

SJR

1

# Alaska State Legislature

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[Senator Bettye Davis@legis.state.ak.us](mailto:Senator.Bettye.Davis@legis.state.ak.us)  
<http://www.akdemocrats.org>

## Senator Bettye Davis

### Memorandum

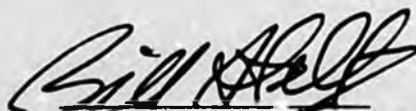
To: Representative Kevin Meyer, Co-Chair House Finance  
From: Senator Bettye Davis *BD*  
Date: April 18, 2007  
RE: Waiving SJR 1 Medical Assistance for Children

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I respectfully request that the House Finance Committee waive from Committee SJR 1 Medical Assistance for Children. SJR 1 urges our congressional delegation to support funding of the SCHIP, known as Denali KidCare here in Alaska. It has a zero fiscal note. I have included the signatures of the committee members.


  
Rep. Kevin Meyer

  
Rep. Mike Chenault

  
Rep. Bill Stoltze *STOLTZE*

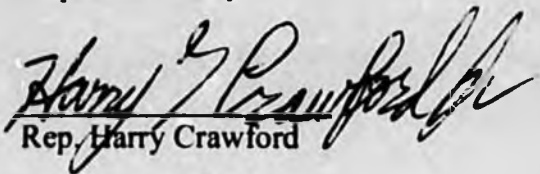
  
Rep. Richard Foster

  
Rep. Richard Foster

  
Rep. Mike Hawker



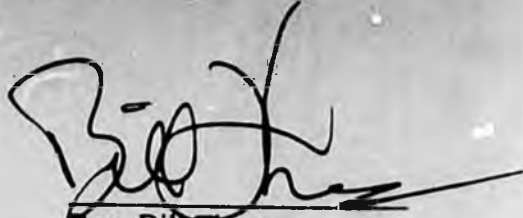
Rep. Mike Kelly



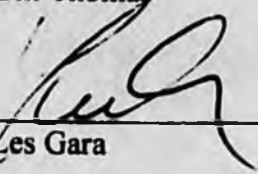
Rep. Harry Crawford



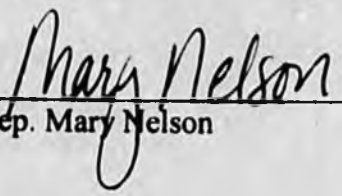
Rep. Reggie Joule



Rep. Bill Thomas



Rep. Les Gara



Rep. Mary Nelson

# FISCAL NOTE

**STATE OF ALASKA**  
**2007 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: SJR 1  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: \_\_\_\_\_  
 Title SJR 1 Medical Assistance for Children RDU \_\_\_\_\_  
 Component \_\_\_\_\_  
 Sponsor Senator Davis  
 Requester (S) Health, Education & Social Services Committee Component No. \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

| OPERATING EXPENDITURES | FY 2008    | FY 2009    | FY 2010    | FY 2011    | FY 2012    | FY 2013    |
|------------------------|------------|------------|------------|------------|------------|------------|
| Personal Services      |            |            |            |            |            |            |
| Travel                 |            |            |            |            |            |            |
| Contractual            |            |            |            |            |            |            |
| Supplies               |            |            |            |            |            |            |
| Equipment              |            |            |            |            |            |            |
| Land & Structures      |            |            |            |            |            |            |
| Grants & Claims        |            |            |            |            |            |            |
| Miscellaneous          |            |            |            |            |            |            |
| <b>TOTAL OPERATING</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

|                             |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|

|                               |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|
| <b>CHANGE IN REVENUES ( )</b> |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|

**FUND SOURCE** (Thousands of Dollars)

|  |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|
| 1002 Federal Receipts                  |            |            |            |            |            |            |
| 1003 GF Match                          |            |            |            |            |            |            |
| 1004 GF                                |            |            |            |            |            |            |
| 1005 GF/Program Receipts               |            |            |            |            |            |            |
| 1037 GF/Mental Health                  |            |            |            |            |            |            |
| Other (Specify Type—Do not abbreviate) |            |            |            |            |            |            |
| <b>TOTAL</b>                           | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

