CALIFORNIA
▪ BUDGET PROJECT ▪

Budget Brief

July 1997

WHAT DO PLANS TO BALANCE THE FEDERAL BUDGET MEAN FOR CALIFORNIA?

On May 2 of this year, President Clinton and the Republican leadership of Congress announced agreement on a plan to balance the federal budget in 2002. The accord includes a package of spending reductions, some new spending initiatives, and an $85 billion net reduction in federal taxes in federal fiscal years 1998 through 2002.

The budget accord reduces Medicare spending by $115 billion and discretionary spending by $141 billion between 1998 and 2002.[1] Medicare savings include approximately $100 billion from reduced reimbursements to doctors, hospitals, and Health Maintenance Organizations (HMOs) and $15 billion from increased premium payments by higher income beneficiaries. The budget resolution allocates reductions in discretionary programs between defense and non-defense spending, with defense spending slated for a $77 billion (5 percent) reduction. Reductions to non-defense discretionary spending total $64 billion over the five year period and increase in magnitude on an annual basis from $1.6 billion in 1998 to $33 billion in 2002. The accord protects a small number of discretionary programs by guaranteeing funding at the levels proposed by the President in his 1998 budget. Protected programs include: Head Start, bilingual and immigrant education, Pell Grants, child literacy initiatives, training and employment services, and the Community Development Financial Institution Fund.

The spending reductions contained in the plan are deeper than would be necessary to balance the budget in the absence of the proposed tax reductions. It should also be noted that the plan does not guarantee that the budget will remain in balance after 2002. In fact, as will be discussed below, the structure of the proposed tax cuts makes continued balance unlikely, absent additional spending cuts. Moreover, the backloaded nature of the tax reductions will leave the federal government ill prepared to respond to costs associated with an aging population and the retiring of the baby boomers.

From a state perspective, the proposed spending plans all address one of the most significant spending cuts contained in last year's federal welfare bill: restoration of Supplemental Security Income (SSI) benefits to many legal immigrants. However, the spending reductions in Medicaid (Medi-Cal in California) and discretionary programs will place added burdens on the state and local governments. In addition, proposed changes to the federal estate tax will directly affect California's tax revenues along with the pressure to conform the state's personal and corporate income tax laws to proposed federal tax reductions.

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[1] Center on Budget and Policy Priorities, "What's in the Budget Agreement" (June 12, 1997).

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The House and Senate approved spending blueprints and tax measures prior to the Congressional July 4th recess. Both plans are roughly patterned on the previously announced accord. However, significant differences exist between the plans adopted by the two Houses of Congress and between Congress and the President. A two house conference committee will resolve outstanding issues in consultation with the Administration.

FEDERAL TAX PROPOSALS

Proposed Tax Changes Disproportionately Benefit The Wealthy

The House, Senate, and President have all proposed tax packages containing variations of the basic elements outlined in the budget accord: a $500 per child tax credit, tax benefits aimed at promoting post secondary education, and some sort of capital gains tax relief. All of the tax cut plans under

Table 1: All Tax Plans Under Consideration Provide Disproportionate Benefits To High Income Families (share of tax reductions by income group)

	House Plan		Senate Plan		Clinton Plan June 30	
Income Group	**Avg. Annual Tax Change**	**% of Total Tax Cut**	**Avg. Annual Tax Change**	**% of Total Tax Cut**	**Avg. Annual Tax Change**	**% of Total Tax Cut**
Lowest 20%	+$12	tax hike	+$48	tax hike	+$46	tax hike
Second 20%	+$6	tax hike	+$48	tax hike	+$4	tax hike
Middle 20%	-$131	4.1%	-$98	4.0%	-$159	15.6%
Fourth 20%	-$438	13.6%	-$432	17.6%	-$424	41.5%
Next 15%	-$1,138	26.6%	-$1,014	31.0%	-$469	34.5%
Next 4%	-$2,922	18.2%	-$2,271	18.5%	-$228	4.5%
Top 1%	-$24,294	38.0%	-$15,977	32.7%	-$1,781	8.8%
TOTAL (in billions, over five years)	-$638	100.0%	-$487	100.0%	-$203	100.0%
Annual Cost	-$73 billion		-$57 billion		-$25 billion	

