States have received over $160 billion in budget relief since the beginning of the Great Recession both through the Recovery Act of 2009 and the Education Jobs and Medicaid Assistance Act of 2010. The Obama administration is doubling down on this approach in its proposed American Jobs Act which includes $30 billion in direct state budget support and billions more in infrastructure and other program spending that would flow through the states over the next two years. However, the deficit proposal revealed by the President today calls upon states to shoulder billions in long-term costs as part of a broader effort to set the nation on sounder fiscal footing.

The President’s plan cuts federal spending over the next decade by $3.5 trillion over and above the $1.2 trillion cut included in the debt ceiling compromise last month. The plan combines the measures outlined as offsets for the President’s jobs plan last week with additional cuts and revenue increases designed to drive down long-term deficits. The core elements of the plan include:

- $580 billion in cuts and reforms to mandatory programs (including $320 billion from Medicare & Medicaid, $33 billion in cuts to agriculture subsidies, and substantial reductions for federal employee retirement and health care costs).
- $1.1 trillion from the drawdown of troops in Afghanistan and transition from a military to a civilian-led mission in Iraq.
- $1.5 trillion from tax reform by allowing the 2001 and 2003 tax cuts for high earners to expire ($866 billion), limiting deductions for individuals with incomes over $250,000 ($10 billion), and closing loopholes ($300 billion).
- $430 billion in additional interest savings.

A key element of the President’s plan is a proposal to save over $73 billion in Medicaid and other non-Medicare health costs through a series of cuts, restrictions, and formula changes. These cuts would have a long-term impact on state budgets particularly as many of the changes would only begin to take effect as the increased Medicaid patient population created by the Affordable Care Act is coming into the program. As a result, the costs to states in the decade beyond 2020 could be much larger than those outlined over the next ten years. The President provided few details on Medicaid in his remarks today, but talking points circulated to leaders on the Hill included the following specific savings figures over the next ten years:

- $26.3 billion by limiting the ability of states to impose Medicaid provider taxes beginning in 2015.
- $14.9 billion by blending and reducing the rates at which states are reimbursed for Medicaid and the Children’s Health Insurance program (CHIP).
- $14.6 billion by changing the Medicaid income definition to include Social Security benefits.
- $4.2 billion by reducing “over payments” for medical equipment by limiting reimbursement to the rates paid by Medicare for similar equipment.
- $4.1 billion by further reducing disproportionate share payments (DSH) to hospitals that serve a high percentage of uninsured patients.
- $1.4 billion by combating fraud, waste, and abuse (including increasing penalties on drug
manufacturers for non-compliance with Medicaid drug rebate agreements).

The competing influences of the President’s jobs and deficit proposals paint a complicated picture for states. The President is acutely aware of the impact of the ongoing state fiscal crisis on public sector employment. His jobs plan provides direct revenue support to help stave off job losses, and stimulate re-hiring, in the short-term. However, the cost cutting measures proposed today would have long-term fiscal implications for states that are difficult to predict. Should the President succeed unexpectedly in navigating his agenda through a bitterly divided Congress, states would likely face sunny fiscal prospects over the next two years with much darker clouds appearing on the horizon beginning in 2015 as the short-term spending peters out and new cost and revenue measures kick in.

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