Estimate of any current year (FY2007) cost: 0.0  
 Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

**POSITIONS**

|           |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |

**ANALYSIS:** (Attach a separate page if necessary)

Prepared by: (S) HEALTH, EDUCATION & SOCIAL SERVICES COMMITTEE Phone 465-3822  
 Division \_\_\_\_\_ Date/Time \_\_\_\_\_  
 Approved by: /s/ Senator Bettye Davis, Chair Date 2/25/2007  
 Agency \_\_\_\_\_

Revised February 22, 2007

## **FOURTEEN STATES FACE SCHIP SHORTFALLS THIS YEAR TOTALING OVER \$700 MILLION**

By Edwin Park and Matt Broaddus

New estimates, based on the latest available data, show that 14 states face federal funding shortfalls this year in the State Children's Health Insurance Program. These states lack sufficient federal funding to maintain current enrollment levels through the end of fiscal year 2007. The shortfalls in these states total more than \$700 million. (The Congressional Research Service has produced very similar estimates.)

The 14 states are Alaska, Georgia, Illinois, Iowa, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, Rhode Island and Wisconsin.

These figures reflect the shortfalls that remain after the effect of a provision enacted in December 2006 is taken into account. Shortly before adjourning in December, Congress approved legislation (H.R. 6164) that contained a modest provision to delay the onset of the shortfalls. Under the SCHIP provision of H.R. 6164, some unspent federal SCHIP funds from prior fiscal years will be distributed to seven of the 14 states and will delay the shortfalls until early May.

Congress will need to act expeditiously to enact further SCHIP legislation that provides additional funding to address the substantial shortfalls that remain. Otherwise, the affected states will be forced to scale back their SCHIP programs, placing several hundred thousand low-income children at risk of losing health care coverage, unless these states can come up with sufficient new state funds to fully plug the holes.

In fact, the state of Georgia, which faces an estimated shortfall of \$124 million, has already announced that effective March 11, it will bar any new children from enrolling in the program. Georgia will thereby cut the number of children that it insures through the program, since children who leave the program (as their families' incomes rise or when children exceed the program's age limit) will no longer be replaced with newly participating children.

### **The SCHIP Provision Enacted in December 2006**

The SCHIP provision of H.R. 6164 was intended to partially address the fiscal year 2007 SCHIP funding shortfalls. It altered the scheduled redistribution of unspent fiscal year 2004 SCHIP funds, and targeted those unspent funds entirely on states that face shortfalls in 2007. These unspent 2004 funds will be redistributed among the shortfall states on a monthly basis, with the funds being allocated among these states in the order in which the states otherwise would encounter shortfalls.

### H.R. 6164 Would Restrict Use of SCHIP Funds for Parents by Shortfall States in 2007

H.R. 6164 includes a restriction on the use of the unspent fiscal year 2004 and 2005 funds that will be redistributed to shortfall states. Shortfall states that cover low-income parents through SCHIP and that receive some of the reallocated 2004 and 2005 funds will be able to use those funds for coverage of parents only at the regular federal Medicaid matching rate, which is about 13 percentage points lower, on average, than the SCHIP matching rate. This will have the effect of artificially reducing the size of the shortfall in these states — by reducing their projected need for *federal* SCHIP by about \$24.7 million and increasing the amount of *state* funds that these states will have to provide by the same amount.

If this restriction were *not* applied, three of the seven states that are projected to face shortfalls first — Illinois, New Jersey and Rhode Island — would still face shortfalls of \$24.7 million through early May. To the extent these three states address those shortfalls by reducing coverage of parents, the loss of coverage is likely not only to cause many of the parents losing coverage to become uninsured but also to affect children's coverage. An extensive body of research demonstrates that covering low-income parents increases enrollment in public programs among eligible children. Scaling-back SCHIP coverage of parents consequently would be likely also to result in reduced coverage for low-income children in these states.\*

\* See Leighton Ku and Matthew Broaddus, "Coverage of Parents Helps Children Too," Center on Budget and Policy Priorities, October 20, 2006.

