Testimony of Gerald W. McEntee, International President of the
American Federation of State, County, and Municipal Employees (AFSCME)
for the Hearing on
State Fiscal Relief: Protecting Health Coverage in an Economic Downturn
before the
U.S. House of Representatives
Committee on Energy and Commerce
Subcommittee on Health
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Mr. Chairman and members of the Subcommittee, I am Gerald W. McEntee, President of the 1.4 million member American Federation of State, County and Municipal Employees (AFSCME). I would like to commend the Subcommittee for holding this hearing focusing on the fiscal crisis facing state and local governments and how it is affecting the health care safety net.

States, cities, counties and school districts are crucial partners in our federal system of government. They are on the front lines in protecting our families and communities, safeguarding public health, educating our children and providing services upon which the American public relies to ensure our common good. But today state and local governments are facing a fiscal crisis of major proportions.

We all know that the economic problems confronting our nation are growing but there has been insufficient attention to how this crisis is affecting the delivery of health care and other vital services administered by state and local governments. According to the Center on Budget and Policy Priorities, 29 states are facing a budget shortfall of at least $48 billion in fiscal year 2009. Most states are facing a significant loss in tax revenues and coping with rising unemployment. Overall state tax collections in early 2008 are at their lowest level in nearly five years. But now states are also experiencing the pinch of skyrocketing energy prices and nose-diving property tax revenues. These additional pressures will place an additional strain on state and local budgets. And unlike the federal government, states must balance their budgets each year, requiring service cuts or tax increases – actions which may further exacerbate the economic downturn.

The fiscal crisis confronting states poses a particular risk to the delivery of health care services upon which tens of millions of Americans depend. Due to declining state economies, our Medicaid system – which is a federal-state partnership – is experiencing particularly corrosive pressures. Even before the recession, the effect of rising Medicaid costs has been devastating on state budgets. Although states have worked to keep Medicaid costs under control, the growing strain of the rising number of uninsured Americans adversely affects other important public services. States have not been able to adequately invest in education or meet basic infrastructure needs because of rising Medicaid costs.

The demand for Medicaid increases during an economic downturn as people lose their employer-sponsored health coverage, or because their declining wages push them into poverty. Our nation's unemployment rate has increased by one percentage point since last year, and more job losses are projected. A recent analysis by the Kaiser Commission on Medicaid and the Uninsured indicates that a one percent rise in our nation's unemployment rate translates into increased Medicaid and SCHIP enrollment of approximately one million and results in another 1.1 million Americans becoming uninsured. This will cost states a three to four percent drop in revenues and in increased health care spending of at least $3.4 billion.

If there is one point I hope you will take away from my testimony today, it is that Medicaid matters to us all and must be protected and sustained. A short-term increase in federal assistance to state Medicaid programs to stave off cuts during this economic downturn is a vital economic investment in our nation – and I would submit – a moral imperative as well.

It is for this reason that we strongly support the bipartisan legislation (H.R. 5268) introduced by Chairmen Frank Pallone and John Dingell and Representatives Peter King and Thomas Reynolds. The bill is modeled after the approach Congress and President Bush took in the last recession. It proved effective as a stimulus then and succeeded in preventing deeper cuts to Medicaid, and we believe it will prove effective again today.

Through the Medicaid program we come together as a nation to care for each other by protecting the health of nearly 59 million vulnerable neighbors and family members who have no other option for health care. Because of Medicaid we make sure that economic hardship does not damage the health of our fellow Americans. Our investment of public funds in Medicaid is also a reflection of the promise of the American dream – our families, communities and nation are stronger and there are more opportunities for a better life when we keep Americans healthy and well.

Medicaid serves one in four children. Through Medicaid programs we give children born with lifelong disabilities such as cerebral palsy and developmental disabilities, children of laid-off workers and children of lower-income parents whose employers do not offer health care coverage access to the miracles of preventive care and modern medicine.

Medicaid serves one in five individuals with disabilities. People with disabilities are able to live independently and have fuller and more productive lives in our communities because Medicaid funds provide vital medicines and long-term supports and services.

Medicaid is the backbone of our nation's health care system and a major component of state economies. Medicaid funds 16 percent of national spending on health services and supplies. Medicaid provides hospitals with 17 percent of their patient revenues on average. Community health centers rely on Medicaid for nearly 40 percent of their patient revenues. Medicaid also plays a crucial role in training the next generation of medical providers by supporting graduate medical education and training. Cuts in Medicaid payments to hospitals and providers threaten access to needed health care and further weaken our health care delivery system. Moreover, Medicaid is a crucial component of state budgets, representing approximately 22% of state spending.

