short- and long-term.
 - Medi-Cal, Healthy Families, and other health programs
 - Food stamps and child nutrition
 - Cash assistance
 - Social services and supports
 - Housing
 - Education

Deficit Reduction

- Top focus of policymakers is deficit reduction.
- Weighed heavily towards program cuts, rather than revenues, to lower deficits.
- Both for short-term (2011), which would worsen state budget deficits, and for long-term.
- Long-term deficit reduction is critical but should be balanced in terms of spending and revenues and in terms of the distributional effects.

Discretionary Spending Cuts

- Congress has to appropriate funding for a variety of programs each year.
- This “discretionary” funding is a relatively small part of the budget.
 - Non-defense and security-related spending is less than 20% of total federal spending (defense/security another 20%).
 - About one-third goes to states as grants-in-aid.
- Current 2011 discretionary funding only runs through March 4th. Without extension, government shutdown.
- Obama Administration and Senate/House all proposing freezes/reductions in discretionary spending over the next 5 years.

House Cuts to Discretionary Funding

Cuts Below Current Discretionary Funding Required by H.R. 1

Budget authority in billions of dollars

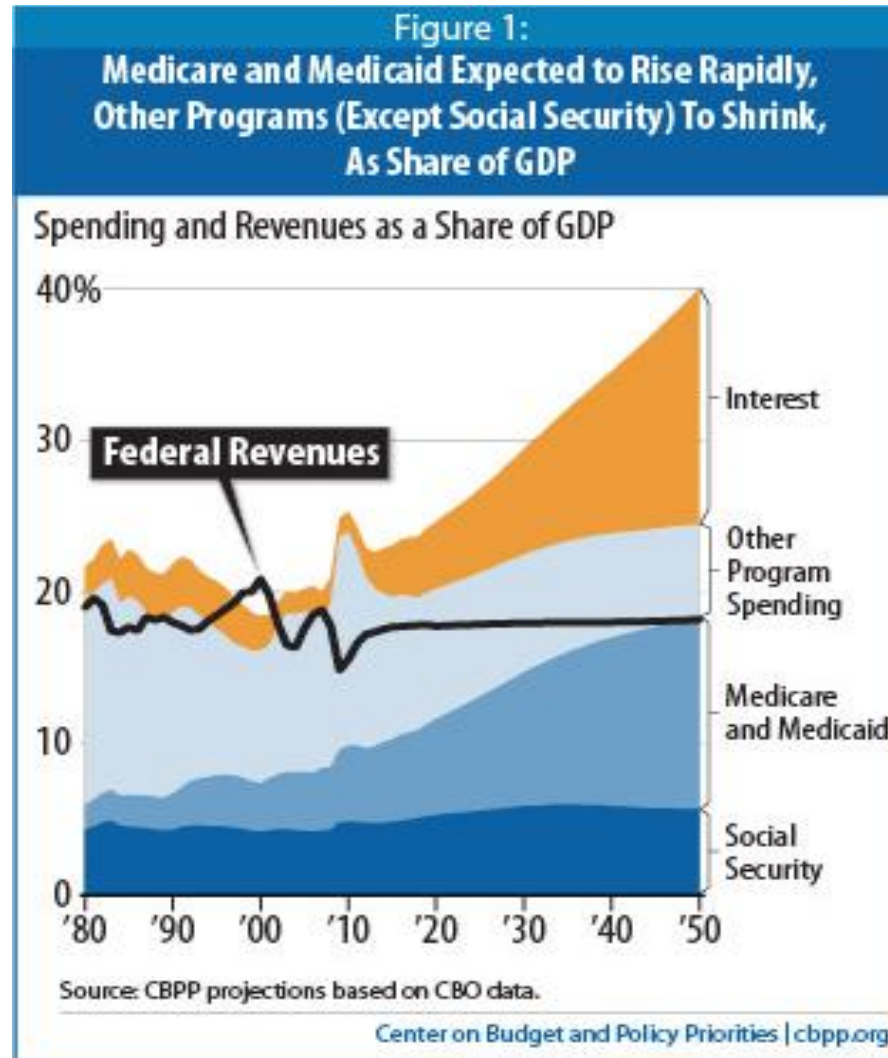
Appropriations Subcommittee	Continuing Resolution*	Percent Cut in Total 2011 Funding	Percent Cut in Funding for Remainder of 2011
Agriculture, Rural Development, FDA	\$23.305	-22.4%	-38.9%
Commerce, Justice, Science	\$56.681	-7.0%	-12.2%
Energy and Water Development	\$33.870	-11.8%	-20.5%
Financial Services and General Government	\$23.363	-12.7%	-22.0%
Interior, Environment	\$32.280	-13.7%	-23.9%
Labor, Health and Human Services, Education	\$169.350	-13.7%	-23.8%
Legislative Branch	\$4.654	-4.1%	-7.2%
State, Foreign Operations	\$50.774	-11.5%	-19.9%
Transportation, HUD	\$66.292	-21.0%	-36.4%
Non-security	\$460.569	-13.8%	-24.0%
Defense	\$508.692	1.5%	2.6%
Homeland Security	\$42.555	-2.4%	-4.2%
Military Construction, Veterans Affairs	\$75.649	-1.9%	-3.4%
Security	\$626.896	0.8%	1.4%
Total	\$1,087.465	-5.4%	-9.4%