Under H.R. 6164, a portion of the SCHIP funds originally allocated in *fiscal year 2005* that remain unspent after March 31, 2007 also will be redistributed to shortfall states (again, in the order in which these states encounter shortfalls). Here, too, the funds will be redistributed on a monthly basis, until they are depleted.

The SCHIP provision of H.R. 6164 will provide an estimated \$271.3 million to the seven shortfall states that are expected to face shortfalls first — Alaska, Georgia, Illinois, Maryland, Massachusetts, New Jersey and Rhode Island.<sup>1</sup> (The other shortfall states will *not* receive any funds under H.R. 6164.) This should postpone the onset of shortfalls in these seven states until early May 2007.<sup>2</sup> The total amount of funds made available to shortfall states under H.R. 6164 will, however, be only about one-fourth of the amount needed to fully close the 2007 shortfalls, and a projected shortfall of \$744.4 million will remain among the 14 shortfall states.<sup>3</sup> (See Table 1 for the estimated remaining fiscal year 2007 shortfalls in each of the 14 states.) The Congressional Research Service has issued nearly identical estimates.<sup>4</sup> This remaining shortfall is equivalent to the annual, average cost of covering approximately 510,000 children under SCHIP in 2007.

<sup>1</sup> Our estimates are derived from the Center on Budget and Policy Priorities' SCHIP financing model and incorporate states' final SCHIP spending estimates from November 2006. The \$271.3 million figure includes a projected \$146.9 million in unspent 2004 funds and a projected \$124.4 million in unspent 2005 funds.

<sup>2</sup> Shortfall states that provide SCHIP coverage to parents are likely to experience limited shortfalls *prior* to early May; see the box on this page.

<sup>3</sup> Taking into account the restriction in H.R. 6164 on parents' coverage, which artificially reduces the size of the shortfall by \$24.7 million (see the box on page 2), the remaining shortfall will be reduced from \$744.4 million to \$719.7 million.

<sup>4</sup> See Chris Peterson, "SCHIP Provisions of H.R. 6164 (NIH Reform Act of 2006)," Congressional Research Service, Updated December 13, 2006 and Chris Peterson, "Funding Projections and State Redistribution Issues," Congressional Research Service, Updated January 30, 2007. CRS estimates that H.R. 6164 will provide \$271.3 million to six shortfall states, leaving a remaining shortfall of \$744.5 million in fiscal year 2007. Both the \$271.3 million figure and the \$744.5 million figure are virtually identical to our estimates. CRS, however, has somewhat different estimates than we do of the effect of the restriction on the use by shortfall states of redistributed SCHIP funds for parents.

## A Stop-Gap Measure

Passage of the SCHIP provision of H.R. 6164 in December 2006 was a welcome development, but H.R. 6164 is only a stop-gap measure. To close the remaining shortfall, Congress will need to act.

If Congress does not do so, the 14 shortfall states will have to cut their SCHIP programs — by reducing eligibility, shrinking enrollment, scaling back benefits, increasing cost-sharing and/or cutting payments to health care providers — unless these states can come up with the additional funds themselves. One of the shortfall states, Georgia, has already announced an enrollment freeze.

As noted, effective March 11, the Georgia SCHIP program (known as PeachCare for Kids) will no longer enroll any additional eligible children.<sup>5</sup> Since some portion of the children currently on the SCHIP program leave it each month (because their family income rises or they “age out” of the program), the effect of the freeze will be to reduce the overall number of low-income children that the program insures and, correspondingly, to increase the number of children in the state who are uninsured. Georgia also may consider reducing the income eligibility limit for children and eliminating coverage for services such as dental care.<sup>6</sup> In shortfall states that cut their programs, significant numbers of SCHIP beneficiaries will be at risk of losing some or all of their coverage unless Congress acts swiftly to ensure no state faces a SCHIP funding shortfall this fiscal year.

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<sup>5</sup> Bill Hendrick, “PeachCare to halt new sign-ups,” *Atlanta Journal-Constitution*, February 9, 2007.

<sup>6</sup> Bill Hendrick, “Legislature 2007: Tightened PeachCare eligibility proposed,” *Atlanta Journal-Constitution*, February 10, 2007.

