

Last week, President Obama presented his \$3.77 trillion FY 2014 budget request to Congress, outlining his spending priorities for the coming year. Among the most prominent features of this year's budget are the President's deficit-reduction proposals, repeated from "Grand Bargain" negotiations of late 2012, which seek to trim an additional \$1.8 trillion from the budget through \$580 billion in new taxes on the wealthy along with \$230 billion in savings from reductions in cost-of-living-adjustments for federal entitlement programs. The President's budget also eliminates sequester-related cuts.

On the health care front, overall funding for the Department of Health and Human Services (HHS) would increase to \$80.1 billion in discretionary funding, a \$3.9 billion increase over FY 2012. Health-related funding priorities in the President's budget focus on: Affordable Care Act (ACA) implementation, mental health services and medical research initiatives.

Along with key investments in health programs, the budget also calls for \$401 billion in health-related savings, \$371 billion of which is proposed to come from Medicare. The budget directly rejects any plan to block grant Medicaid and provides a 10 percent increase in Medicaid outlays in FY 2013. However, the President's budget also includes several new proposals that would result in \$22.1 billion in Medicaid savings over 10 years. Notable for safety net providers, the budget delays by one year scheduled cuts to the Medicaid Disproportionate Share Hospital (DSH) program but the FY 2014 cuts will be incorporated into already-planned FY 2015 and 2016 DSH reductions.

Other proposals in the President's FY 2014 budget that are significant for children's health include the following:

- The President's budget provides \$5.3 billion for the **Centers for Medicare and Medicaid Services** (CMS), up from \$3.8 billion, to continue ACA implementation. The bulk of the new funding -- \$1.5 billion -- will cover the cost of starting the new Federally Facilitated Exchanges, the health insurance marketplaces that will be operated by the federal government in 33 states. The budget also includes \$1.3 billion in grants to set-up state-based insurance exchanges. It is worth noting that the Administration's budget redirects \$54 million from the Prevention and Public Health Fund to defray some of the exchange start-up costs.
- According to the FY 2014 budget request, federal **Medicaid** spending under current law would total \$303.6 billion in FY 2014, a \$37.1 billion increase over FY 2013. The budget also calls for \$22.1 billion in Medicaid cuts over ten years, stemming from proposals to: rebase Medicaid DSH allotments, change Medicaid drug rebate definitions and calculations, and reduce Medicaid DME reimbursements.
- The budget provides \$10.1 billion in FY 2014 funding for the **Children's Health Insurance Program** (CHIP), up from \$10 billion in FY 2013 (this includes outlays for the Child Enrollment Contingency Fund).
- Funding for **CHIP Outreach and Enrollment Grants** will increase by \$2 million to \$20 million in FY 2014. This grant program was initiated as part of CHIPRA with \$100 million in grants to fund a nationwide campaign to improve outreach and enrollment of eligible children into Medicaid or CHIP. The ACA expanded this funding to \$140 million and extended its availability through FY 2015.
- The President's budget includes another round of significant rescissions of unspent funds from the **CHIP State Performance Bonus Pool**. During FY 2012 appropriations, \$6.3 billion was rescinded from this fund. In FY 2013 another \$6.7 billion was rescinded. The President's FY 2014 budget proposes to rescind an additional \$3.8 billion. While this is a significant amount of funding to be returned to the federal Treasury, the monies are authorized for state spending on CHIP based on projections of state need and not actual spending. It is good news that CHIPRA established this CHIP set-aside to prevent states from experiencing funding shortfalls, however, the bad news is that

when the projections of state need are overestimated and a surplus exists the funding is not allowed to be repurposed for future spending on other aspects of CHIP.

- In the wake of the Newtown, CT tragedy, the President's budget includes \$130 million in new funding for the **Substance Abuse and Mental Health Services Administration** to expand mental health treatment and prevention initiatives. This funding includes \$55 million for Project AWARE -- \$40 million in grants to help states and communities ensure that students with mental health issues are referred to the services they need, and \$15 million for Mental Health First Aid Training for teachers and other adults who work with youth to detect and respond to mental illness. An additional \$50 million would go to train 5,000 social workers, counselors and psychologists to serve students and young adults. And \$25 million is provided for the Healthy Transitions program to fund innovative state-based strategies to help young people and their families access and navigate mental health treatment programs.
- The President's budget cuts funding for HRSA's **Children's Hospitals Graduate Medical Education** Program from \$269 million to \$88 million. This program supports physician training at children's hospitals, which ensures an adequate supply of pediatricians and pediatric subspecialists. Currently, there are approximately 60 freestanding children's hospitals that receive these payments -- about 1 percent of all the nation's hospitals. These hospitals train 40 percent of general pediatricians and 43 percent of pediatric specialists.
- Funding for the **Centers for Disease Control and Prevention** (CDC) was reduced from \$6.1 billion in FY 2013, to 5.9 billion in FY 2014, a \$216 million cut. The CDC would receive approximately \$755 million of the \$1 billion available from the ACA's Prevention and Public Health Fund. Notably, the budget provides another significant increase of \$287 million for the Vaccines for Children Program, up to \$4.3 billion in FY 2014. The budget also includes \$30 million in new funding for CDC to reduce gun-related violence -- \$20 million for the National Violent Death Reporting System to expand the surveillance system to all states to improve our understanding of violence and \$10 million to support research on the causes and prevention of gun violence.
- The budget includes a new Pre-K early childhood education program to be funded by raising the **federal cigarette tax** from \$1.01 to \$1.95 per pack. The tobacco tax would generate new revenues of \$78 billion over 10 years.
- According to the President's budget, overall funding for the **Health Resources and Services Administration** (HRSA) would increase by \$841 million to \$9 billion in FY 2014. HRSA's Community Health Centers (CHCs) program would be funded at \$3.8 billion in FY 2014, including \$2.2 billion in ACA mandatory funding, to support 1,200 grantees and serve approximately 23 million patients.
- The President's budget requests additional funds for the **Internal Revenue Service** to support that agency's role in ACA implementation, including \$350 million and about 1,000 new workers for the IRS to implement the ACA, and an additional \$305 million to pay for the information technology needed to administer the tax credits which will help eligible people pay for coverage in the exchanges (\$35 million more than last year's request). The budget also requests \$44.4 million in additional resources to hire new staff to help the IRS educate taxpayers about the ACA and to enforce its coverage mandates.