Source: Citizens for Tax Justice, July 2, 1997

consideration provide a disproportionate share of benefits to high income individuals, while the plan proposed by the Administration provides substantially more relief to middle income taxpayers (Table 1). The bottom two quintiles of families (the 40 percent with the lowest incomes) actually pay more under all three major tax proposals -- the plan passed by the House, the Senate plan, and the President's plan introduced on June 30, 1997. The tax increases on low income families come from the proposed cigarette and excise tax increases contained in the President's and the Senate's plan and the excise tax increases in the House plan (the House plan does not include a cigarette tax increase). In contrast:

- In the House plan, the wealthiest one percent receive 38.0 percent of the benefits, more than the bottom 80 percent of the nation's families combined.
- In the Senate plan, the top one percent receive 32.7 percent of the benefits, also more than the bottom 80 percent combined.

- In the President's plan, the top one percent receives far less (8.8 percent), but the wealthiest 20 percent of the nation's families still receive nearly half the benefits (47.8 percent) of the proposed tax reductions.

In the House and Senate plans, the wealthy benefit disproportionately from reductions in capital gains, estate taxes, and expanded benefits for Individual Retirement Accounts (IRAs), including the new IRAs for education.[2] Under the Clinton plan, high income taxpayers benefit from special treatment of gains from investments in small business and an expanded exclusion of capital gains received from the sale of a home, while more middle income families are eligible for the child tax credit.

Half Of California Children Fail To Qualify For $500 Per Child Tax Cut

At the heart of all three tax plans is a $500 per child tax credit. However, the plans differ with respect to who qualifies for the credit. The most significant differences affect families that also qualify for the federal Earned Income Tax Credit (EITC). Both the Senate and House plans deny the child tax credit to most of the working poor:

- **Senate Plan:** Families who claim the EITC can only claim the $500 per child credit if they have a federal tax liability after subtracting *half* of their EITC and then only up to the amount of their tax liability. The credit is not refundable. The credit phases out for parents earning in excess of $110,000 (married) or $75,000 (single). Neither the credit nor the income phase out are adjusted for inflation. In 1997, a $250 credit would be available for children under 13.

- **House Plan:** Families who claim the EITC could only claim the $500 per child tax credit if they have federal income tax liability remaining after claiming their EITC and only up to the amount of their outstanding liability. In addition, the per child credit is reduced by half of any dependent care tax credits claimed by parents earning in excess of $33,000 (single) and $60,000 (married). The credit phases out for parents earning in excess of $110,000 (married) or $75,000 (single). Neither the credit nor the income phase out are adjusted for inflation.

- **Clinton Plan:** The credit would be partially refundable. Families would calculate their child tax credit first and those who are eligible for the EITC could receive a full or partial refund of their child credit if the amount they pay in federal payroll taxes exceeds the amount received from the EITC. The credit phases out for taxpayers earning in excess of $60,000 until 2000. In 2001 and thereafter, the credit is phased out for taxpayers with incomes in excess of $80,000.

Due to the restrictions in the House and Senate measures, over half of California's children will be ineligible for the $500 per child tax credit. Under the Senate plan, 53 percent of the state's children will not be eligible for the credit, while under the House plan 56 percent would not be eligible for the credit.[3] Nationally, just under half of all children will qualify for the credit, however most lower income families are ineligible for the credit (Table 2). For example:

Table 2: Half Of The Nation's Children Ineligible For $500 Per Child Tax Credit
(% of children ineligible)

Income Group	Senate	House
Bottom 20%	99.5%	99.6%
Next 20%	86.6%	92.2%
Middle 20%	36.5%	44.7%
Fourth 20%	18.4%	18.7%
Next 15%	21.5%	22.0%
Next 4%	56.1%	60.4%
Top 1%	99.1%	99.0%
All	**47.2%**	**49.9%**