**TABLE 1**  
**14 States Projected to Face Federal SCHIP**  
**Financing Shortfalls in 2007**

| <b>STATE</b>  | <b>Federal SCHIP<br/>Funding<br/>Shortfall Not<br/>Counting<br/>H.R. 6164</b> | <b>Remaining<br/>Shortfall After<br/>H.R. 6164<br/>Redistribution*</b> |
|---------------|---|--|
| Nation        | \$1,015,763,000   | \$744,448,000  |
| Alaska        | \$13,475,000  | \$12,130,000   |
| Georgia       | \$128,473,000   | \$124,343,000  |
| Illinois      | \$565,460,000   | \$247,253,000  |
| Iowa          | \$15,047,000  | \$15,047,000   |
| Maine**       | \$539,000   | \$539,000  |
| Maryland      | \$79,446,000  | \$60,744,000   |
| Massachusetts | \$139,145,000   | \$85,409,000   |
| Minnesota     | \$15,763,000  | \$15,763,000   |
| Mississippi   | \$23,713,000  | \$23,713,000   |
| Missouri      | \$3,339,000   | \$3,339,000  |
| Nebraska      | \$80,000  | \$80,000   |
| New Jersey    | \$178,595,000   | \$122,620,000  |
| Rhode Island  | \$49,851,000  | \$30,811,000   |
| Wisconsin     | \$2,837,000   | \$2,837,000  |

\* Includes both the regular redistribution of unspent federal SCHIP funds from states' 2004 SCHIP allotments and the accelerated redistribution of a portion of states' unspent federal SCHIP funds from their 2005 SCHIP allotments. States receive redistributed funds as they experience shortfalls.

Shortfalls are further reduced artificially by an additional \$24.7 million because, if states use the redistributed funds for coverage of parents, they will receive only the lower Medicaid matching rate as opposed to the enhanced SCHIP matching rate. The following states are affected: Illinois (\$14.7 million), New Jersey (\$7.5 million), and Rhode Island (\$2.5 million). This additional \$24.7 million reduction is not reflected in this table.

\*\* State officials have indicated to CBPP staff that Maine's SCHIP spending in fiscal year 2007 could be significantly higher than under the state's most recent estimates submitted to the Centers for Medicare and Medicaid Services. Maine's shortfall could be as high as \$6.5 million in 2007.

Source: Center on Budget and Policy Priorities' SCHIP financing model, based on a model created by the Office of the Actuary at the Centers for Medicare and Medicaid Services. The model incorporates SCHIP provisions of the Deficit Reduction Act, states' November 2006 estimates of federal SCHIP funding needs for federal fiscal year 2007, and the fiscal year 2007 state allotments announced by CMS in August 2006.

# SENATE COMMITTEE REPORT

## First Committee of Referral

DATE: 2/7/07

FURTHER: Finance

Date of 5-Day Notice: \_\_\_\_\_  
(in accordance with Uniform Rule 23)

DATE TURNED  
IN TO OFFICE: 2/26/07

Health, Education and Social Services Committee considered

SENATE JOINT RESOLUTION NO. 1

### SJR 1 MEDICAL ASSISTANCE FOR CHILDREN

Relating to reauthorization of federal funding for children's health insurance; and encouraging the Governor to support additional funding for and access to children's health insurance.

and recommends:

- be replaced with  SCS or  CS \_\_\_\_\_ (\_\_\_\_\_)
- adopt previous  SCS or  CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

**SENATE BILL:**

- Same Title
- New Title

**HOUSE BILL:**

- Same Title
- Technical Title Change
- New Title w/ SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

| Department | Date | Fiscal | Indel. | Zero | FN# |
|------------|------|--------|--------|------|-----|
| S.HES      | 2/25 |        |        | ✓    |     |
|            |      |        |        |      |     |
|            |      |        |        |      |     |
|            |      |        |        |      |     |
|            |      |        |        |      |     |

**PREVIOUS FISCAL NOTE(S):**

| Department | Date | Fiscal | Indel. | Zero | FN# |
|------------|------|--------|--------|------|-----|
|            |      |        |        |      |     |
|            |      |        |        |      |     |
|            |      |        |        |      |     |
|            |      |        |        |      |     |
|            |      |        |        |      |     |

