

**State Responses to Budget Crisis in
Fiscal Year 2004**
Findings Based on Case Studies in 10 States

John Holahan, Teresa Coughlin,
Randall Bovbjerg, Ian Hill,
Barbara Ormond and Stephen Zuckerman

The Urban Institute
January 27, 2004

Medicaid, SCHIP and State Budget Pressures

- Project examined response to budget pressure in FY2004 in ten states: Alabama, California, Colorado, Florida, Michigan, New Jersey, New York, Texas, and Washington
- States varied in depth of budget pressures
- But all faced difficult choices among spending reductions, tax increases or other measures

General Strategies

FY 2003:

- Use of reserves, trust fund transfers, tobacco funds, other “one time” measures
- Little reliance on tax increases
- Cuts in spending directed at state workforce, aid to localities
- Medicaid cuts generally reimbursement rates, optional benefits

FY 2004:

- Continued use of reserves, fund transfers, “one time” measures
- Increased use of cigarette & alcohol taxes and fees; some increases in broad based taxes
- Broader spending cuts, including deeper cuts in health care
- Federal fiscal relief reduced the need to make spending cuts or enact tax increases

Revenues – FY 2004

- Significant tax increases in four states; generally strong opposition to tax increases elsewhere
- Tobacco securitization and trust fund borrowing continued
- Less use of reserves and rainy day funds
- More efforts to shift spending across time
- Increased use of quality assessment fees

Spending Reductions - General

- K-12 Education Generally Protected
- Higher Education Generally a Target
- Many Cuts Affecting State Workforce
- Several States Cut Aid to Localities

Spending Reductions – Medicaid/SCHIP

Enrollment

- Lowered eligibility standards
- Capped enrollment in SCHIP and state funded programs
- Tightened eligibility determination process
- Reduced outreach efforts

Benefits

- Cut optional services, particularly for adults

Reimbursement Rates

- Froze or cut payment rates for physicians, dentists, managed care and other providers

FY 2004 Budget Decisions Likely to Have Long Term Consequences

- Need to Replenish Reserves, Trust Funds
- Tobacco Settlement Funds No Longer Available in Many States
- States May Need to Address Effects of Tuition Increases in Higher Education; Cuts in Aid to Localities; Measures Affecting State Workforce
- Medicaid/SCHIP Enrollment Policies Likely to Affect the Number of Uninsured; Reimbursement Rate Cuts Likely to Reduce Provider Participation
- Continuing Reality: Medicaid Spending Projected to Increase Faster than State Revenue Growth