Other notable items in the President's FY 2013 budget related to children's health include:

- **Home-visiting funding**, now mandatory under the ACA, would see a \$50 million increase, up to \$400 million in FY 2014. Overall, the budget proposes to invest \$15 billion over the next 10 years to extend and expand evidence-based, voluntary home-visiting.
- The National Institutes of Health would receive a \$471 million increase to \$31.3 billion in FY 2014. The **Eunice Kennedy Shriver National Institute of Child Health and Human Development** would receive a \$20 million increase to \$1.34 billion in FY 2014.

## Impact of the President's FY 2014 Budget Request on Children's Health Programs

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- The budget request includes \$155 million for **CDC's Environmental Health programs**, a decrease of \$3 million from FY 2013, though funding for the Healthy Homes/Childhood Lead Poisoning program more than doubled to \$5 million. CDC funding for its Asthma Control Program remained relatively flat at \$28.4 million.
- Funding for the **CDC's Disease Prevention and Health Promotion programs** related to Nutrition, Physical Activity and Obesity were increased in the President's budget from \$34 million in FY 2012) to \$47.4 million in FY 2014. The CDC's School Health program (funded at \$13.5 million in FY 2012) was increased to \$14.7.
- The President's budget zeroed out funding for HRSA's **School-Based Health Centers program** in FY 2014. In previous years, the President's budget allocated \$50 million in FY 2012 and FY 2013 for this program to provide grants for school-based health center operations, consistent with language in the ACA authorizing this funding. Up to this point, no funding has been allocated during the appropriations process.

As we saw in the President's budget last year, several children's health-related line-items are level-funded in FY 2014, including:

- **The Title V Maternal and Child (MCH) Services Block**, level-funded at \$639 million.
- HRSA programs related to **autism and other developmental disorders** are flat-funded at \$47 million.
- **Oral Health Training**, flat-funded at \$32 million.
- **Universal Newborn Screening**, flat-funded at \$19 million.
- **Emergency Medical Services for Children**, flat-funded at \$21 million.
- **Poison Control Centers**, flat-funded at \$19 million.
- **Healthy Start**, flat-funded at \$104 million.
- **HIV/AIDS Children Youth, Women, and Families** program, flat-funded at \$77 million.
- **CDC's Safe Motherhood program**, flat-funded at \$44 million.
- **CDC's Birth Defects, Developmental Disabilities**, flat-funded at \$142 million.
- **SAMHSA's Children's Mental Health Services program**, flat-funded at \$117 million.

Overall, for children's health care, the budget is strong in protecting the programs that children rely on despite the challenging budget climate. It is important to remember that the President's budget represents only the Administration's wish list of priorities, providing a blueprint for Congress to consider as it begins the process of allocating federal dollars for spending. Ultimately, Congress holds the reins on setting funding levels.

With the President's budget coming out after the House and Senate budget proposals it is clear that there is wide variation among the various FY 2014 budget requests, with some of the starkest differences evident in the health care proposals. For example, the House budget resolution proposes \$810 billion in Medicaid cuts and eliminates ACA -related funding while the Administration continues in earnest to fund ACA implementation to be ready for the January 1, 2014 start-date. Clearly, ACA funding and entitlement reform will be prominent issues in the coming budget debates on Capitol Hill but we are hopeful that funding for these important policy areas will be protected.

As the budget season moves forward, First Focus will continue to urge Congress to maintain support for the programs that serve as lifelines for our nation's children, especially Medicaid and CHIP. We realize that Congress has a difficult job ahead with respect to deficit reduction, but balancing the budget should not fall on the backs of children. Investments in children are essential not only to protect their health and well-being but also to secure our nation's future economic success.