APPROPRIATION - no fiscal note

| SIGNATURES AND RECOMMENDATIONS | PRINTED LAST NAME | Do Pass | Do Not Pass | No Rec. | AMEND |
|--------------------------------|-------------------|---------|-------------|---------|-------|
|                                | Elton             | ✓       |             |         |       |
|                                | Thomas            | ✓       |             |         |       |
|                                | Coadary           | ✓       |             |         |       |
|                                | Dyson             | ✓       |             |         |       |
|                                |                   |         |             |         |       |
| CHAIR:                         | Davis             | ✓       |             |         |       |

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Senator Bettye Davis@legis.state.ak.us  
<http://www.akdemocrats.org>

## Senator Bettye Davis

***SJR 1 " Relating to reauthorization of federal funding for children's health insurance; and encouraging the Governor to support additional funding for and access to children's health insurance."***

### Sponsor Statement

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**SJR 1 Medical Assistance for Children**, states that the Alaska State Legislature urges our Congressional delegation to work diligently to achieve a timely reauthorization of the State Children's Health Insurance Program and to continue federal medical assistance percentages (or FMAP) for the Denali KidCare program.

Denali KidCare is Alaska's version of the State Children's Health Insurance program or SCHIP which was created in 1997 and is slated for reauthorization this year. It has been and continues to be a successful federal-state partnership, now covering over 4 million low-income children and enjoying bipartisan support. However, in the upcoming federal fiscal year, 17-18 states, among them Alaska, are projected to have insufficient federal SCHIP funding to sustain their existing SCHIP programs.

According to various estimates by the Centers for Medicare and Medicaid Services, the Congressional Research Service and other independent analysts, these states will face an estimated \$800 to \$950 million in total funding shortfalls in 2007. Here in Alaska that shortfall could total over \$12 Million.

Without additional federal funding to avert these shortfalls, Alaska, along with other states may have to reduce their SCHIP enrollment, placing health insurance coverage nationally for over 500,000 low-income children at risk. States may also be forced to enact harmful changes to their SCHIP programs, such as curtailing benefits, increasing beneficiary cost-sharing or reducing provider payments.

Congress has acted in the past to address SCHIP shortfalls successfully and can do so again.

**To that end, just this last Friday, February 23<sup>rd</sup>, a bipartisan group of lawmakers announced their proposal to extend health insurance to an additional 9 million children in the US. Backed by a broad consumer and industry coalition, the Healthy Kids Act of 2007 would authorize \$50 billion over five years to expand the SCHIP and Medicaid program. The proposal would also provide \$10 billion for refundable tax credits to help families with annual incomes of up to 350 percent of the federal poverty level (FPL) purchase health insurance that covers children if they are not eligible for SCHIP.**

**We ask your support of SJR 1 to add the Alaska State Legislature to the many voices urging our delegation and the rest of Congress to enact legislation immediately that provides additional funding to ensure that all states have sufficient federal funding to sustain their existing SCHIP programs in FY 2007.**



## Bush FY2008 Budget:

# Analysis of SCHIP and Medicaid Provisions

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- SCHIP
- Medicaid

## SCHIP

The State Children's Health Insurance Program (SCHIP) is set to expire at the end of fiscal year (FY) 2007 (September 30), making the reauthorization of SCHIP one of the most important health care issues that Congress will address this year. As such, the President's 2008 budget was expected to include information about future federal funding and policies for the program. But while his budget does mention SCHIP, it does so only briefly, and without much detail.

The President's budget offers the following provisions regarding SCHIP:

- **Reauthorization:** The President proposes to reauthorize SCHIP for another five years, through 2012.
- **Funding:** The President assumes that SCHIP will be reauthorized with funding at the same level it received in FY2007, approximately \$5 billion per year. The President proposes to add only \$4.8 billion in federal funding for SCHIP over the next five years above the baseline allotment. This level of funding is significantly less than is needed simply to continue covering current SCHIP enrollees, let alone expand coverage to any of the millions of uninsured children.
- **Limiting Eligibility:** SCHIP was created to provide health coverage to low-income, uninsured children (children in families with incomes less than twice the federal poverty level, or \$34,340 for a family of three in 2007). Over the past 10 years, several states have used the flexibility built into SCHIP to provide coverage for children in families with incomes above twice the poverty level. States have also obtained waivers to extend coverage to parents, pregnant women, and other adults.