To trim budgets during this fiscal crisis states are looking to cut public services and contain rising Medicaid costs. In the last recession, cuts in Medicaid eligibility or covered services were considered as a last resort. Because states have already implemented various cost savings such as freezing provider payments, cuts in eligibility and access to care may be considered sooner as budget shortfalls expand with a deteriorating economy. We are already seeing the harsh reality of how the state budget crisis is adversely affecting state Medicaid programs.

California is slashing its Medicaid and SCHIP programs by $1.1 billion. This includes a 10% cut in provider reimbursement rates. The state already has one of the lowest reimbursement rates in the nation. This cut will almost certainly weaken access to needed care by discouraging provider participation and by triggering a reduction in services at county hospitals across the state.

The cuts in California also include changes in eligibility levels and the application process designed to block those in need from receiving Medicaid coverage. California's Department of Health Care Services estimates that 430,000 parents will lose coverage by 2011 as a result of lowering the income eligibility threshold from $18,656 for a family of three to $10,736 in 2008. Nearly 472,000 children and 35,000 adults would lose coverage when they are sick because of new procedural requirements that they demonstrate their eligibility every 90 days.

Florida has cut reimbursement rates to nursing homes, which will lead to staffing reductions and other actions that harm patient safety and quality care.

Illinois is delaying paying providers which will adversely affect access to care.

New Jersey has instituted an 18% cut in funds to help reimburse hospitals that provide charity care to the state's 1.3 million people who lack insurance. This cut – which the governor has called "heartbreaking" – will inflict pain on families and compound the economic losses to hospitals already at risk of closing due to high rates of uncompensated care.

Tennessee will limit eligibility to its medically-needy program, which covers individuals with life-threatening and serious medical conditions (such as cancer, kidney disease and diabetes) who have high unpaid medical bills but whose income is over the threshold to otherwise qualify for the state's Medicaid program. Some 50,000 Tennesseans use this life-saving program but it is expected that 40,000 to 45,000 will lose coverage as a result of the new eligibility policies.

Other states also are making major cuts. As the economy continues to push the unemployment rate higher and state revenues decline, states almost certainly will be forced to further limit access to medical care.

When states cut Medicaid and other public services to balance their budgets, it hurts individuals, communities and the economy. An analysis of the Medicaid cuts made in Oregon during the 2003 recession found that more than 50,000 low-income adults lost health care coverage which, in turn, spurred a $253 million increase in uncompensated care for Oregon's hospitals because of increased use of emergency rooms and hospitalizations.

H.R. 5268 recognizes that the state fiscal crisis will further weaken our health care delivery system and that immediate action by the federal government is necessary to prevent additional health care cuts in Medicaid. By temporarily investing additional federal dollars in Medicaid, the bill focuses assistance to those hit hardest by the economic downturn and protects our nation's health care infrastructure.

In 2003, when Congress provided states with a similar temporary and targeted increase in federal assistance for Medicaid, it helped stave off additional cuts to health care and stimulated the economy.

Various studies support the conclusion that H.R. 5268 is an effective way to stimulate state economies. One analysis by Families USA, using the Department of Commerce's computer model to project how investments in state economies can multiply economic activity, found that the legislation would mean additional state business activity and jobs. I have attached its state-by-state report.

Another recent analysis by Mark Zandi, chief economist of Economy.com, demonstrates that of all the options available to Congress, helping state governments through general aid or a temporary increase in the Medicaid matching rate to state governments generates one of the greatest economic returns. Specifically, every $1.00 increase in spending for general aid to state governments will generate $1.36 in increased real gross domestic product (GDP). Similarly, earlier this year, the Joint Economic Committee concluded that increasing the federal medical assistance percentage (FMAP) is one course of action to alleviate increased fiscal demands on states because it would "help buffer the impact of the economic slowdown to preserve Medicaid coverage as people lose their jobs and health insurance, as was done during the last economic downturn."

For the foregoing reasons, we strongly support this bipartisan legislation to temporarily increase federal Medicaid assistance to the states. It worked in 2003, and it is urgently needed again.