Source: Citizens for Tax Justice, June 24, 1997

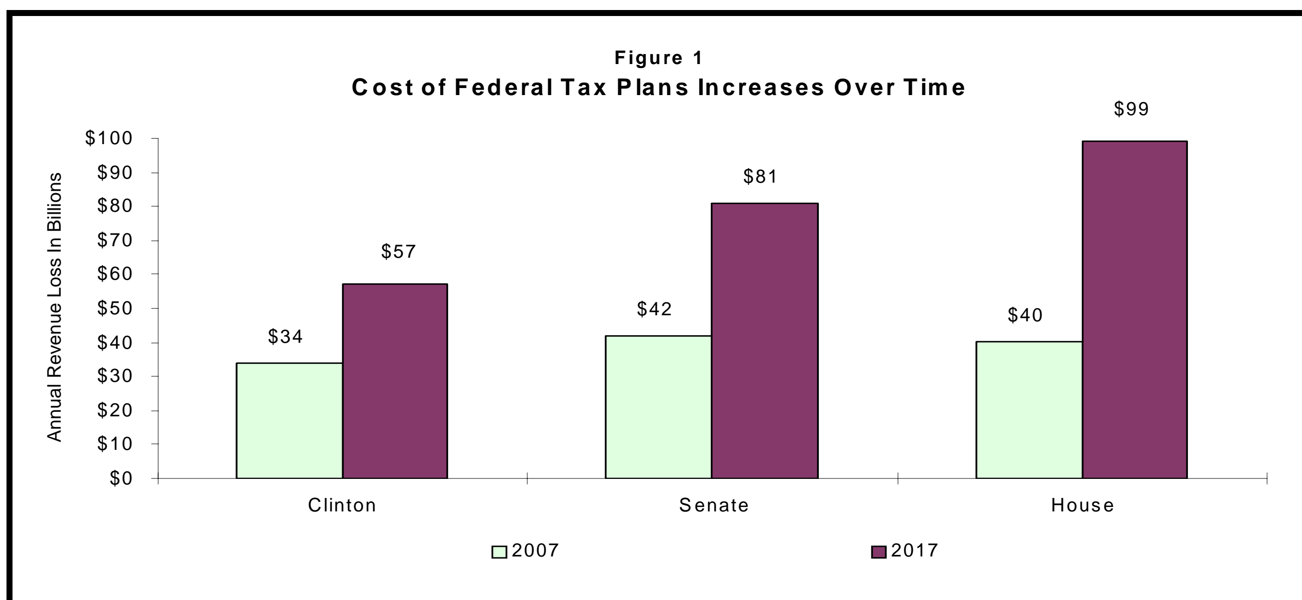
[2] Citizens for Tax Justice, "Distributional Analysis of the Clinton June 1997 Tax Plan" (July 2, 1997).
[3] Citizens for Tax Justice, "Tax Plans' $500 Kids Credits Exclude Half of All Children" (June 24, 1997).

- A single mother with one child earning $18,000 per year would receive $500 under the President's proposal, $380 under the Senate proposal, and nothing under the House proposal.

- A married couple with two children with an income of $24,000 would receive a $1,000 credit under the President's proposal, $423 under the Senate proposal, and no credit under the House plan.[4]

Cost Of Tax Plans Increases Substantially In Future Years

The cost of the tax plans passed by the House and Senate explodes in future years (Figure 1). This results from a phasing in of a number of the provisions contained in the plans and the backloaded nature of many of the reductions. Long range revenue forecasts predict that the cost of the Senate tax bill will increase at an annual rate of 13 percent between 2004 and 2007, while the cost of the House plan will increase by 11.4 percent over the same period. The cost of the Clinton plan grows at a much slower rate, 5.2 percent over a slightly longer period (2003 through 2007).[5]



Source: Center on Budget and Policy Priorities, July 3, 1997

The long term impact of the tax cuts gives rise to several concerns. First, the magnitude of the spending reductions in the various spending plans does not increase at the rate of the tax cuts. As a result, the budget is unlikely to remain in balance after 2002, the last year covered by the spending plans. Second, if policymakers wish to maintain balance, they will be faced with making deeper spending reductions, repealing the tax reductions after their enactment, or increasing other taxes. Finally, the proposed tax reductions will not be fully implemented until the next century. By the time the full impact of the tax plans is realized, the budget will also face rising costs for health care and pensions as rising numbers of baby boomers enter retirement and become eligible for Medicare. The combination of these factors will increase the pressure for even deeper reductions in discretionary spending and programs addressing the needs of low to middle income families in future years.

