

Iowa DHS Analysis of President's FFY 2008 Budget

The President released his budget for Federal fiscal year (FFY) 2008 on February 5, 2007. In summary, it includes increases in defense spending and decreases or level funding for domestic programs. For health and human service programs, the President's FFY 2008 budget includes several budget-cutting proposals that have been submitted in his previous budget but have not survived the Congressional appropriation process.

The President's budget also proposes to reduce program funding through regulatory or administrative actions. For example, through executive branch action, proposed federal regulations are projected to cut \$12.7 billion in Medicaid and \$10.2 billion in Medicare over a 5-year period, according to recent analysis by the American Public Human Services Association (APHSA).

Under House and Senate pay as you go (PAYGO) rules, for any new programs or increased expenditures, Congress is required to identify proportional and corresponding reductions elsewhere in the budget or identify revenue increases. Therefore, Congress may look to some of the President's budget cutting proposals to identify funding for their priorities.

Following are some of the more significant DHS programs and services that would be impacted by the President's budget.

Medicaid

The President's budget proposes to produce Federal savings, which can result in increased state burden. Following are examples that will impact Iowa:

- Reducing Medicaid administrative match rates to a standard 50%. Currently, certain Medicaid administrative activities qualify for higher Federal match rates. For example, purchasing and installing Medicaid management information systems (MMIS) can qualify for Federal match of 90%. This reduction would have an extremely negative impact to Iowa because DHS has a multi-year plan for upgrading its MMIS. It is estimated that this reduction would result in losses to Iowa of \$8.9 million in FFY 2008.
- Reducing the match rate for Targeted Case Management to 50% rather than the state's Federal Medicaid Assistance Percentage (FMAP) rate, which for Iowa is 61.73%. This reduction would impact the General Fund and county governments budget which share responsibility for providing the non-federal match.
- Tying the states FMAP rates to performance measures. States will be required to report on performance measures that will be linked to Federal Medicaid grant awards. However, the fiscal impact to individual states, including Iowa, is unknown. The impact nationally could be a reduction of \$330 million over five years according to Federal sources.
- Enhancing asset verification for Medicaid eligibility, which would expand a Social Security Administration (SSA) pilot using electronic financial records for verifying an applicant's assets to appropriate HHS programs. State Medicaid agencies would be

required to establish pilots in locations where SSA is operating such a pilot. This expansion is estimated to cost \$65 million in FFY 2008 at a national level.

The President's budget also included the following regulatory and administrative proposals to cut Federal Medicaid spending:

- Limiting Graduate Medical Education (GME) allowable expenses. At a national level these changes are estimated to cut Federal spending by \$140 million in FFY 2008 and by \$1.8 billion over five years.
- Redirecting Disproportionate Share Hospital (DSH) payments to other programs such as state initiated proposals to reduce the number of uninsured and Affordable Choice Waivers and related grants. Iowa currently uses its DSH dollars for payments to hospitals and any redirection would negatively impact the Iowa hospitals that currently receive DSH dollars.
- Prohibiting reimbursement for school-based medical administrative and transportation costs. At a national level, it is estimated to cut Federal spending by \$615 million for FFY 2008. Iowa school districts that rely on these funds would be impacted.
- Capping intergovernmental transfers. This would not impact Iowa since Iowa Medicaid no longer participated in upper payment limit intergovernmental transfers.
- Narrowing what rehabilitation services are allowable for payment. This will not impact Iowa because Iowa's Medicaid program already operates within the narrowed rehabilitative services.

The President's budget extends two Medicaid programs beyond their current June 2007 expiration through FFY 08:

1. Transitional Medicaid Assistance (TMA) for former welfare clients who have entered the workforce. Iowa DHS supports this extension.
2. The Qualified Individual (QI) program related to Medicare Part B premiums for low income persons. Iowa DHS also supports extension of the QI program.

State Children's Health Insurance Program (SCHIP)

SCHIP funding for FFY 2008 should be considered in the context of projected shortfalls in FFY 2007. Iowa is one of 14 states projecting SCHIP Federal funding shortfalls in FFY 2007. Iowa's projected shortfall is between \$15 to \$18 million beginning the last quarter of FFY 2007 (July through September of 2007) unless Congress and the President agree to allocate additional redistribution dollars. Nationally, the projected SCHIP shortfall is estimated at \$716 million for FFY 2007.

