



★ WASHINGTON WATCH ★

An update on federal action from

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STILL WATCHING

Though it has been a while since our last *Washington Watch* (WW#18, December 22, 1995) we have been tracking developments in Washington over the past month. As you are probably aware from previous *Watches* and ongoing press accounts, the President and Congress have stalled in their negotiations on the Budget Reconciliation Act (BRA) and on separate welfare reform legislation (HR4). In this *Washington Watch* we hope to bring you up to date on the general status of the federal budget and recent developments on welfare and Medicaid. Updates on food and nutrition programs, EITC and other issues will follow in the next *WW*. Proposals this week by the National Governors' Association (NGA) have raised the possibility of restarting stalled negotiations on welfare and Medicaid, but the relatively cool reception given by Congress and the President to their recommendations does not indicate immediate movement. It is unlikely there will be any significant deal-making until after key Republican primaries in Iowa and New Hampshire later this month. However, in a speech Tuesday, Speaker Gingrich stated that he expected Congress to pass both welfare and Medicaid reforms in early March.

BUDGET UPDATE

The federal budget for fiscal year 1996 is being enacted piecemeal. Individual appropriations bills have been signed that fund certain federal agencies for the entire year, but many federal programs are currently operating under "continuing resolutions" that provide only temporary funding. This lurching from deadline to deadline is expected to continue until a final agreement is reached on a Budget Reconciliation Act, or until all sides agree to continue current programs through the end of the fiscal year and postpone any structural changes until after the November elections.

The most recent continuing resolution was signed by the President two weeks ago. It funds most programs only through March 15, some at only 75 percent of 1995 levels. The March 15 deadline was chosen to match the current expiration of the government's ability to borrow money. This limit on the ability to increase the national debt to pay interest on Treasury bonds and make Social Security and veterans' benefits payments has served as a "drop-dead" date for budget negotiations. Failure to raise the limit would cause the government to default on its obligations, with potentially disastrous impact on global financial markets. The Congress last week created temporary legal borrowing authority to ensure that the government could meet its obligations until March 15. Due to unfavorable public reaction to the threat of a financial default, Congress is expected to enact a longer term extension of the debt limit when it returns at the end of February. This would remove the immediate financial pressure for an agreement on budget issues.

| Current Status of Appropriations Bills | |
|--|-------------------------------------|
| Passed and signed (8) | |
| HR 1817 | Military construction |
| HR 1905 | Energy, Water |
| HR 2020 | Treasury, Postal |
| HR 1976 | Agriculture |
| HR 2002 | Transportation |
| HR 2126 | Defense |
| HR 2492 | Legislative branch |
| HR 1868 | Foreign operations |
| Vetoed (3) | |
| HR 1977 | Interior |
| HR 2076 | Commerce, State, Justice, Judiciary |
| HR 2099 | VA, HUD |
| Passed in House, filibustered in the Senate | |
| HR 2127 | Labor, HHS, Education |
| Yet to pass either house | |
| HR 2546 | District of Columbia |

| Comparison of Budget Targets | | |
|---|---------------|-----------------|
| Program(s) Cut | Clinton Plan | Republican Plan |
| Medicaid | \$59 billion | \$85 billion |
| Medicare | \$124 billion | \$168 billion |
| Welfare | \$41 billion | \$60 billion |
| EITC | \$5 billion | \$15 billion |
| Taxes | \$130 billion | \$202 billion |
| Closing Corp. Tax Loopholes | \$56 billion | \$26 billion |
| <i>Associated Press, January 18, 1996</i> | | |

WELFARE REFORM

The outlook for welfare reform is now uncertain. As you may recall, the Budget Reconciliation Act, which contained welfare reform provisions, was vetoed by the President on December 6th, and the stand-alone welfare bill (HR4) was vetoed on January 9th. Although these vetoes mean there is no welfare reform legislation currently on the table, negotiations on welfare and the budget continue. And, even if the budget situation remains unresolved, welfare could be negotiated as a separate piece of legislation.

As far as negotiations on welfare are concerned, there are several recent developments of note:

1) White House Proposal:

The President has offered a brief outline of his proposals for welfare reform and related initiatives.

2) Congressional Movement:

Reportedly, some House Republicans are considering voting on the Senate-passed welfare reform proposal and sending it to President Clinton, forcing him to choose between signing the bill (and infuriating certain Democrats) or vetoing it (and appearing to not be committed to his campaign promises on welfare). (See WW#7 for details of the Senate proposal.) The President had indicated support for the Senate measure early in the debate. After the release of an Office of Management and Budget analysis which found that the bill would push 1.2 million children into poverty, he has,

along with several Senators who originally voted for the measure, voiced concern about it. Other lawmakers prefer moving forward with a new proposal or leaving the issue for the 1996 elections.

3) Recent CBO Analysis:

Discussions about the adequacy of child care funding are being influenced by recently-released Congressional Budget Office analyses which highlight critical funding issues related to child care and work requirements in the HR4 Conference Bill.