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[4] Both examples are based on the value of the per child credit at full implementation and estimated 1997 EITC, standard deduction and personal exemption amounts. The examples assume that taxpayers do not itemize their deductions.
[5] Robert Greenstein and Iris J. Lav, Center on Budget and Policy Priorities, "The Clinton Tax Plan" (July 3, 1997).

Estate Tax Cuts Will Directly Affect California's Revenues

California voters repealed the state's inheritance tax in 1982. The state does, however, receive revenues from a credit states claim against the federal estate tax. This provision gives states a share of revenues that would otherwise go to the federal government, but does not alter the amount of taxes paid with respect to an estate. As such, state revenues depend directly on federal estate tax law. States receive approximately 20 percent of all estate tax revenues, with California receiving 15 percent of the national total.[6] The House and Senate raise the threshold at which all estates are taxed, while the Clinton plan raises the exemption only for family farms and small businesses that continue to operate as a family business after inheritance.

The estate tax provisions of the various tax plans benefit very few, very wealthy households. Because current law exempts the first $600,000 of an estate from taxation, fewer than 2 percent of all adult deaths result in estates subject to tax.[7] In 1993, only 4,556 estates paid taxes to the state of California.[8]

States will bear a share of the revenue loss associated with exempting additional estates from taxation. Rough estimates suggest, for example, that California revenue collections will be reduced by $28 million in 1999, rising to $250 million in 2007 under the plan passed out of the Senate Finance Committee.[9]

Federal Changes Will Increase Pressure For California To Conform

California follows a policy of selective conformity to federal tax law. Most of the provisions of state tax law closely track federal law.[10] California does not typically conform to changes in federal rates or tax credits, but generally follows federal definitions of income, as well as most exclusions from income and deductions. Patterning state tax laws on federal law makes compliance easier for both taxpayers and tax administrators. Conformity results in pressures to modify California's tax system based on policies and priorities established by Congress that may or may not reflect the priorities of California's lawmakers. Proposed federal tax reductions, if enacted, will result in pressure for California to make similar changes in state tax law, thereby reducing state revenues.

FEDERAL SPENDING PROPOSALS

The President And Congress Agree To Cut Medicaid Spending

The budget accord includes $17.8 billion in spending reductions from federal Medicaid programs over the next five years. Most of the reductions come from the Disproportionate Share Hospital (DSH) program and through savings attributable to increased state flexibility. Spending enhancements totaling $4.2 billion result in net Medicaid budget reductions of $13.6 billion between 1998 and 2002.[11] Differences in the House and Senate proposals will be resolved by the two house congressional

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[6] Internal Revenue Service, downloaded from http://www.irs.ustreas.gov/prod/tax_stats/soi/est_etr.html on July 7, 1997.
[7] In 1991, the most recent year for which information is available, 1.25 percent of adult deaths resulted in estates subject to tax. Internal Revenue Service, Statistics of Income Bulletin, Publication 1136 (Summer 1995).
[8] Internal Revenue Service, downloaded from http://www.irs.ustreas.gov/prod/tax_stats/soi/est_etr.html on July 7, 1997.
[9] This estimate is based on the cost of the estate tax provision as reported by the Senate Finance Committee and assumes that the share of estate tax revenues received by states and California's share of revenues among the states both remain constant over time. These estimates should be viewed as a very rough indication of the order of magnitude of the potential loss to California.
[10] California's personal and corporate tax laws are currently linked to the version of federal law in effect on January 1, 1993.
[11] The four proposals are an increase in Medicare Part B premium costs ($1.5 billion), Medicare Premium Assistance for low income Medicaid Beneficiaries ($1.5 billion), an increase in the federal Medicaid matching rate for the District of Columbia ($900 million), and an increase in federal Medicaid payments to Puerto Rico ($300 million).