Attachment

Attachment

Effect of an Increase in Federal Medicaid Matching Payments on State Economies (as proposed in H.R. 5268), October 2008 - December 2009

State	Additional Federal Support for Medicaid	Additional Business Activity	Additional Jobs	Additional Wages
Alabama	$144,099,000	$242,700,000	2,600	$88,300,000
Alaska	$64,106,000	$96,800,000	900	$35,400,000
Arizona	$340,875,000	$578,600,000	5,300	$217,600,000
Arkansas	$150,142,000	$236,700,000	2,600	$86,700,000
California	$1,442,915,000	$2,873,600,000	25,000	$1,021,400,000
Colorado	$116,806,000	$226,200,000	2,100	$80,100,000
Connecticut	$167,572,000	$280,400,000	2,500	$100,900,000
Delaware	$44,085,000	$66,800,000	500	$21,400,000
Florida	$783,103,000	$1,389,300,000	14,100	$518,900,000
Georgia	$243,976,000	$480,300,000	4,400	$168,700,000
Hawaii	$60,444,000	$101,900,000	1,000	$37,900,000
Idaho	$47,432,000	$77,100,000	900	$28,800,000
Illinois	$448,135,000	$896,000,000	7,900	$307,800,000
Indiana	$216,699,000	$377,300,000	3,700	$133,400,000
Iowa	$104,131,000	$168,900,000	1,900	$60,900,000
Kansas	$85,721,000	$145,200,000	1,500	$49,300,000
Kentucky	$179,076,000	$294,800,000	2,900	$101,800,000
Louisiana	$317,679,000	$540,800,000	6,100	$196,200,000
Maine	$78,784,000	$132,400,000	1,500	$50,100,000
Maryland	$217,318,000	$386,200,000	3,300	$132,900,000
Massachusetts	$438,530,000	$765,400,000	6,600	$271,500,000
Michigan	$321,901,000	$539,800,000	5,400	$201,300,000
Minnesota	$268,308,000	$476,700,000	4,400	$175,200,000
Mississippi	$158,686,000	$250,300,000	2,800	$90,200,000
Missouri	$278,013,000	$490,800,000	4,600	$160,800,000
Montana	$30,886,000	$49,300,000	600	$18,400,000
Nebraska	$62,072,000	$100,700,000	1,100	$36,200,000
Nevada	$81,530,000	$126,700,000	1,200	$46,300,000
New Hampshire	$42,978,000	$71,100,000	600	$24,300,000
New Jersey	$290,807,000	$548,200,000	4,400	$182,500,000
New Mexico	$134,429,000	$214,100,000	2,300	$79,000,000
New York	$1,805,626,000	$3,004,800,000	25,100	$1,040,600,000
North Carolina	$386,858,000	$677,600,000	7,000	$247,800,000
North Dakota	$25,240,000	$38,400,000	400	$13,500,000
Ohio	$487,671,000	$875,100,000	8,700	$312,400,000
Oklahoma	$187,613,000	$338,500,000	3,900	$122,800,000
Oregon	$128,247,000	$215,800,000	2,100	$77,300,000
Pennsylvania	$629,954,000	$1,184,900,000	10,600	$406,600,000
Rhode Island	$66,546,000	$106,800,000	1,000	$36,600,000
South Carolina	$139,070,000	$248,000,000	2,700	$88,700,000
South Dakota	$22,866,000	$35,000,000	400	$12,900,000
Tennessee	$280,620,000	$505,100,000	4,500	$176,600,000
Texas	$1,110,201,000	$2,242,500,000	21,300	$790,700,000
Utah	$68,853,000	$130,400,000	1,400	$46,900,000
Vermont	$40,580,000	$59,900,000	600	$22,100,000
Virginia	$206,307,000	$358,100,000	3,200	$123,000,000
Washington	$247,214,000	$442,600,000	4,100	$157,800,000
West Virginia	$101,173,000	$147,700,000	1,500	$51,600,000
Wisconsin	$195,631,000	$328,300,000	3,300	$121,000,000
Wyoming	$17,738,000	$24,900,000	300	$9,400,000

Families USA calculations, July 2008. Calculations are based on the 2007 Regional Input-Output Modeling System (RIMS II) and Center on Budget and Policy Priorities' estimates of federal funds states would receive from H.R. 5268. RIMS II is produced by the U.S. Department of Commerce, Bureau of Economic Analysis.