

ISSUE BRIEF

State Fiscal Relief

States are struggling with the worst fiscal crisis since World War II, with budget deficits expected to reach between \$60 and \$85 billion in state fiscal year 2004, according to the National Conference of State Legislatures. At the same time, increases in unemployment and poverty are prompting greater demand for government help. Since nearly every state has a constitutional obligation to balance their budget, this means critical programs and services will be cut or even eliminated. Congress should provide immediate fiscal relief to states to help close their deficits without hurting the people that most need help.

Last year, bipartisan legislation in both the House and Senate would have provided a temporary increase in Medicaid funding for states (known as FMAP, the federal Medicaid matching rate that varies by state). In July, the Senate passed with overwhelming bipartisan support an amendment to the generic drug bill that would have provided a total of \$9 billion in temporary state fiscal relief—\$6 billion in Medicaid funding and \$3 billion in a social services block grant.

States are having to do more with less. States have seen their revenues decline with the downturn in the economy. In addition, state budgets have taken a hit where state tax laws coordinate with federal law. The reduction and repeal of the estate tax as well as last year's tax break for businesses with operating losses have both taken a toll on state budgets. At the same time, states are being asked to do more, with new demands resulting from homeland defense, election law reform and new education testing requirements. In each case, states have not received the federal funding necessary to meet these challenges.

Growing state budget deficits coincide with greater demand for coverage through Medicaid. The rise in uninsured in 2001—1.4 million more, according to the U.S. Census Bureau—would have been worse if not for the increase in the number covered through government-funded programs. Most notably, Medicaid coverage grew by 2.1 million in 2001. That positive trend is likely to be reversed, despite a growing need. Rising unemployment, escalating health care costs and employers shifting more health care costs onto workers will lead to more uninsured and greater demand for Medicaid. But enrollment growth and escalating health care costs are putting Medicaid spending beyond strained state budgets.

States are responding to their financial crises by cutting Medicaid eligibility guidelines and benefits. A recent Kaiser Family Foundation survey found 18 states made cuts in their Medicaid programs in the last year and 40 states are considering significant Medicaid cuts in the current budget cycle. These cuts will hurt the states' most vulnerable citizens—and the number of uninsured will grow still further. In addition, health care providers that receive Medicaid funding will also see cuts, just as they are being asked to do more to care for the uninsured and protect the public health in the event of threat to security or attack.

Congress should provide immediate relief to states for Medicaid and other vital programs. Relief is needed both to prevent states from cutting their Medicaid programs in the face of growing state budget deficits and to allow states to expand their programs to extend coverage to more uninsured. To do so, Congress should provide a temporary enhanced federal match (FMAP) for states

that have seen their budgets decimated by the economic downturn. In addition, Congress should help cash-strapped states meet new and growing demands on state budgets, including those resulting from homeland defense and other critical state functions.