The President's budget proposal discusses "refocusing" the program on

low-income children with family incomes below twice the poverty level, although it does not provide details about how this is to be accomplished. This proposal appears to contradict the prevailing political winds, as governors in both parties across the country are seeking to build on the success of SCHIP and Medicaid to expand coverage to more uninsured people in their states. There is no "score" attached to this proposal.

**Budget Impact:** The proposal for SCHIP reauthorization is estimated to cost an additional \$5 billion over five years.

## **Families USA's Commentary on the President's SCHIP Proposals**

The President's budget fails to demonstrate a strong commitment to supporting this very popular and successful program. The funding level proposed falls far short of what is needed to allow states to sustain even current enrollment in SCHIP, let alone enroll any of the nearly 7 million children who are already eligible for SCHIP or Medicaid but who remain uninsured. Moreover, the proposal ignores growing national sentiment that covering children is the right thing to do and contradicts the President's own statements about the importance of finding and enrolling the uninsured children who are already eligible for these programs. Finally, the suggestion that states should reduce their eligibility levels for children or cut parents and pregnant women from the program flies in the face of the goal of reducing the number of uninsured in this country, and it undermines what governors of both parties are attempting to accomplish with coverage expansions.

### **Medicaid**

The President's 2008 budget for Medicaid continues a trend seen in his past budgets: proposing a laundry list of ways to shift costs from the federal government to the states and to low-income beneficiaries. In addition, the budget proposes significant changes to the rules about how Medicaid pays for prescription drugs.

### **Proposals to Shift Costs to the States and to Beneficiaries**

- **Reduce Medicaid Administrative Match Rates:** Currently, states can receive higher reimbursements—up to 90 percent—for certain administrative costs, such as costs related to the development of information technology (IT) systems, operation of claims payment systems, and services performed by skilled medical professionals.

The President's proposal would cut the reimbursement rate that states receive for Medicaid administrative costs to 50 percent across the board. This proposal represents a very significant reduction in federal funds to

states, since state Medicaid agencies rely on the higher administrative match to make important improvements in their Medicaid programs. The Administration has touted the virtues of health information technology investments numerous times, and investing in Medicaid data systems should be part of this effort. Moreover, implementing the DRA citizenship documentation requirement has produced many new IT burdens that states must work through, and cutting administrative reimbursement only exacerbates these burdens [legislative change].

**Budget Impact:** This proposal would cut \$945 million in the first year and \$5.3 billion over five years.

- **Eliminate Medicaid Graduate Medical Education:** The Administration's proposal would eliminate Medicaid as a source of funding for physician training through graduate medical education, reasoning that it is outside Medicaid's primary purpose of providing health care to low-income people [administrative change].

**Budget Impact:** This proposal would cut \$140 million in the first year and \$1.8 billion over five years.

- **Restrict 1915(b)(3) Services:** Section 1915(b)(3) of the Medicaid Act allows "additional services" to be provided in Medicaid managed care programs. The President's budget proposal would issue rules clarifying allowable services under Section 1915(b)(3) [administrative change].

**Budget Impact:** No cost estimate is provided.

- **Cut Duplicative Administrative Costs:** The President's budget seeks to prohibit states from billing the federal government for administrative Medicaid costs that the Administration says are already funded through the TANF block grant [legislative change].

**Budget Impact:** This proposal would cut \$280 million in the first year and \$1.8 billion over five years.

- **Require State Reporting and Tie Grants to Performance:** The budget proposal would require states to report their performance on certain measures to CMS, and states' performance would be tied to federal Medicaid reimbursement [administrative change].

**Budget Impact:** This proposal would save \$0 in the first year and \$330 million over five years.

- **Lower Reimbursement for Targeted Case Management:** The budget proposes to lower reimbursement for targeted case management from a

state's full Medicaid matching rate to the flat 50 percent administrative matching rate [legislative change]. Currently, many states' full Medicaid matching rates are higher than 50 percent.