*If Congress were to extend the continuing resolution through the end of fiscal year 2011.
Source: Congressional Budget Office; CBPP.

Examples of the House Cuts

- \$1.1 billion cut to Head Start, reducing number of kids by 157,000, on top of 61,000 lost because of expiration of the economic recovery act.
- \$2.1 billion cut to K-12 education including \$558 million cut to help provide special education and related services to children with disabilities and other special health care needs.
 - \$59 million in CA.
- Cuts to mental health and substance abuse block grants by \$139 million.
 - \$19 million in CA.
- Cuts to WIC by at least \$752 million.
- Cuts to community health centers by more than \$1.1 billion.

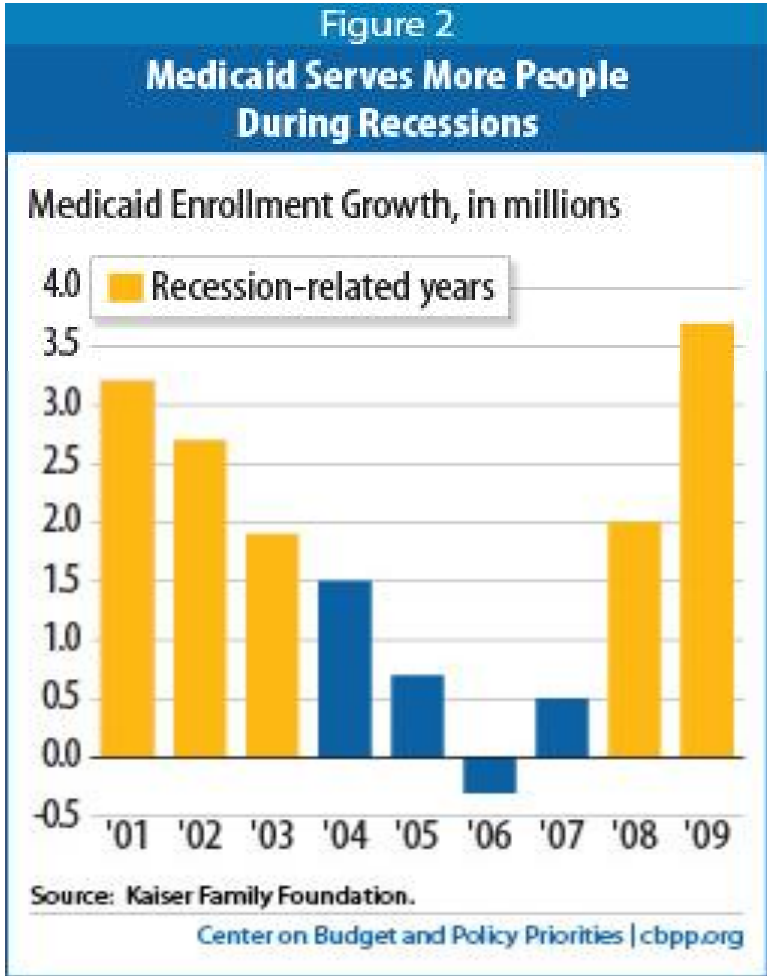
Reducing Long-Term Deficits



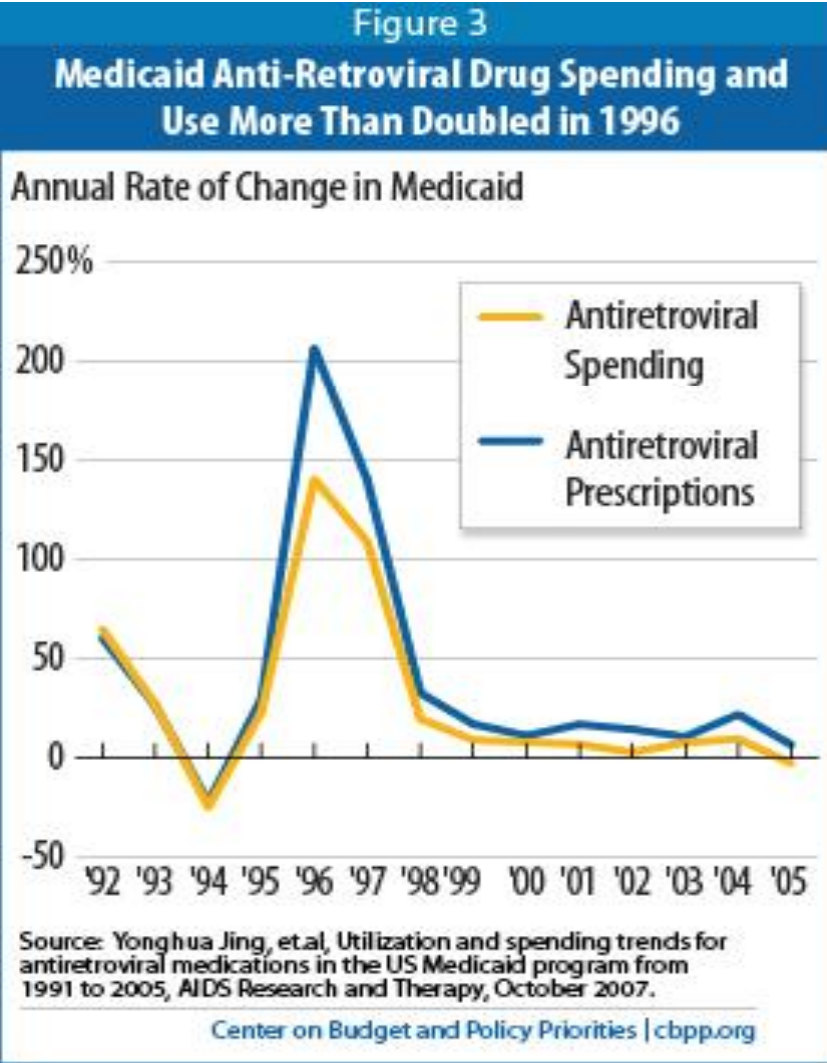
Medicaid Block Grants

- Federal government now picks up fixed percentage of states' Medicaid costs, whatever those costs are (57%, on average, and 50% in California).
- Under a Medicaid block grant, states get a fixed dollar amount irrespective of their costs. If they run out of federal funding, state is responsible for all remaining costs.
- Set at levels well below current funding levels to ensure significant federal savings over time.
 - Ryan-Rivlin proposal would cut Medicaid by \$180 billion through 2020.
- Shifts risks and costs to states.

Block Grants Would Not Respond to Recessions



Block Grants Would Not Respond to Medical Breakthroughs



Block Grants Typically Tied to Greater State Flexibility

- States could be granted authority to cap enrollment and eliminate coverage of mandatory populations and benefits.
 - End individual entitlement.
 - Slash mandatory eligibility coverage including for SSI beneficiaries.