conference committee.
The largest share of the Medicaid reductions in both plans comes in the DSH program. The DSH program supplements Medicaid (Medi-Cal) and indigent health care programs by providing additional payments to hospitals that serve a disproportionate share of Medi-Cal, uninsured, and low income patients. Many of the participating hospitals in the DSH program, particularly the public ones, depend on DSH as an important funding source. In California, 122 hospitals in 37 counties share nearly $1.1 billion in federal DSH money annually.[12]

The House plan reduces DSH funding by $13.1 billion between 1998 and 2002 by gradually limiting payments to most states, including California, to 20 percent below their 1995 DSH allotment (Table 3).[13] Payments to states with the highest DSH expenditures are cut by 40 percent over this same period, while payments to the lowest-DSH states are not cut at all.[14]

Table 3: Cuts To DSH Funding For Most States, 1998-02
Percent Reduction In DSH Funding Below 1995 Levels

Federal Fiscal Year	1998	1999	2000	2001	2002
House Version	-1%	-2.5%	-10%	-15%	-20%
Senate Version	-0%	-2.0%	-5.0%	-10%	-15%

Source: Balanced Budget Act of 1997, H.R. 2015 and Balanced Budget Act of 1997, S. 947

The Senate version of the budget limits DSH funding by $14.3 billion over the same period by reducing DSH payments to most states by 15 percent below 1995 levels. By 2002, payments to states with the highest DSH expenditures are cut to 20 percent below 1995 spending levels for inpatient services. In addition, DSH payments for mental health services are eliminated by 2001.[15] California's reduction is determined by an exception to this formula. Under this exception, which apparently applies only to California, states whose 1995 DSH spending was greater than 12 percent of their total federal Medicaid spending, but received no payments for mental health services, receive an amount equal to the average of 1995 and 1996 federal DSH funding for the period 1998-2002. In addition, states in this category would be given until December 31, 1997, to report their 1996 DSH total.[16] Reports suggest that this exception was drafted to shift a greater share of the DSH reduction on to California's hospitals. At full implementation in 2002, California could lose up to $220 million under the House version and an unknown amount under the Senate version.[17]

The budget conference committee will determine the depth and allocation of the DSH reductions. Both the Senate and the House versions of the bill cut high-DSH states more than low-DSH states. Thus debate will center on whether high-DSH states can minimize their reductions over the objections, and at the expense, of low-DSH states. The Administration has said that it will push conferees to adopt a formula that protects high-DSH states instead of singling them out for the deepest cuts. California

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[12] The state portion of the DSH program is funded entirely by counties, University of California hospitals, and hospital districts. These public entities provide $1.1 billion in intergovernmental transfers (IGT) to the state, which then use the funds to obtain $1.1 billion in federal matching funds.
[13] Congressional Budget Office Cost Estimate, Non-Medicare Reconciliation Recommendations of the House Committee on Commerce (Title III), as approved on June 11, 1997 (June 16, 1997).
[14] Under the House definition, high DSH states are those whose 1997 DSH payments exceeded 12 percent of their total Medicaid payments. California is not as a high DSH state under this definition since the state's 1997 DSH payments are less than 12 percent of the state's total federal Medicaid spending. The House freezes payments to states whose 1995 DSH payments equaled no more than one percent of their total federal Medicaid dollars at their 1995 payment levels.
[15] Congressional Budget Office Cost Estimate, Reconciliation Recommendations of the Senate Committee on Finance (Title V), as approved on June 18, 1997 (June 23, 1997).
[16] This rule applies to states whose 1995 DSH spending was greater than 12 percent of their total Medicaid spending, but had no mental health DSH spending in 1995.
[17] $220 million represents 20 percent of California's 1995 DSH allotment. Calculations made by the California Budget Project.

stands to lose even more if the formula used to distribute DSH reductions is changed. In particular, a change in the definition of high-DSH state could push California into this category.