**Budget Impact:** This proposal would cut \$200 million in the first year and \$1.2 billion over five years.

- **Cap Payment to Government Providers:** The budget proposes to stop certain state financing mechanisms that divert federal funds from government providers to state governments. The Administration also proposes to limit payments to government providers to no more than the cost of furnishing a particular Medicaid service to an individual [administrative change]. It is unclear how or whether this proposal differs from the proposed regulation issued by CMS in January 2007.

**Budget Impact:** This proposal would cut \$530 million in the first year and \$5 billion over five years.

- **Cut Services for People with Disabilities:** The budget proposal would eliminate reimbursement for certain rehabilitation services for which states are now receiving funding through Medicaid [administrative changes].

**Budget Impact:** This proposal would cut \$230 million in the first year and \$2.3 billion over five years.

- **Eliminate Certain School-Based Services:** This proposal would prohibit federal funding for transportation and administrative costs related to Medicaid services that some children receive at school [administrative change].

**Budget Impact:** This proposal would cut \$615 million in the first year and \$3.6 billion over five years.

- **Restrict Provider Taxes:** The budget proposal would clarify and limit how Medicaid's provider tax operates [administrative change]. In 2006, Congress enacted legislation limiting the Administration's ability to restrict provider taxes, so the move to "clarify" the provider tax is another attempt by the Administration to restrict this funding mechanism.

**Budget Impact:** This proposal has no costs associated with it.

- **Limit Allowable DSH Costs:** The budget would codify in regulation which costs states may claim for reimbursement under the Disproportionate Share Hospital (DSH) program [administrative change].

**Budget Impact:** This proposal has no costs associated with it.

- **Third Party Liability:** The budget proposal would require states to collect payments for prenatal or pediatric services owed by third party payers, collect medical child support when the non-custodial parent has an obligation to provide health insurance, and recover Medicaid expenditures from beneficiary liability settlements [legislative change].

**Budget Impact:** This proposal would save \$10 million in the first year and \$85 million over five years.

- **Stop "Pay and Chase":** This proposal would require states to seek reimbursement for all pharmacy claims from any applicable third party payers before allowing Medicaid to pay the claim [administrative change].

**Budget Impact:** This proposal has no costs associated with it.

- **Redefine the Home Equity Limit:** The DRA allows states the option of increasing the home equity limit from \$500,000 to \$750,000 in order for individuals to qualify for Medicaid long-term care services. In areas of the country that have experienced inflated home prices in the last few years, even low-income individuals may have homes worth more than \$500,000. This budget proposal would eliminate this state option and codify the home equity limit at \$500,000, thereby making it harder for people to qualify for long-term care services under Medicaid [legislative change].

**Budget Impact:** This proposal would cut \$70 million in the first year and \$430 million over five years.

### **Prescription Drug Reimbursement Proposals**

In addition to shifting costs to states and beneficiaries, the President's budget contains a number of changes to how Medicaid pays for prescription drugs.

- **Multiple Source Drugs:** Building on changes contained in the DRA, this proposal would reduce the federal upper limit reimbursement for multiple-source drugs to 150 percent of the average manufacturer price of the lowest-priced drug in the group [legislative change].

**Budget Impact:** This proposal would save \$160 million in the first year and \$1.2 billion over five years.

- **Allow Optional Managed Formularies:** The budget proposal would allow states to use "private sector management techniques" to negotiate greater discounts with prescription drug manufacturers [legislative change].

**Budget Impact:** This proposal would save \$160 million in the first year and \$870 million over five years.

- **Replace the Best Price Rebate:** This budget proposal would replace the use of "best price" in the Medicaid drug rebate formula with a budget-neutral flat rebate [legislative change].

**Budget Impact:** This proposal has no costs associated with it.

- **Require Tamper Resistant Prescription Pads:** This proposal would require providers to use "tamper resistant" prescription pads in states where hand-written prescription pads are still used [legislative change].

