



Key Federal Budget Issues Affecting Health Care in California in 2008

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Context: Growing State Budget Deficits and the Economic Downturn

- Economic conditions declining.
- 21 states are now estimated to face a total budget shortfall of \$37.4 billion to \$39.6 billion for 2009. (California represents more than 40 percent of this estimate.)
- Additional 4 states will likely have deficits in 2009 and 3 other states will likely have deficits in 2010.
- This means states will find it difficult, if not impossible, to make up for any federal funding losses in the area of health care with state funds.
- As a result, states may have no choice but to institute health care cuts due to federal funding shortfalls.

Overview of Federal Health Issues in 2008

- Due to Bush Administration opposition, SCHIP reauthorization likely put off until spring 2009. Temporary SCHIP extension and additional funding allows states to sustain their programs.
- No major federal health legislation expected because it is an election year.
- Several key health issues, however, could be addressed in the first half of 2008. Generally involve preventing adverse cost-shifts in health care from the federal government to states (and beneficiaries) during an economic downturn.
 - A. SCHIP guidance.
 - B. Medicaid regulations.
 - C. State fiscal relief.
 - D. Medicare.
- Must-pass vehicles that could include provisions to address these areas would be the Iraq supplemental funding bill and the Medicare physician payment bill (spring-early summer).

A. SCHIP Reauthorization Delayed

- President twice vetoed bipartisan SCHIP legislation passed overwhelmingly by both Senate and House in 2007. Veto override attempts fell just short.
- Congress enacted a temporary extension of SCHIP through April 2009. Included additional funding above current levels of up to \$1.6 billion for FY 2008 and \$275 million for FY 2009.
- Should be more than enough to ensure no state, including California, faces a federal funding shortfall based on the most recent state spending projections.
- SCHIP reauthorization would likely not be considered again until spring 2009 under a new Congress and Administration.

Bush Administration's August 2007 SCHIP Directive

- Without legislative authority and even as Congress debated SCHIP reauthorization, Administration issued a directive on August 17, 2007 that effectively bars any SCHIP coverage of children with gross incomes above 250 percent of the poverty line.
- Subject of pending litigation by several states.
- Several states expanding coverage have either had to scale back their SCHIP expansions or fund them with state-only dollars.
- By August 2008, states already covering children above 250 percent of poverty must scale back their programs.
- Affects adversely California's efforts to expand Healthy Families as well as its current program.
- Restrictions now being extended to Medicaid as well.
- Ongoing Congressional efforts to overturn the guidance or place a moratorium on its enforcement.

B. Recent Medicaid Regulations from the Bush Administration

- Administration has issued numerous Medicaid regulations that effectively shift costs onto states and limit access to needed health care services particularly for people with disabilities and special health care needs.
- Would reduce federal Medicaid funding by \$20.8 billion over next five years, according to CBO. May underestimate the actual effects.
- The regulations fall into three general categories: benefits for people with disabilities and special health care needs, school-based services, and hospital payments.
- Some regulations already subject to moratoria but they are expiring. Others have already gone final.
- Ongoing Congressional efforts to delay implementation or extend existing moratoria but likely need pay-fors.

The Estimated Costs to California of the Medicaid Regulations

- Based on State of California's own cost estimates reported to the House Committee on Oversight and Government Reform.
 - Targeted case management: \$24 million in 2008/\$119 million over 5 years. “California might conduct 100,000 fewer Medi-Cal beneficiary TCM encounters.
 - Rehabilitation therapy services: “This rule puts at risk over \$1 billion annually and \$5 billion over a 5-year period.”
 - School-based services: \$130 million in 2008/\$650 million over 5 years. Would affect 800 schools and more than 56 percent of school districts.
 - Cost limits: \$943.6 million in 2008/\$4.7 billion over 5 years.
 - Provider taxes: \$540 million in 2008/\$2.7 billion over 5 years.
 - Graduate medical education: \$248.2 million in 2008/\$1.2 billion over 5 years.
 - Outpatient hospital services: \$266.4 million in 2008/\$1.3 billion over 5 years.
- Total estimated effects: at least \$2.2 billion in 2008 and \$10.8 billion over 5 years and as much as \$3.2 billion in 2008 and \$15.8 billion over 5 years.
- Total estimates from state reporting much higher than CBO (all states: at least \$49.8 billion over 5 years). Unclear how state estimates were calculated.

C. State Fiscal Relief

- During the last downturn, in 2003, Congress provided \$20 billion in state fiscal relief to states in the form of a temporary increase in the federal Medicaid matching rate as well as block grants.
- Helped avert additional budget cuts and allowed some states to reverse already enacted cuts. Key element was that the FMAP increase was tied to states maintaining Medicaid eligibility.
- California received approximately \$2.4 billion in last round.
- This year, in response to the economic downturn and rising state budget deficits, the National Governors Association supports providing \$12 billion in state fiscal relief: half in a Medicaid FMAP increase and half in block grants.

Fiscal Relief Proposals

- Congressional interest in pursuing second “economic stimulus package” that could include state fiscal relief.
- Fiscal relief bills introduced by Senator Rockefeller (D-WV) and Congressman Pallone (D-NJ). Would provide significant relief to California (estimated \$1.3 billion to \$1.4 billion).
- May also be interest in targeting the fiscal relief to states most in need because unlike last downturn, some states still doing well.
- CBPP has come up with targeting formula based on three criteria: employment changes, food stamp enrollment increases and increases in foreclosure rates.
- California would satisfy these criteria.

D. Medicare Legislation

- Physicians face another scheduled cut in payments under Medicare by June.
- Legislation could be opportunity for needed improvements to the Medicare Savings Programs and the Low-Income Subsidy in the Part D drug benefit which together help low-income beneficiaries pay for their Medicare premiums and cost-sharing.
- Opportunity to also curb the \$150 billion in overpayments to private insurers under the Medicare Advantage program. Private plans cost 13 percent more than traditional Medicare to cover same beneficiary.
- These overpayments move up Medicare's insolvency date by two years and raise beneficiary premiums (and also to address marketing abuses by insurers).
- MA provisions would also produce needed savings under PAYGO to pay for both physician fix and low-income provisions.
- House-passed SCHIP bill last year included key provisions in these areas.
- Administration has repeatedly threatened a veto of any Medicare bill if MA savings are included. Even opposes marketing reforms.

Legislative Vehicles for Provisions Addressing These Federal Health Issues in 2008?

- Very little must-pass federal legislation in this election year that could serve as a vehicle to address these vital federal health issues.
- Two best opportunities:
 - Iraq supplemental funding bill (spring).
 - Medicare physician payment bill (spring-early summer).
- Last year's versions both carried moratoria on some Medicaid regulations and thus could similarly include health provisions this year.
- Timing of these bills means that any efforts to include provisions that address the SCHIP guidance, Medicaid regulations, and state fiscal relief must be immediate, intense and ongoing.