4) Governors' Proposal:

This week the National Governors Association (NGA) released their proposed alternative welfare reform plan which basically supports the HR 4 conference bill with certain changes. This proposal is viewed by many as less satisfactory than some of the tentative agreements reached in negotiations between the White House and Congressional leaders.

Although the details of the NGA plan and the President's proposal are still very sketchy, following is a brief outline of each of these alternatives. (We encourage you to refer back to WW#17 for the details of the HR 4 Conference Bill on welfare reform as you review this table.) These three proposals—the NGA proposal, the President's plan, and HR 4—provide a picture of how wide-open the welfare debate remains.

| | President's Proposal | National Governors' Association Agreement |
|-------------------------------------|--|---|
| General Provisions | Projected savings of about \$45.7 billion over 7 years. The plan closely follows the House Democratic Coalition plan with some modifications. | Follows HR 4, but increases the contingency fund by \$1 billion for states when unemployment rises or food stamp caseload grows by 10% over FY 1995 caseload levels. Eliminates requirement that states maintain 100% of current state funding to receive contingency funds; hence removes the incentive for states to continue full state funding. National loss could be greater than additional \$1 billion added. |
| Cash Assistance | AFDC would be terminated and replaced by a new conditional entitlement of limited duration. Five year maximum time limit, state option for vouchers at the end of that period to assist children. "Conditional" likely refers to work participation requirements, but key difference from Congressional proposal is the continued federal guarantee of assistance. | Follows HR4 block grant provisions. Maintains bonuses for reducing out-of-wedlock births without increasing abortions and allows states the option of further restrictions such as a "family cap," but does not mandate such restrictions. |
| Child Care and Work Programs | Total of \$11.8 billion included for child care, \$3 billion above current law, for those welfare recipients required to work, recipients moving from welfare to work, and the working poor. Existing Child Care programs are consolidated into one Child Care and Development Block grant as in Congressional proposals. | An additional \$4 billion funding for child care. (It is assumed that this is above the HR 4 level). Eases some of the work requirements in HR4 by reducing the number of required work participation hours in future years, permitting states to limit the required hours of work to 20 hours a week for parents with a child under age six, etc. |
| Nutrition Programs | Reduces future food stamp program spending by cutting benefits, decreasing income deductions, etc., | Reduces future food stamp program spending more than the President (presumably using strategies similar |

| | President's Proposal | National Governors' Association Agreement |
|--|--|--|
| | No block grants under the food stamp program, no child nutrition block grant, tighter targeting of food subsidies for Family Day Homes and meal reimbursement rates would be rounded down to nearest cent for child nutrition programs. | to those in the President's proposal and HR4.) Follows HR4 in allowing for optional food stamp block grants in qualifying states with low error rates or statewide EBT systems (Texas would qualify). Maintains school lunch and breakfast entitlement for children, but provides funding for administration in a block grant. |
| Immigrants | About \$5 billion saved by deeming sponsor income until citizenship | No clarity on immigration issues, no position on whether benefits for legal immigrants should be restricted |
| Child Welfare Provisions | President's position on child protection unclear. But Budget Reconciliation Act (BRA) veto message cited threat posed to child protection as one of the reasons for vetoing. | Allows states to convert some or all of their foster care, adoption assistance, and independent living funding as a capped entitlement. (NGA summary says it maintains entitlement to foster care, but this option makes it unclear what services states would be required to provide to abused and neglected children.) |
| Supplemental Security Income (SSI) for children with disabilities | Unlike the BRA and HR4, maintains monthly benefits for children on SSI. Like the BRA and HR4, revises SSI eligibility for children with disabilities by eliminating the Individualized Functional Assessment. However, allows for a one year transition period; so that no children would lose SSI eligibility until 1998. | Follows the Senate welfare reform bill and the President's proposal. |
| Title XX | Cuts 1.9 billion or 10%. | Not addressed in NGA summary. |

MEDICAID UPDATE

Note: Congress has fully funded Medicaid through the end of the federal fiscal year 1996.

As we go to press, the latest development in the debate over the future of Medicaid is the NGA's adoption of a bipartisan plan for restructuring the program. Congressional Republicans' Medicaid proposal in the vetoed Budget Reconciliation Act would have repealed Medicaid, replacing it with a significantly smaller block grant under which states would be required to *enroll* certain groups, but no level of benefits would be guaranteed to any persons or groups. The President and Congressional Democrats have proposed preserving all current eligibility guarantees, and reducing spending by imposing an inflation cap on how much the cost per enrollee could grow from year to year. (See WW #18, 12/22/95 for details of both proposals.) The NGA proposal includes a number of issues on which both parties already agreed, and carves out some middle ground between the aforementioned proposals on some major areas of contention. Since the last WW, Congressional Republicans' Medicaid savings target has dropped significantly to \$85 billion over 7 years, while the President's proposal grew to \$59 billion over that period. No numbers have been released with the NGA proposal, but it is assumed that a number between these two would be the goal of a compromise.