**Budget Impact:** This proposal would save \$35 million in the first year and \$210 million over five years.

### **Proposals that Increase Federal Medicaid Spending**

The President's budget does contain a few proposals that would increase federal spending on Medicaid. These include the following:

- **Extension of Transitional Medical Assistance:** The budget proposal would allow Transitional Medical Assistance (TMA) to continue through September 30, 2008. The TMA program extends Medicaid eligibility for up to 12 months after a person enters the workforce and loses TANF cash benefits.

**Budget Impact:** This proposal would cost \$460 million in the first year and \$665 million over five years.

- **Extension of the Qualified Individuals Program:** This proposal would allow the Qualified Individuals (QI) program to continue through September 30, 2008. This program helps Medicare beneficiaries with incomes of between 120 and 135 percent of the federal poverty level and with limited financial resources pay their Medicare Part B premiums.

**Budget Impact:** This proposal would cost \$425 million in the first year and \$425 million over five years.

- **Extension of the Refugee and Asylee Exemption:** This proposal is actually within the budget proposal for the Social Security Administration's (SSA), but it affects the Medicaid program as well. The proposal would extend the exemption period that refugees and asylees have to complete the citizenship application process from seven years to eight years. Refugees and asylees would be eligible for Medicaid during this time period.

**Budget Impact:** This proposal would cost \$33 million in the first year and \$99 million over five years.

## Miscellaneous Provisions

- **Asset Verification Demonstrations:** The Social Security Administration (SSA) runs a pilot program that uses electronic financial records to verify an applicant's assets to determine his or her eligibility for Supplemental Security Income (SSI). The budget proposal would require state Medicaid agencies to establish similar pilot programs to verify assets of Medicaid applicants in locations where the SSA pilot programs operate [legislative change].

**Budget Impact:** This proposal would save \$65 million in the first year and \$640 million over five years.

- **Extension of the 1915(b) Waiver Period:** The budget proposes to extend the renewal period for Section 1915(b) waivers ("freedom of choice" waivers) from two years to three years [legislative change].

**Budget Impact:** This proposal has no costs associated with it.

- **HIPAA Modifications:** This proposal would ensure that people receiving Medicaid and SCHIP benefits would have protections under the Health Insurance Portability and Accountability Act (HIPAA), which increases the continuity, portability, and accessibility of health insurance [legislative change].

**Budget Impact:** This proposal has no costs associated with it.

## Families USA's Commentary on the President's Medicaid Proposals

The President's FY 2008 budget proposes cutting almost \$26 billion from Medicaid over the next five years. If enacted, these cuts would place tremendous financial constraints on states. Although state budgets are mostly healthy, and the growth of their Medicaid programs has slowed, in the face of these new federal financial pressures, states will be hard-pressed not to make cuts to Medicaid that will reduce access to care for the people who rely on the program. Many of these proposals would restrict the types of services that can be reimbursed under Medicaid, so states will almost assuredly cut benefits, and people will lose access to critical services.

The President's FY 2008 budget contains an astonishing number of proposals that appear to be identical to items introduced in his FY 2007 budget but that were never implemented, either legislatively or administratively. However, his new proposals contain minimal detail, which makes it difficult to ascertain if they are indeed identical. The lack of detail also makes it difficult to fully

understand the implications that these proposals have for Medicaid. Many of these proposals would impose new requirements on states, cut funding, or "redefine" or "clarify" the kinds of services for which states may claim reimbursement under Medicaid.

In addition to the specific proposals discussed above, the President has mentioned another new health care reform proposal, although with little details. In his State of the Union address, the President discussed a plan to allow states to use Medicaid disproportionate share hospital (DSH) payments to fund proposals to expand health care coverage to the uninsured. Although we had hoped that the President would present more details about the plan in his budget, the "Affordable Choices" initiative is discussed only in the vaguest terms in the FY 2008 HHS budget document. These health care proposals must be "state-based" and "budget neutral" and must "not create a new entitlement." State proposals to use this public spending source would need to "avoid costly and unnecessary medical visits" and emphasize "upfront, affordable private health insurance options." Secretary Leavitt is directed to work with Congress and the states to flesh out this initiative, so details on this proposal may or may not be forthcoming.

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