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February 22, 2017

Governor John Kasich
Vern Riffe Ctr.
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Dear Governor Kasich:

I am writing on behalf of First Focus Campaign for Children, a national bipartisan advocacy organization in support of our nation's children, to express our grave concerns to proposals being considered in Washington, D.C., that would significantly alter the financing of the Medicaid program through the use of block grants or per capita caps. The changes that have been proposed would radically change the 52-year financing relationship between the federal government and states and undoubtedly have a negative consequence on the health and well-being of our nation's children.

Governors Have Led the Way in Improving Children's Health

When the Children's Health Insurance Program (CHIP) was passed in 1997, nearly 1 in 6 of our nation's children were uninsured. Governors across the country had enormous flexibility in how they implemented the program and, in tandem with Medicaid, they have provided the leadership that has significantly cut the uninsured rate for children. Under state direction and administration, Medicaid and CHIP programs have worked together to reduce the uninsured rate from 14.9 percent in 1997 to just 4.8 percent in 2015 – a 68 percent reduction. That is the definition of success.

As we hear from low-income working families with children across the nation, Medicaid and CHIP are cited as critical to the health and well-being of millions of children. According to data from the Kaiser Family Foundation, 51 percent of the nation's combined enrollees in Medicaid and CHIP are children.

Governors understand the importance of child health to their growth, well-being, and future success. Consequently, over the years, state executives have worked in partnership with private health plans and providers to improve coverage, quality, and access to care for children in a cost-effective way. Governors have also ensured that child health programs are coordinated with early childhood, home visiting, education, child welfare, mental health and substance abuse, and public health programs to maximize services and care delivery for children. And, in an on-going effort to improve these programs, a number of states are in the midst of implementing other improvements, such as improved care coordination, quality standards, and network adequacy.

Congress Should Not Gamble With the Our Nation's Children

As we contemplate changes to our nation's health care system, President Trump and Congress should not gamble with the health of our children. They should commit to "do no harm" to these state systems of care for children and not propose changes that would undermine or reverse the incredible progress that has been made – whether unintended or not.

Unfortunately, the various proposals that have been introduced by Members of Congress to radically change the Medicaid financing system to block grants or per capita caps would undoubtedly cause such harm. Billions of dollars in proposed cuts and cost shifts to states would threaten the health care system of doctors, nurses, hospitals, clinics, and other health professionals and cause harm to the coverage, benefits, and access to care for millions of our nation's most vulnerable citizens.

Medicaid Caps Would Underfund States, Health Systems, and Coverage

While Congress has not yet coalesced around a particular piece of legislation, most of the proposals that are under consideration take a similar approach to achieve Medicaid savings by locking in state allotments with insufficient medical inflation rates for the foreseeable future. In particular, the various pieces of legislation would arbitrarily decide in 2017 what the federal government would spend a decade from now and impose either a block grant or per capita cap in a manner to meet that arbitrary amount, regardless of population growth, medical inflation, or whether the nation or certain regions of the country were facing a economic recession or dealing with a natural disaster.

In the budget proposal issued by Department of Health and Human Services Secretary Tom Price when he was the House Budget Committee Chairman, an estimated \$2 trillion would have been cut out of Medicaid over the course of a decade with \$1 trillion of the savings created by repealing the Affordable Care Act's Medicaid expansion and another \$913 billion through block granting Medicaid.

Through the combination of caps and cuts, the federal government would force states to choose among a variety of bad options, such as cutting children, pregnant women, people with disabilities, or low-income senior citizens off of coverage; imposing enrollment freezes (which disproportionately harm babies); putting those in need on waiting lists; withholding certain medical benefits; slashing payment rates to providers; raising taxes; or most likely, all of the above.

