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Medicaid Cut Places States in Budget Bind

By KEVIN SACK

Having counted on Washington for money that may not be delivered, at least 30 states will have to close larger-than-anticipated shortfalls in the coming fiscal year unless Congress passes a six-month extension of increased federal spending on Medicaid.

Governors and state lawmakers, already facing some of the toughest budgets since the Great Depression, said the repercussions would extend far beyond health care, forcing them to make deep cuts to education, social services and public safety.

Gov. Edward G. Rendell of Pennsylvania, for instance, penciled $850 million in federal Medicaid assistance into the revenue side of his state's ledger, reducing its projected shortfall to $1.2 billion. The only way to compensate for the loss, he said in an interview, would be to lay off at least 20,000 government workers, including teachers and police officers, at a time when the state is starting to add jobs.

"It would actually kill everything the stimulus has done," said Mr. Rendell, a Democrat. "It would be enormously destructive."

The Medicaid provision, which would extend assistance first granted in last year's stimulus package, was considered such a sure bet by many governors and legislative leaders that they prematurely included the money in their budgeting. But under pressure from conservative Democrats to rein in deficit spending, House leaders in late May eliminated $24 billion in aid to states from a tax and jobs bill that was approved and forwarded to the Senate.

The Senate plans to take up the measure this week, and the majority leader, Senator Harry Reid of Nevada, favors restoring the money, said his spokesman, Jim Manley. The House speaker, Nancy Pelosi, signaled last week that her chamber was open to reconsidering the appropriation.

But state and Congressional officials said the evolving politics of a midterm election year meant that the federal aid could no longer be taken for granted. And if it does not arrive, it will leave gaping shortages for states that are already slashing services and raising taxes to balance their recession-racked budgets.

According to the National Conference of State Legislatures, states are relying on the money to close more than a fourth of the $89 billion in cumulative budget shortfalls projected for the 2011 fiscal year, which starts on July 1 in 46 states.

In California, Gov. Arnold Schwarzenegger's proposed budget assumed $1.5 billion in increased federal aid for Medicaid. With his state reeling from $57 billion in cuts over three years and facing a shortfall of $19 billion in 2011, further reductions would be "both cruel and counterproductive," Mr. Schwarzenegger, a Republican, wrote to members of Congress last week.

In New York, which started its fiscal year on April 1 without a financial plan, Gov. David A. Paterson's proposed budget included $1.1 billion in unsecured federal financing. Mr. Paterson, who is depending on the money to narrow a $9.2 billion gap, joined Mayor Michael R. Bloomberg of New York City at Gracie Mansion on Thursday to lobby their state's Congressional delegation.

Governors and state lawmakers were caught largely by surprise by the House's removal of the appropriation. Over the previous 10 months, the Medicaid money had been included in separate bills passed by each chamber, and President Obama had wrapped the extension into his executive budget proposal.

"There was every reason to think they'd get together," Mr. Rendell said.

But in recent weeks, Republicans and conservative Democrats began to complain that the proposed spending would add to the deficit because it was not "paid for" with new revenue or other cuts. Their success in reducing the size of the bill reflected a deepening debate in Congress — and on the campaign trail — about the long-term consequences of using deficit spending to fight the recession.

Democratic aides in both the House and the Senate said state officials had not pressed their case forcefully enough.

“We may have fallen asleep at the wheel a little bit because we took it as a certainty for so long,” said Michael Bird, federal affairs counsel for the National Council of State Legislatures.

Republican governors in particular, the aides said, had been reluctant to petition for relief while the party’s leaders in Congress were criticizing Democrats for driving up the national debt.

“Governors need to make it clear that it is vital that their states receive this money, instead of blasting Congress for ‘out-of-control spending,’ ” said a senior Democratic aide in the House, speaking on the condition of anonymity because he was not authorized to talk about the issue publicly.

But the need to balance state and federal interests makes for awkward politics for some governors. Timing has made the conflict more pronounced because state budgets typically do not recover until well after a national recession fades.

“I’m very concerned about the level of federal spending and what it would mean for the long term,” said Gov. Jim Douglas of Vermont, a Republican and chairman of the National Governors Association. “But for the short term, states need this bridge to sustain the safety net of human services programs and education.”

A report issued Thursday by the National Governors Association and the National Association of State Budget Officers projected that state revenues would “remain sluggish” for two more years. State general fund spending declined by nearly $75 billion, or 11 percent, from 2008 to 2010, according to the report. But states, which unlike the federal government must balance their budgets, avoided even harsher cuts because of nearly $135 billion in stimulus grants from Washington.

The aid included $87 billion made available by adjusting how states and the federal government share the growing cost of Medicaid, the health insurance program for the poor and the disabled. The economic downturn is expected to drive up enrollment in the program by 21 percent from 2009 to 2011, according to the report.

Although the federal Medicaid share varies by state, the stimulus act raised it to an average of 66 percent, from

57 percent, according to the Kaiser Family Foundation.

The reimbursement increase was limited to a 27-month period that ends on Dec. 31. Almost as soon as it took effect, governors began fretting about the fiscal precipice they would face when the enhanced payments ended. In February, governors from 42 states and several territories signed a letter to Congressional leaders pleading for a six-month extension.

But with the public alarmed about deficit spending, House leaders found that they could not muster the Democratic votes needed to pass the tax and jobs bill without jettisoning several expensive components.

In a conference call with bloggers last week, Ms. Pelosi, Democrat of California, took note of the changed political climate, calling the package “too large for members to digest.”

“If I had all the votes that I needed in the non-Blue Dog world,” she said, referring to the caucus of conservative Democrats, “I would not have had to make some of the changes I made to get some of the Blue Dog support.”

Many states do not have contingencies for replacing the federal money. Their options will be limited by the severity of the steps they already have taken, and by federal requirements that they maintain eligibility levels for Medicaid.

“We don’t have a specific list of things we would do if we don’t get the money,” said Erik Kriss, a spokesman for Mr. Paterson’s budget office, “but we are looking for the most part at the cut side of the ledger.”

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