



Forum Session Meeting Announcement

Friday, July 11, 2008

11:45–12:15pm — Lunch

12:15–2:00pm — Session

State Budget Cuts: How Will Health Care Fare in FY 2009?

A Discussion Featuring:

Brian Sigriz

Staff Associate

National Association of State Budget Officers

Steven M. Costantino

Chair

House Finance Committee

Rhode Island General Assembly

Vernon K. Smith, PhD

Principal

Health Management Associates

With Comments From:

Ann Kohler

Director

National Association of State Medicaid Directors

Location

**Reserve Officers Association
of the United States**

One Constitution Avenue, NE
Congressional Hall of Honor
Fifth Floor

*(Across from the Dirksen Senate
Office Building)*

Registration Required

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as soon as possible.

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State Budget Cuts: How Will Health Care Fare in FY 2009?

OVERVIEW

July 1, 2008, marks the start of the new fiscal year for most states and, for many, the economic outlook is bleak. More than half of all states are projecting budget shortfalls for state fiscal year (SFY) 2009, and others are already predicting shortfalls for the following year. According to the Center on Budget and Policy Priorities, the SFY 2009 shortfalls for 27 states and the District of Columbia are expected to total at least \$47 billion. Faced with drawing on reserves, increasing taxes, or reducing spending, many states are making tough choices for closing their budget gaps—choices that include cutting Medicaid and other public health care expenditures. This Forum session will examine the fiscal status of the states and what short- and long-term effects SFY 2009 budget decisions will have on public programs, such as Medicaid and the State Children’s Health Insurance Program, and on the low-income, vulnerable populations they serve.

SESSION

While the nation has been struggling with rising unemployment, the bursting housing bubble, the credit crunch, and shrinking consumer consumption, state and local governments have managed to maintain their spending levels throughout SFY 2008—often drawing on reserves or rainy day funds to keep their services, programs, and economies afloat. The persistent downturn in the national economy, however, has led to deteriorating finances in many states as revenues from sales, income, and property taxes decline. Yet because virtually all states are required to balance their budgets each year (or each biennium), they cannot maintain services through deficit spending or borrowing when the economy suffers a downturn.

Of course, as state economies weaken and people lose their jobs, income, and health insurance, the need for certain public programs like Medicaid increases. This “countercyclical” nature of Medicaid makes the program both critical and costly for states. Medicaid is a safety net to the increasing number of individuals living in poverty but, as the second largest component of most state budgets and the fastest growing program (with an 11 percent annual spending growth rate), it is also a costly commitment for states. Simultaneously faced with shrinking revenues and expanding Medicaid caseloads, states confront difficult choices. Rainy day funds are a possible short-term fix, but states are often reluctant to tap into them in case the economy continues to sour. As a result, many states are turning to tax increases and expenditure cuts to balance their books in SFY 2009.

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After several years of economic recovery from the 2001 recession, spending cuts have once again become a necessity for several states. With states' shortfalls averaging close to 10 percent of general funds budgets, unanticipated cuts, tradeoffs, and compromises have been made to balance competing demands, such as health care, education, transportation, and child care, for limited state resources. While several states are trimming spending in a variety of areas, including K-12 education, public colleges and universities, child care, housing, Temporary Assistance for Needy Families (TANF), and state workforce, many more are cutting health expenditures.

At least 12 states have implemented or proposed cuts for 2009 that will affect eligibility for Medicaid, the State Children's Health Insurance Program (SCHIP), or other public health insurance or will otherwise affect access to health care services. Such cuts include rolling back eligibility, capping enrollment, imposing new enrollment fees, requiring or raising copays, reducing optional services such as dental services, reducing reimbursement to providers, and delaying payment to providers. In addition, some states are cutting or proposing cuts to rehabilitative care, home care, and payment for charity care at hospitals. Collectively, these cuts will affect services for children, the elderly, people with disabilities, and families.