Additional Savings Attributed To Ability To Limit Reimbursement Rates And State Flexibility

Both the House and Senate reconciliation bills repeal the Boren amendment, which requires states to pay "reasonable and adequate reimbursement rates" to hospitals and nursing facilities serving Medicaid beneficiaries. Many states argue that the threat of lawsuits based on the Boren amendment have fueled increases in provider reimbursement rates. Advocates counter that repeal of the Boren amendment will erode the quality of nursing home care and reduce the number of homes accepting Medicaid patients. The Congressional Budget Office (CBO) estimates that the repeal of this amendment will slow the increase in provider reimbursement rates, resulting in $1.2 billion of savings over the next five years.

Both the House and Senate bills allow states to enroll Medicaid beneficiaries into managed care plans without obtaining a federal waiver from the Department of Health and Human Services (DHHS). States must still submit a Medicaid plan amendment, but plan amendments receive far less scrutiny than do waiver applications. While this proposal saves little money, it gives states the ability to shift Medicaid recipients into managed care plans with little federal oversight. In California, for example, federal oversight associated with the waiver process is preventing Los Angeles County from enrolling 1.6 million Medicaid recipients into managed care plans, pending assurance that patients rights will be protected and they will receive adequate health care. Health care advocates worry that under the House and Senate proposals the federal government will have less ability to intervene in a similar situation.

One of the most significant policy initiatives contained in the budget agreements is an attempt to extend health coverage to uninsured children. In accordance with the budget agreement reached with the President, both the House and Senate budget plans augment funding of children's health care. Some of the critical differences between the plans are outlined below and in Appendix A.

The House reconciliation bill allocates $14.2 billion of the $16 billion in new child health funds for a block grant to states to fund child health initiatives over the next five years. States are not required to maintain spending levels and would be able to divert their existing spending for other purposes. This is because the "direct service" option in the House language allows replacement of existing state spending on services for children with federal block grant money. In addition, states are not required to provide the same package of services to children covered under the block grant as they provide to children covered by Medicaid. The House allows states to use block grant money to purchase health coverage from group plans or arrange for health services directly through providers, yet does not require a minimum level of coverage. The CBO estimates that the House proposal will only cover 380,000 children, far fewer than the five million children targeted in the budget agreement.[18]

In contrast, the Senate proposes spending $24 billion over the next five years for children's health by augmenting the $16 billion dollars originally proposed in the bipartisan budget agreement with $8 billion from a 20 cent per pack tobacco tax increase.[19] The Senate allows states to either expand their Medicaid programs or receive a capped block grant similar to that provided in the House proposal. Unlike the House version, the Senate requires states to maintain spending levels for children's health

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[18] Congressional Budget Office Cost Estimate, Non-Medicare Reconciliation Recommendations of the House Committee on Commerce (Title III), as approved on June 11, 1997, (June 16, 1997), p. 12.

[19] Whether the final agreement will include a tobacco tax increase and whether the revenues from any increase will be slated for children's health coverage will be resolved by the budget conferees.

programs and to use block grant money to provide benefits comparable to those federal employees receive through Blue Cross/Blue Shield, plus hearing and vision care. The Senate also limits the amount states can charge as co-payments for children's coverage. CBO estimates that the Senate plan would cover only 560,000 uninsured kids.

The House plan allows states the option to restore Medicaid coverage to disabled children with learning disabilities who lost their SSI benefits as a result of the narrower definition of disability contained in last summer's federal welfare reform legislation. Both houses provide children twelve months of continuous Medicaid eligibility regardless of any change in family circumstances and fund outreach programs to identify and enroll some portion of the estimated three million children currently eligible for Medicaid, but not enrolled.

Budget Restores Some, But Not All, SSI Eligibility For Legal Immigrants

The bipartisan accord agreed to by the President and Republican leaders takes steps to restore a portion of the limitations imposed on legal immigrants' eligibility for SSI, a program providing cash assistance to needy elderly and disabled individuals. Contrary to some reports, however, none of the plans currently under consideration restore full eligibility for assistance to current and future immigrants legally residing in the US. A provision of HR 1871, the Emergency Supplemental Appropriations bill passed in June, continues SSI benefits for individuals receiving assistance as of August 22, 1996 through the end of the federal fiscal year (September 30, 1997).