Compounding the problem, while Medicaid currently automatically adjusts to growing needs, block grants do not make such adjustments. Thus, states going through a recession, population growth, or a natural disaster would face even more disturbing choices. States would be forced to cut back on care precisely when people are hurting the most and the economy needs a boost. The fact is you cannot cut \$913 billion out of Medicaid and not expect infants and children, pregnant women, people with disabilities, senior citizens, and health care providers not to be harmed. By underfunding Medicaid by such an enormous magnitude, the federal government would force states to make terrible decisions, and they will be blamed for the disastrous consequences that would result.

The History of Shortchanging States with Block Grants and Caps

States should understand that under such a radical change in the financing structure of Medicaid, Congress can be expected to decrease various components of the newly created formula over time. To offset new

spending in other areas, Congress could simply cut the block grant by a percentage point here and there over time and significantly increase the magnitude of those cuts. The history of this trend with respect to block grants is clear.

For example, in an analysis of 13 major housing, health, and social service block grant programs, the combined federal funding dropped by 26 percent, or \$13 billion dollars in 2016, since 2000. As the Center on Budget and Policy Priorities notes, “These inflation-adjusted figures, moreover, significantly understate the erosion in these programs relative to need. The overall U.S. population has grown by 15 percent since 2000. As a consequence, overall funding for the 13 block grants has fallen by 36 percent since then, when adjusted for population growth as well as inflation.”

In addition to the examples from other block grants, Medicaid provides its own example, as it imposes a block grant upon Puerto Rico and the territories. In Puerto Rico’s case, the federal government provides Medicaid support to the Commonwealth for its “Mi Salud” program through a block grant. Since the overall level at which the block grant is set is completely arbitrary, Puerto Rico finds its health care system vastly underfunded. Moreover, the block grant does not adjust in response to unforeseen problems, such as when the economic crisis and Zika hit the Commonwealth last year. Consequently, Puerto Rico has nearly the same population as Oklahoma and far greater poverty, but only receives one-tenth of the support from Medicaid that Oklahoma does.

In an analysis of Puerto Rico’s Medicaid block grant, the Government Accountability Office (GAO) found that, prior to the receipt of additional federal support through the enactment of the Affordable Care Act (ACA):

. . . federal Medicaid funds covered only 16 percent of their planned annual expenditures and were expended during the first quarter of the federal fiscal year, after which time the territory had to rely entirely on local funding to cover program spending.

As a result, the Medicaid block grant is doing incredible harm to Puerto Rico’s entire health system and is a major factor in the Commonwealth’s debt crisis. According to Dr. Johnny Rullán, Puerto Rico’s former Secretary of Health and Secretary of the Puerto Rico Healthcare Crisis Coalition:

. . . more than 40 percent of the island’s debt is due to health care and the lack of funding from Medicaid in particular. This chronic underfunding has caused cutbacks in services, a major physician exodus, life-threatening delays in getting appointments and huge delays in payments to hospitals and other medical providers. Patients are suffering and the system is crumbling.

As for per capita caps, the Urban Institute estimates that states will receive an average of \$2,002 per child in 2017 (with state variability of \$3,510 in Vermont to \$1,320 in Wisconsin). As advocates for our most vulnerable children, we are deeply concerned that the federal government would be shifting the bulk of spending for children with special health care needs, including kids with cancer, autism, spina bifida, cystic fibrosis, heart defects, and infants born prematurely (some of which can have expenses that exceed \$1 million in a year), to states. The federal government should not walk away and shift the burden of the health of our nation’s most vulnerable children to the states.

Unfortunately, for Congress, the purpose of changing the financing system is simply to save money and the level of overall funding will be arbitrary. Moreover, the funding formula set by Congress will have more to do with politics and political power than “fairness.” For a number of states, this combination will be a disaster.

The Threat to Our Nation’s Most Vulnerable Citizens, Particularly Children

In the latest framework put forth by House leadership last week, the future of CHIP is not mentioned. However, in some past Medicaid block grant proposals, CHIP was repealed and folded into the Medicaid block grant. This would be devastating to children.