While the NGA proposal is clearly important, parties from the President to Congressional leadership from both sides of the aisle have been quick to point out they have many

reservations about the governors' plan, and that it should be seen only as a "starting" point for the development of any ultimate compromise.

Major Points of the NGA Medicaid Proposal

Eligibility: States would be **required** to cover:

- All children up to age 6, and all pregnant women up to 133% of the federal poverty level (FPL),
- All children from age 6 through age 12 to 100% of FPL,
- All persons **65 and over** who are eligible for Supplemental Security Income (SSI),
- Persons meeting **state definition** of disability (subject to federal approval), and
- Medicare beneficiaries under 100% FPL who get help with their out-of-pocket costs under current law.
- How states would cover their AFDC clients would depend on the outcome of welfare reform legislation. If AFDC were **not** repealed, states would have to cover their AFDC clients up to the **national average AFDC income and resources** (no impact on Texas, as our benefits are well below average). Coverage of AFDC clients above that income level would be a state option. But if AFDC were converted to a new block-grant welfare program, states would be required to cover **all** clients.

- **All optional coverage groups would remain optional:** infants and pregnant women 133-185% of FPL; the medically needy program for families with catastrophic bills; and persons in nursing facilities with incomes up to 3 times the SSI income level.
- States would still be allowed to expand to cover other groups, subject to a cap at 275% of FPL.

Who loses guaranteed coverage:

- **Persons under age 65 who receive SSI because they are disabled,** who are entitled to Medicaid under current law. Since virtually all other large mandated coverage groups are included, this provision is clearly included to allow states to **deny** coverage to some non-elderly SSI recipients, as no “floor” is defined. It is thought that the primary target for exclusion may be people with AIDS.
- **Elders Just Above Poverty Line:** Under current law, state Medicaid programs pay the Medicare Part B premiums for persons over 65 with incomes between 100-120% of FPL.
- **Teenagers:** Under current federal law, coverage for all kids under 100% of FPL and born after 9/30/83, is being phased in, so that by 2002 all such children under age 19 would be covered. NGA would freeze the phase-in at its current stage, though states would have the option to cover older children.
- **Others:** The NGA outline makes no mention of current-law required coverage for people working their way off AFDC or disabled persons working their way off SSI. There are also numerous categories designed to prevent “catch-22” situations from forcing elders and persons with disabilities off of Medicaid as the result of tiny increases in income.

Benefits: The NGA proposal would continue to **require** most current mandated benefits be provided **to the mandatory enrollment groups only**. Deleted from the current list would be Federally Qualified Health Centers and Rural Health Clinics. Current optional benefits would remain subject to state choice. The proposal states that long term care options would be “significantly broadened,” but no details are provided. **Major changes include:**

- Children would no longer be guaranteed coverage of all medically necessary services allowed under Medicaid law.
- States could limit benefits in **amount** (e.g., 3 prescriptions per month, as in Texas Medicaid for adults), **duration** (e.g., 30 day limit on hospital care for adults in Texas Medicaid), or **scope** (e.g., limit certain treatments to outpatient settings only) for all clients.

- Enrollees could not sue the state or federal government related to inadequate benefits.
- People in optional eligibility groups would **not** be guaranteed the full mandatory benefit package.

Managed Care: No special federal permission would be required for implementing Medicaid managed care. No requirement for states to offer choices among plans is made.

Nursing Home Standards: The proposal would retain the OBRA 1987 standards, but **eliminates federal enforcement**, allowing states to design enforcement.

Provider Payments: The proposal would repeal the “Boren Amendment” which requires Medicaid payments for hospitals and nursing homes be related to reasonable cost. This would allow states to cap these providers’ cost increases without being sued. Cost-based payments now required for Federally Qualified Health Centers and Rural Health Clinics would be phased out over two years.

State Spending: States would have to match their federal dollars, though the formula for setting states’ shares might change. State match would be capped at 40% (current cap is 50%), so high-spending states would get a break. All limits on the use of provider taxes would be repealed.

Federal Funding:

- States’ allotments would be based on their 1993, 1994, or 1995 spending (state’s choice). These grants would increase from year to year based on a formula that may include **state** poverty rates, **state** Medicaid case-mix (i.e., relative proportion who are young, old, disabled), and **national** medical inflation rates.
- Disproportionate Share Hospital (DSH) reimbursement payments would be included in the base, but states could choose whether or how to continue the program. DSH funds in states (like Texas) where DSH makes up more than 12% of Medicaid would **not** grow along with the rest of the grant.
- The program would continue to pay for emergency services to certain poor undocumented aliens, but no state match would be required for these services.
- An “insurance umbrella” program would funnel additional funds to states where growth in enrollment or costs exceeds projections. These add-on funds would be limited to costs incurred by mandatory eligibles **plus** any optional persons who are either disabled or elderly.

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