The long term effects of the differences between the House and Senate plans are significant.[20] Under the House plan, only individuals receiving SSI as of August 22, 1996 would be eligible for benefits. Individuals who become elderly or disabled after that date would not receive assistance. In contrast, the Senate restores eligibility to individuals receiving assistance on August 22, 1996, plus those residing in the US as of that date who become disabled in the future. The Senate also restores eligibility to legal immigrants who come to the US in the future and are too disabled to naturalize. The budget agreement does not restore SSI and Medicaid eligibility for legal immigrants arriving on or after August 22, 1996 and there are no proposals to restore food stamp eligibility to legal immigrants.

House Eliminates SSI Maintenance Of Effort

SSI/SSP benefits consist of two portions: one (SSI) paid by the federal government, and another (SSP) paid by some, but not all, states. Current federal law prevents states from reducing SSP grant levels below the amount paid in July 1983. This federal maintenance of effort (MOE) requirement prevented California from implementing the 4.9 percent statewide and additional 4.9 percent regional reduction in SSP grant levels enacted as part of previous years' state budgets. The House budget eliminates the MOE requirement, thereby allowing states to reduce grant levels. The Senate budget maintains the current requirement. If included in the final budget agreement, the House proposal would allow California to implement grant reductions under consideration in this year's budget deliberations.

New Funding For Local Welfare-To-Work Programs

Both the House and Senate allocate $3 billion for grants to states to help recipients of Temporary Assistance for Needy Families (TANF) find jobs. The Senate adopted one plan for establishing grants, while the House adopted two plans, one by the Education and Workforce Committee and the other by

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[20] For additional information regarding the differences between the various plans, see CBP's *Federal Budget Proposals Restore Some, But Not All, Legal Immigrants' Eligibility for SSI/SSP* (July 1997).

the Ways and Means Committee. The Education and Workforce Committee allocates 95 percent of funds as a block grant to states on a non-competitive basis. The remaining 5 percent is awarded through a competitive process. The Ways and Means Committee allocates 50 percent of the funds as a block grant and 50 percent by competitive bid. The Senate proposal distributes 75 percent of the grant by a non-competitive formula and 25 percent by competitive bid.[21]

All three proposals require states to pass 85 percent of the funds awarded on a non-competitive basis to private industry councils or local government, which would control the actual use of the funds. The remaining 15 percent of the funds distributed on a non-competitive basis could be used by states to support welfare-to-work programs. The CBO suggests that states may initially find it difficult to spend available grant funds, but that all but $139 million of the moneys would be spent by 2000. This is partly because of the delay involved in distributing funds through a competitive process. California will likely fare best under the House Education and Workforce Committee proposal since it distributes more funds on the basis of a formula based on states' share of TANF recipients and others in need of assistance.

Some Adults Will Retain Food Stamps

Last summer's welfare law limited food stamp eligibility for able-bodied adults without dependents (ABAWDs) between the ages of 18 and 50 to no more than three months out of 36 months. Recipients participating in specified work activities would retain their benefits. In an attempt to mitigate the impact of this provision, the House includes $1 billion to fund employment and training programs for food stamp recipients affected by the limits on eligibility for ABAWDs. This provision should reduce the number of recipients losing food stamps by providing increased access to work or employment training. The budget agreement also gives states the authority to exempt up to 15 percent of the people who would otherwise lose food stamps from the ABAWD restrictions.

The California Budget Project (CBP) is a nonpartisan, nonprofit organization whose goal is to promote a better understanding of state fiscal issues in order to promote a healthy public sector based on a fair and equitable tax system. Support for the California Budget Project comes from foundation grants, individual donations, and subscriptions.

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[21] The House Education and Workforce Committee's formula for non-competitive grants consider a state's share of adult TANF recipients and its share of the population living in poverty or twice the state's expenditures on welfare-to-work activities, whichever is less. The House Ways and Means Committee's recommendation considers a state's share of adult TANF recipients, the population living in poverty, and unemployed workers, or twice the state's expenditures on welfare-to-work activities, whichever is less. The Senate formula is based on 0.5% of available funds in each fiscal year or a state's share of the nation's TANF recipients, unemployed workers, and percentage of people living below poverty, whichever is greater.

