



Recession and Budgets: Where Do States Stand for 2011 and Beyond?

FORUM SESSION ANNOUNCEMENT

A DISCUSSION FEATURING:

Raymond C. Scheppach, PhD
Executive Director
National Governors Association

Kathleen Gifford
Principal
Health Management Associates

Beth Kohler Lazare
Policy Advisor
Office of the Governor
State of Arizona

Donna Cooper
Secretary of Planning and Policy
Office of the Governor
Commonwealth of Pennsylvania

FRIDAY, APRIL 30, 2010

9:00AM–9:30AM—Breakfast

9:30AM–11:30AM—Discussion

LOCATION

Reserve Officers Association
One Constitution Avenue, NE
Congressional Hall of Honor
Fifth Floor
*(Across from the Dirksen
Senate Office Building)*

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Over the past two years, states have faced record budget challenges due to the depth and length of the national recession. While the overall economy is believed to have begun its recovery in late 2009, many state economies continue to decline. Previous economic downturns indicate that the worst budget years for a state can be the two years after a national recession is declared over.¹ With this as backdrop, states are now preparing their fiscal year 2011 budgets; virtually all are struggling to close shortfalls between revenues and expenditures. For some states, this will be their third consecutive year addressing significant funding shortages.

To close their budget gaps, many states have raised fees and cut spending across the board. They have “trimmed the fat,” and many are now faced with “cutting into the meat” of programs as well as administrative operations. Some view this as an opportunity for greater efficiencies and leaner state government, and states are talking among themselves about how to learn from each other as they proceed. At the same time, there is concern that safety net programs (that is, entitlement and public health funding) and the vulnerable populations they serve could be at risk. As state officials ponder budgetary pressures and consider tradeoffs among expenditures, such as health, education, and transportation, many are reexamining the services they provide and how they conduct state business.

Coinciding with all of this activity at the state level is national health care reform. While many view reform as an historic federal investment and an opportunity to expand health insurance coverage to millions of uninsured, others are concerned about cost containment and the impact reform will have on state budgets. Spending on health care initially escaped the recession budget axe in many states. In fact, while the number of uninsured adults grew substantially primarily due to rising unemployment, states overwhelmingly kept children’s health coverage a priority during the recession, with most maintaining and even expanding children’s coverage under Medicaid and CHIP (Children’s Health Insurance Program). With Medicaid expenditures accounting for about 22 percent of state spending, however, virtually every state is now considering or has already made cuts in the program, including reducing provider payments, increasing co-pays, and trimming and/or eliminating benefits.²

Congress was not unaware of the financial challenges states faced with rising numbers of uninsured and growing demands on their Medicaid programs. The enhanced FMAP (federal medical assistance percentage) provided under the American Recovery and Reinvestment Act of 2009 (also known as the “stimulus bill” or ARRA) has helped states

maintain coverage levels and accommodate larger-than-expected Medicaid rolls. Still, the targeted stimulus funding will expire soon and the resulting “funding cliff,” coupled with the slow economic recovery predicted for many states, may result in additional reductions in public health care coverage and spending levels.

Observers question how this will affect states as they begin the enormous task of implementing health care reform. Some states are wondering whether they can afford reform given the current and projected budget climates. In addition, analysts point out that cuts to provider payments can affect access, and some worry that Medicaid programs do not have the provider participation or capacity to absorb the estimated 15 million people expected to join the rolls starting in 2014. Still others, however, assert that state economies will improve by 2014, that growth of new enrollment will be gradual, and that reform and its accompanying federal investment creates unique opportunities for covering low-income people, which states will want to take advantage of regardless of budgetary pressures.

This Forum session will examine the fiscal status of states; the impact of the recession on state programs, operations, and spending; the tradeoffs states face to balance their budgets; and the opportunities and challenges presented by national health care reform. With budget difficulties being a potential catalyst, states are working to become more efficient. Thus, the discussion will also highlight the kinds of efforts underway to trim operations and share best practices.

KEY QUESTIONS

- What is the fiscal outlook for states over the next three to five years? What will be the lasting effects of the recession on state programs and administration?
- How may changes in state administration—furloughs, staff reductions, agency consolidations, etc.—affect a state’s capacity to run its programs?
- How might a state’s efforts to reform its own government processes and systems help its capacity for health reform implementation and governance in general?
- How have the federal stimulus (ARRA) funds helped states maintain or minimize the recession’s impact on Medicaid coverage and benefits? How do states’ starting points in terms of Medicaid and CHIP eligibility, benefits, and provider payments vary, and how does this affect reform implementation?

- What has been the effect of the Medicaid maintenance of effort (MOE) provisions of ARRA on state decisions regarding changes to their Medicaid programs? What is expected under the health reform MOE provisions?
- Can states make health coverage expansion for adults a priority in the current budget climate, as many of them have for children?
- In what ways is the partnership between the states and federal government being altered, and what might this mean in the future?
- Is the enhanced federal financing of the Medicaid expansion population enough to help all states with the challenges of implementing health reform, or is there a need for additional kinds of assistance?

SPEAKERS

Raymond C. Scheppach, PhD, is the executive director of the National Governors Association. He will begin the session with a fiscal update highlighting the economic environment of states as they prepare their 2011 budgets. Dr. Scheppach will also share his insights regarding states' recovery from the recession, the challenges they face raising revenues to pre-recession levels (in real terms), and the long-term impact of the economic downturn on state programs and their administration. **Kathleen Gifford** is a principal at Health Management Associates and a former Medicaid director and assistant budget director for the state of Indiana. Ms. Gifford will discuss state Medicaid programs and the effect that growing enrollment and declining state revenues over the past two years have had on program coverage, benefits, payment, and administration. **Beth Kohler Lazare** is a health policy advisor to the governor of Arizona. She will highlight Arizona's fiscal situation and their efforts, including proposed cuts to Medicaid and CHIP, to close a \$3.2 billion budget shortfall for 2011. **Donna Cooper** is the secretary of planning and policy for the commonwealth of Pennsylvania. She will discuss Pennsylvania's initiatives to expand access to health care under Prescription for Pennsylvania, the state's health care reform effort launched in 2007. She will also discuss the fiscal outlook for the state in 2011, and how the state plans to continue its efforts to reduce the number of uninsured.

ENDNOTES

1. Raymond C. Scheppach, "The State Fiscal Situation: The Lost Decade," National Governors Association, January 11, 2010; available at www.nga.org/Files/pdf/0911FISCALLOSTDECADE.PDF.
2. Scheppach, "The State Fiscal Situation: The Lost Decade."