 - Eliminate EPSDT.
 - Curb benefits for people with disabilities: case management, therapy services, mental health, long-term services and supports.
- Block grants result in these kinds of deep cuts because amounts will be inadequate and increasingly inadequate over time.
- As a result, shifts costs onto beneficiaries (as well as providers), adding to ranks of the uninsured and underinsured.
- Hard to see how Medicaid expansion under health reform is viable: requirement will be dropped or states cannot afford it.

Spending Caps: Connecting the Dots

- Other proposals try a “look, no hands” approach to hide the real-world implications of deficit reduction efforts.
 - Spending caps (Corker-McCaskill – 20.6 percent of GDP)
 - Health spending caps (Bowles-Simpson deficit commission – GDP + 1%).
 - Balanced budget amendment.
- No way to achieve those savings without sharp reductions in programs like Medicare, Medicaid and Social Security, instituted through proposals like Medicaid block grants.

Ryan-Rivlin Plan

- Could be part of House budget resolution.
- Ending Medicare for everyone now under 55 who is not yet eligible and replacing it with a voucher for purchase of coverage in the private market.
 - Voucher would be set to decline significantly in value over time.
- Increasing Medicare deductibles and co-insurance for those on the program.
- Converting Medicaid into a block grant.

Timing of Deficit Reduction Legislation

- “Continuing resolution” expires on March 4. Government shutdown increasingly likely.
- Debt ceiling limit in spring.
- Budget resolution in House and Senate.
- Must-do legislation including another fix for Medicare reimbursement and appropriations for the next federal fiscal year 2012.