Appendix A: Comparison Of Selected Children's Health Provisions In Senate And House Budget Bills

Senate	House
Funding: • $24 billion (from 1998-2002) includes $8 billion from a $0.20 tobacco tax increase passed by Senate. • Costs of expedited phase-in of Medicaid coverage to 100 percent of the Federal Poverty Level (FPL), optional one year of continuous Medicaid eligibility, and increased enrollment due to new outreach would be "taken of the top," remaining funds available for grants to states. • State match required, federal match rate enhanced over Medicaid rate.	**Funding:** • $16 billion (from 1998-2002), $14 billion to be used for block grants to states to fund children's health initiatives. • Costs of presumptive Medicaid eligibility "taken off the top," remaining funds available for grants to states. • State match required, federal match rate enhanced over Medicaid rate.
Allotments to States: • Based on number of low income children in families up to 200 percent FPL in the state as compared to the total number nationally. • One percent of a state's allotment is reserved to pay for outreach activities.	**Allotments to States:** • Based on number of uninsured children in families with household incomes up to 300 percent FPL and the relative cost of health services in the state.
Allowable Uses: • New funds MUST go to new coverage via Medicaid or children's health insurance. • May not be used to supplant state Medicaid or child health spending. • States must take (unspecified) steps to avoid substitution of new children's money for existing private coverage.	**Allowable Uses:** • States MAY use funds for health "service," not direct coverage. States MAY use funds to replace DSH cuts, or to supplant state child health spending. • States MAY purchase either insurance or Medicaid coverage. • States may deny benefits to children who have access to other private coverage.
Non-Medicaid Benefits: • Benefit package for non-Medicaid coverage must be comparable to the Blue Cross/Blue Shield standard option preferred provider plan received by federal employees, PLUS vision and hearing coverage. • Mental health parity: limits on treatment and cost-sharing may not differ from those for medical-surgical coverage.	**Non-Medicaid Benefits:** • If state purchased insurance, must cover hospital, medical-surgical, lab and x-ray, and well-child. • If state purchases existing group coverage, group CAN provide same coverage as to all other enrollees, even if services listed above are not all included. • States MUST "ensure" access to specialty care, and may use specialist as gatekeeper for children with chronic or life-threatening conditions.
Medicaid Benefits: • States MUST cover children up to 100% of FPL through age 18 in order to receive block grant funds. • States MAY provide 12 months continuous Medicaid eligibility to children. • Requires states to do outreach to enroll children in Medicaid, private insurance, and any new children's coverage.	**Medicaid Benefits:** • States MAY cover children up to 100% of FPL through age 18. • States MAY provide 12 months of continuous Medicaid eligibility, and presumptive Medicaid eligibility for children. • Requires states to do outreach to enroll children in Medicaid, private insurance, and any new children's coverage. • Provides benefits to disabled children who lost SSI due to welfare reform.
Eligibility: • Coverage could go to children in families with incomes up to 200 percent of FPL.	**Eligibility:** • Coverage could go to children in families with incomes up to 300 percent of FPL.
Coverage of Legal Immigrant Children: • Legal immigrant children under 19 are exempt from five year ban on Medicaid eligibility.	**Coverage of Legal Immigrant Children:** • No Provision.
Maintenance of Effort: • States MUST maintain 6/1/97 Medicaid eligibility standards. • States MUST maintain their FY 1996 level of spending on other children's health programs (Medicaid, Title V, school health, etc.).	**Maintenance of Effort:** • States MUST maintain 6/1/97 Medicaid eligibility standards. • May not use enhanced match to cover children under Medicaid.
Cost-Sharing: • Families at or under 150 percent of FPL may not be charged more that a nominal share of costs (premiums, co-payments, etc.).	**Cost-Sharing:** • To extent possible states must use sliding scale premiums giving priority to lower-income families. • No cost-sharing for preventive services.

Source: National Conference of State Legislatures, Comparison of Children's Health Provisions In House and Senate Reconciliation Bills, July 2, 1997.