The President's budget includes reauthorizing SCHIP. According to the American Public Human Services Association (APHSA), the budget includes \$1.2 billion in FFY 2008 for SCHIP and \$5.93 billion over five years maintaining current service levels for targeted low-income children below 200% of the federal poverty level. Though not applicable to Iowa, 16 states currently exceed the 200% federal poverty level and a few cover adults. The Center for Children & Families at Georgetown University estimates that it will cost \$12 to \$15 billion over the next

five years to maintain coverage at the current service level. The President's budget also proposes changes in how dollars will be redistributed over future fiscal years.

Social Services Block Grant (SSBG)

As in his FFY 2007 budget, the President is again proposing to cut funding for SSBG by \$500 million. For Iowa, the President's proposed reduction would result in approximately a \$5 million loss. The majority of SSBG funds in Iowa are used for services for adults with developmental disabilities or mental illness. SSBG funding also helps support Iowa's children needing foster care, family-centered services, and case management. Other community-based services, such as adult protective services, family life homes (also referred to as adult foster care), home-based services, family planning, and volunteer services rely on SSBG funding. Iowa programs that depend on SSBG funding serve over 116,000 Iowans. Any reduction to the Social Services Block Grant would result in fewer persons receiving services or a reduction in the level of service provided. In Congress, there has been bi-partisan support for level funding.

Temporary Assistance for Needy Families (TANF)

TANF is level funded at \$17.1 billion in the budget. The President's budget also proposes to eliminate a separate and higher work participation rate for two-parent families. Iowa DHS supports this change.

The Administration for Children and Families (ACF) to budgeted to receive \$11 million for the prevention of improper payments for several programs, including TANF and Child Care. States welcome efforts to improve payment accuracy. However, there are concerns about how these initiatives will be implemented by the ACF and whether additional, unfunded administrative burdens will be placed on states.

Child Support Enforcement

The President's budget appears to incorporate the cuts made to the child support program through the Deficit Reduction Act. It may also provide for increased expenditures caused by the Federal mandates for medical support and mandatory review and adjust for TANF customers. For Iowa that includes a reduction of \$14 million in matching federal funds for performance payments and the federal revenue from a new annual \$25 fee.

Adoption Assistance

An increase in funding for adoption assistance is included in the President's budget. It is estimated that Iowa's increase would be \$1.7 million. The proposed funds will be used to provide payments to adoptive families, administrative payments for the cost of placement, and training for professionals and adoptive parents.

Child Care and Development Funds

The President's budget would result in an estimated moderate reduction for Iowa of \$454,000 in FFY 2008 as compared to the FFY 2007 Continuing Resolution level.

As referenced under the TANF section, Child Care is part of the Department of Health and Human Services' initiative to eliminate improper payments. States are concerned whether this initiative will result in an increased, unfunded administrative burden.

Food Assistance

The President's budget assumes a reduction in Food Assistance costs due to an improving economy. This does not; however, appear to take into account the efforts of states, including Iowa, to increase the enrollment of eligible low-income citizens in the program.

Nationally, the Food Assistance record low error rate is 5.84% and it was achieved in FFY 2005. The President's budget proposes an even more stringent program error rate of 5.7%. Reaching the target will be a challenge for states. Iowa's current error rate is around 6.4%. Reducing Iowa's error rate will take additional administrative resources.

Commodity Supplemental Food Program

The President's budget proposes to eliminate the Commodity Supplemental Food Program, assuming that needy recipients, primarily low-income elderly, will participate in other food assistance programs.

Juvenile Justice

In general, the President's budget proposes to combine programs and reduce overall funding. For example, the budget combines the Responsible Reintegration of Youthful Offenders program with the Prisoners Re-entry Initiative and reduces their combined budgets by \$25.3 million for FFY 08. The President also proposes to eliminate the Juvenile Accountability Incentive Block Grant, which is a funding source the Iowa Decat Boards and Iowa DHR-Division of Criminal and Juvenile Justice rely on to serve troubled youth.

Next Steps

Congress does not vote on the President's Budget. Instead, it considers the President's Budget proposals and then passes an overall revenue and spending plan. According to OMB Circular No. A-11 (2006), Congress enacts its budget through several different types of legislation:

- The Congress first adopts a concurrent resolution that sets forth the total budget outlays (i.e., spending targets) and budget receipts for the upcoming fiscal year.
- Next, legislation authorizes changes in programs and in taxes to be enacted consistent with the budget resolution.
- Finally, the Congress enacts appropriations in the regular appropriations bills for the upcoming fiscal year.

NOTE: This analysis relied heavily on information from several sources, including: DHS policy staff; Federal Funds Information for States; American Public Human Services Association; Center for Children & Families at Georgetown University; Federal Government websites; and other sources.