For example, in an analysis of the combined Medicaid and CHIP block grant in Ryan’s FY 2014 budget proposal when he was the Budget Committee Chairman, the Bipartisan Policy Center found that federal Medicaid and CHIP spending would be \$296 billion below baseline in 2022 alone. To respond to this enormous shortfall, the Congressional Budget Office (CBO) wrote that “states would need to increase their spending on these programs, make considerable cutbacks in them, or both. Cutbacks might involve reduced eligibility for Medicaid and CHIP, coverage of fewer services, lower payments to providers, or increased cost-sharing by beneficiaries—all of which would reduce access to care.”

The first to feel the brunt of such cuts are typically the least politically powerful and children don’t vote or donate to political campaigns. Consequently, we fear the biggest losers, in a world of Medicaid block grants and government rationing, would be children. As former Republican Governor John Chafee said in opposition to Medicaid block grants back in 1996:

As states are forced to ration finite resources under a block grant, governors and legislators would be forced to choose among three very compelling groups of beneficiaries.

Who are they? Children, the elderly, and the disabled. They are the groups that primarily they would have to choose amongst. Unfortunately, I suspect that children would be the ones that would lose out.

In fact, according to the most recent draft from House Speaker Paul Ryan, the federal government may impose that very scenario upon states. In the proposed summary released last week, Speaker Ryan said, “States would have flexibility in how Medicaid funds are spent, but would be required to provide required services to the most vulnerable elderly and disabled individuals who are mandatory populations under current law.”

If services to other populations are “protected,” cuts would disproportionately harm children and the providers that serve them.

However, nobody would be safe. If Medicaid cuts are as large as have been previously proposed, federal Medicaid spending could fall by one-third or more. Children only account for about 21 percent of all Medicaid spending, according to data from the Kaiser Family Foundation. Therefore, even the complete elimination of all coverage and services to millions of children would not be enough to make up for such a shortfall.

Meanwhile, if states were to increase spending to bridge the shortfall caused by the loss of federal funding, those new dollars would compete with other programs of importance to children in state budgets, including education, early childhood, child welfare, public health, and social services programs.

Local governments would also suffer. In a recent report issued by Fitch Ratings, public finance analysts wrote, "For local governments, reduced federal funding to the states due to a change in the Medicaid finance structure could lead to reduced K-12 education funding, revenue-sharing programs, and social services support. . . Local governments also bear a share of Medicaid costs in many states and are directly exposed."

Such concerns may even be understated. In fact, the federal government would be shortchanging state Medicaid programs precisely at the moment that Baby Boomers are reaching retirement age in record numbers. The Population Reference Bureau estimates that, between 2011 and 2050, the number of senior citizens over the age of 65 will increase from 40 million to 89 million.

Considering that Medicaid pays for 61 percent of all long-term care expenses and supports and that state and local tax revenue also drops as Baby Boomers exit the work force and associated income tax, taxable expenditures, and property taxes decline, the squeeze on state and local governments and associated pressure on children's programs would be difficult to overcome.

"Do No Harm" to Children

Through the leadership and administration of our nation's governors over the past 20 years, we have made enormous strides in reducing the uninsured rate for our nation's children. Today, over 95 percent of our nation's children have health insurance coverage. Now is not the time to retreat from two decades of progress and undermine the health and well-being of our nation's children.

Consequently, we urge you to reject proposals from Congress that would impose either Medicaid per capita caps or block grants upon the states. Such proposals would undoubtedly do harm to the health of children, but also threaten support for education, early childhood, child welfare, public health, and social services programs of importance to children.

We also urge you to push for the swift enactment of a long-term extension of the Children's Health Insurance Program. CHIP works exceedingly well and, over the years, it has proven to be an enormously popular and bipartisan program for children. To ensure that children are not left worse off, action on CHIP is needed as soon as possible. Consequently, we urge you to call on Congress to enact a five-year extension of continued funding to secure CHIP's future for over 8 million children.

Children are about one-quarter of our population but all of our future. The decisions we make today will determine their tomorrow. Thank you for your consideration.

Sincerely,



Bruce Lesley
President