The long-term impact of such cuts to state health spending can be significant because individual states often lag behind the nation when recovering from a downturn. The aftershocks of the 2001 recession on state budgets were felt well into 2004. After six years of economic recovery, some states have been able to restore their Medicaid and health care cuts and even expand health services for low-income people. However, there are states that have Medicaid eligibility, enrollment, and application restrictions and benefit cuts from the 2001 recession still in place.

KEY QUESTIONS

- What is the fiscal outlook for states in SFY 2009? How are individual states and regions affected differently by the current downturn in the national economy?
- What are the budgetary tradeoffs states must face in order to balance their budgets? What political and programmatic pressures affect state budget decisions with regards to financing health care and Medicaid versus other services?
- How do states reconcile eroding state revenues with growing pressures for increased spending on social programs such as Medicaid? How are state Medicaid programs coping with contractions in state revenues?
- How do short-term declines in financing affect Medicaid programs in the long term? What does this mean for states and Medicaid beneficiaries?
- What short- or long-term policy options exist or have been suggested that would restructure Medicaid financing to address the countercyclical nature of the program?

SPEAKERS

Brian Sigriz is a staff associate for the National Association of State Budget Officers (NASBO) in Washington, DC. The professional organization for all state budget officers of the 50 states and U.S. territories, NASBO collects fiscal data and publishes numerous reports on state fiscal conditions. Mr. Sigriz's responsibilities include tracking and analyzing economic, tax, and revenue trends, as well as handling NASBO activities related to performance measures and management, privatization, and disaster response issues. He also monitors the fiscal health of the states and produces and edits the organization's annual state expenditure report. Mr. Sigriz has a master's degree in public administration from George Washington University.

Rep. Steven M. Costantino (D-Dist. 8) is serving his seventh term in the Rhode Island House of Representatives, having first been elected in November 1994. Representative Costantino joined the House Finance Committee in 1999 and was elected chairman in 2004. In the Finance Committee and in the House, Representative Costantino has been a leader on issues such as health care delivery and availability, cochairing the Joint Committee on Health Care Oversight and sponsoring many initiatives to ensure that Rhode Islanders have access to health services. He has been very active in efforts to sustain and improve state services to the disadvantaged, the ill, and children in state care and served as cochairman of the Department of Children, Youth and Families Task Force on the System of Care. He is a former administrator of the Providence Medical Health Care Center and for 10 years was executive director of the nonprofit Drug and Alcohol Treatment Association of Rhode Island.

Vernon K. Smith, PhD, is a principal with Health Management Associates (HMA), where he focuses on Medicaid, Medicare, SCHIP, state budgets and trends in the health care marketplace. He has authored several reports on enrollment, spending, and policy trends in Medicaid and SCHIP; on the Medicare prescription drug benefit; and on state directives to address the uninsured. Dr. Smith has spoken on these issues before many national and state audiences, including the National Governors Association, the National Conference of State Legislatures, the Council of State Governments, the National Association of State Budget Officers, the National Association of State Medicaid Directors, medical and hospital associations, the National Health Policy Forum, committees of the U.S. Congress, and Medicaid reform groups in several states. Before joining HMA, Dr. Smith served as Michigan's Medicaid director and as budget director for the human services agency during 30 years of public service. He holds a PhD degree in economics from Michigan State University.

Ann Kohler is the newly appointed director of the National Association of State Medicaid Directors (NASMD). As the Medicaid director for New Jersey, Ms. Kohler was a long-standing member of the NASMD Executive Committee and was chaired its Medicaid and Mental Health Technical

Advisory Group there. Before joining NASMD, she served as deputy commissioner of the New Jersey Department of Human Services. In her capacity as deputy commissioner, Ms. Kohler had oversight for the Division of Medical Assistance and Health Services, the Division of Disability Services, the Office of Budget Planning, and the Office of Finance. She also served as the director of the New Jersey Division of Medical Assistance and Health Services in the Department of Human Services from 2002 to 2007 and was Medicaid director for the state of New York. Ms. Kohler has a master's degree in city and regional policy from Rutgers University.