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Federal Update: Debt and Deficit Dominate Talks

August 2 - the date when the United States would default on its existing financial obligations draws daringly close. Despite the predictions of major disruptions to the economy and the potential for another recession, Washington lawmakers still have not achieved consensus on raising the debt ceiling. Fallout from such default would eventually affect every American, as borrowing would become expensive and difficult and the recovering economy would suffer a terrible setback. Tied to the debt ceiling talks are partisan priorities on how to reduce the federal budget deficit, now hovering at more than \$14 trillion.

Cuts to the Medicare and Medicaid programs have routinely been identified as viable deficit reduction measures. However, the hospital industry, which has suffered billions in reimbursement cuts these past few years due to budget and policy actions, says it can in no way absorb any more payment reductions. Last year, the industry voluntarily agreed to absorb another \$155 billion in Medicare/Medicaid cuts to help fund the new health care law, which will eventually cover 32 million uninsured and assure some level of reimbursement for hospitals that they otherwise would not have seen in absence of the law.

The White House and Congressional leaders held numerous meetings in recent days, but no progress on raising the debt ceiling or reducing the deficit was made. Current proposals include:

- A "Cut, Cap and Balance" plan introduced in the House. This plan would raise the debt limit by \$2.4 trillion, but would also require mandatory spending cuts and a balanced budget amendment. The House passed the bill Tuesday evening (July 19). The bill is unlikely to pass the Democratic-controlled Senate and the White House said it will veto the legislation.
- Senate leaders Mitch McConnell and Harry Reid are working on a plan that relegates, at least temporarily, authority to the president to raise the debt ceiling. The plan would allow the president to raise the debt ceiling by up to \$900 billion three times through 2012, but he must propose spending cuts of the same magnitude. The cuts do not need to be enacted by Congress in order for the debt limit increase to stand. The plan may also suggest spending cuts up to \$1.5 trillion.
- A new Senate bi-partisan debt limit plan includes \$500 billion in immediate cuts, spending caps, and a \$1 trillion increase in revenue by reworking the tax code.

The two issues – debt ceiling and deficit reduction – have become intrinsically linked in recent weeks in a tug of war that pits reductions in spending over increases in revenue. The president insists that a deficit reduction package must include a plan to raise taxes and he has agreed to reductions in some entitlement programs. Republicans oppose new taxes of any kind on any categories of businesses or individuals.

State Update: Medicaid Reform Continues

The state's Medicaid Redesign Team (MRT), which helped develop the 2011-2012 budget, continues its work to reform the Medicaid program and is now organized into nine subcommittees. Several of the subcommittees have already met and all are charged with examining ways to find savings and implementing reforms. MRT Phase II subcommittees are: Payment Reform, Basic Benefit Review, Program Streamlining, Supportive Housing, Health Disparities, Workforce Flexibility/Scope of Practice, Medical Malpractice, Managed Long Term Care Implementation and Waiver Design, and Behavioral Health Reform.

The MRT will produce a final report and potentially a Medicaid waiver proposal to CMS by November. A waiver could allow New York State to re-direct state and federal Medicaid funds toward programs and initiatives that will best save the state and federal governments' money, while enhancing care for all Medicaid beneficiaries. The final report will provide specific recommendations as well as identify short, mid-term, and long-term goals for New York's Medicaid program.

The MRT instituted a global Medicaid spending cap as part of the 2011-2012 budget and it is one way the state hopes to reduce spending and save money. The State Department of Health (DOH) began spending surveillance in April and recently released its second monthly spending report. That report indicates a 1.1 percent spending breach, but the DOH considers spending to be more or less on target for now, as variations in enrollment, provider billing patterns, rate adjustments, and number of billing cycles within a month are taken into consideration. The DOH has the authority to implement a Medicaid Savings Allocation Plan to reduce spending, if expenditures are projected to exceed the cap.

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