



## **Medicaid Topics**

### **State Expenditures and Fiscal Conditions**

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#### **Issue Summary**

Fiscal problems have forced virtually every state to reduce significantly spending for Medicaid and other public health programs that account for 30% of state expenditures nationwide. According to the Kaiser Commission on Medicaid and the Uninsured, 49 states and DC implemented Medicaid cost containment measures for FY2004. Forty-eight (48) of the states reported implementing new pharmacy cost controls, and 50 states reported freezing provider rates or reducing rate increases for at least one class of providers.

Increased calls by states for the federal government to provide relief from soaring Medicaid costs prompted Congress in May 2003 to pass legislation that provided \$20 billion in temporary federal fiscal relief to states to ease budgetary pressures and avoid making further cuts to the Medicaid program in FY 2004. \$10 billion of the relief was provided through a temporary increase in the federal share of Medicaid spending. In late 2003, 42 states reported that federal fiscal relief helped to meet the funding increases in their Medicaid programs by resolving budget shortfalls. The relief program expired in June 2004.

While the revenue shortfalls facing states in recent years have subsided and short-run forecasts are improving, most states continue to face budgetary challenges driven by Medicaid and a backlog of expenditure demands. With the expiration of the enhanced federal funding in 2004, state Medicaid spending grew substantially for FY 2005, an amount 2.4 times greater than the 4.8% increase in state funds in FY 2004, causing added fiscal stress on state's FY 2005 Medicaid budgets. Yet, according to the National Association of State Budget Officers, revenues exceeded original budget projections in FY2005 in 42 states, and three other states met their target. Overall, state revenues for FY2005 were up 6.8% over FY2004. Further, state budgets collectively have about a 7% reserve, twice what was predicted.

Even considering that states are largely experiencing economic recovery, increases in Medicaid costs will continue to outpace the growth in state revenues. For the first time, state spending on Medicaid in FY2005 was expected to eclipse education spending. A growing consensus is emerging that Medicaid as it now exists cannot sustain itself in the long-term. Results of a public opinion survey released in June 2005 by the Kaiser Family Foundation found that while two-thirds of the public think their state has major budget problems, a substantial majority is reluctant to cut Medicaid to balance state budgets, and a majority thinks the federal government should maintain or increase federal spending on Medicaid.

#### **How do States Finance Medicaid?**

Under Medicaid law, the federal and state governments share in the cost of Medicaid. The state-specific matching rate for benefits is determined by a formula set in law that establishes higher matching rates for states with low per capita income levels compared to the national average (and vice versa for states with high per capita income levels). The federal government pays at least 50%

of Medicaid costs, and the federal share can be as high as 83% (statutory upper boundary). States can finance up to 60% of the state share of Medicaid costs with local government funds. Also, the state share cannot be comprised of any federal dollars.

**Table 1**  
**State Medicaid Expenditures**  
**(in millions), SFY 2003**

Rank	State	State Medicaid Spending
	<b>United States</b>	\$101,807
28	<b>Alabama</b>	\$998
46	<b>Alaska</b>	\$212
22	<b>Arizona</b>	\$1,237
32	<b>Arkansas</b>	\$644
1	<b>California</b>	\$12,346
25	<b>Colorado</b>	\$1,155
9	<b>Connecticut</b>	\$3,407
41	<b>Delaware</b>	\$342
	<b>District of Columbia</b>	NA
7	<b>Florida</b>	\$4,414 <sup>1</sup>
19	<b>Georgia</b>	\$1,609
42	<b>Hawaii</b>	\$332
44	<b>Idaho</b>	\$284
6	<b>Illinois</b>	\$5,034
21	<b>Indiana</b>	\$1,506
29	<b>Iowa</b>	\$939 <sup>2</sup>
34	<b>Kansas</b>	\$605
26	<b>Kentucky</b>	\$1,124
23	<b>Louisiana</b>	\$1,209
36	<b>Maine</b>	\$535
17	<b>Maryland</b>	\$1,984
11	<b>Massachusetts</b>	\$2,712
10	<b>Michigan</b>	\$3,395 <sup>3</sup>
15	<b>Minnesota</b>	\$2,327
31	<b>Mississippi</b>	\$674
16	<b>Missouri</b>	\$2,164 <sup>4</sup>
49	<b>Montana</b>	\$135
39	<b>Nebraska</b>	\$466
35	<b>Nevada</b>	\$600 <sup>5</sup>
37	<b>New Hampshire</b>	\$534
8	<b>New Jersey</b>	\$3,749
38	<b>New Mexico</b>	\$489
3	<b>New York</b>	\$8,414 <sup>6</sup>

14	North Carolina	\$2,359
48	North Dakota	\$141
2	Ohio	\$9,199 <sup>7</sup>
30	Oklahoma	\$711
24	Oregon	\$1,176
4	Pennsylvania	\$6,213 <sup>8</sup>
33	Rhode Island	\$631
27	South Carolina	\$1,075
47	South Dakota	\$164
13	Tennessee	\$2,381 <sup>9</sup>
5	Texas	\$5,038
42	Utah	\$332
45	Vermont	\$252
18	Virginia	\$1,808
12	Washington	\$2,702
40	West Virginia	\$418
20	Wisconsin	\$1,511
50	Wyoming	\$121

**Sources:** Table 28, Medicaid Expenditures, *2003 State Expenditure Report*, National Association of State Budget Officers; available at <http://www.nasbo.org/Publications/PDFs/2003ExpendReport.pdf>.

**Footnotes:**

1. Spending in Florida includes provider assessments of \$275 million, cigarette taxes of \$109 million, tobacco settlement funds of \$50 million, tobacco non-general funds transferred for matching funds of \$71 million, other non-general funds transferred for matching funds of \$2 million, state fraud recoupments of \$22 million, and local county funds of \$287 million.
2. Spending in Iowa includes \$90 million of local funds and \$3 million of provider taxes.
3. Spending in Michigan includes local funds of \$13 million and provider taxes of \$167 million. Public health and community and institutional care for mentally and developmentally disabled persons are partially reported in Medicaid totals.
4. Spending in Missouri includes estimated local funds of \$389 million.
5. Nevada local funds are included. Fees, donations and assessments are not included.
6. New York spending does not include local funds.
7. Certain federal reimbursements and block grants for certain human services programs (Medicaid, etc.) are deposited into Ohio's general fund. Expenditures of these federal funds are contained in the general fund amount.
8. Intergovernmental transfer funds are included in Pennsylvania's Medicaid spending and totals \$1,902 million. Other local funds used as match are not included.
9. Tennessee's premium revenue totals \$53 million, local fund from hospitals totals \$248 million, nursing home tax totals \$87 million, ICF/MR 6 percent gross receipts tax totals \$15 million, intergovernmental transfers totals \$57 million.

Table 2  
**Federal Medicaid Expenditures  
 Per Capita, FY2004**

Rank	State	Per Capita Federal Medicaid Spending
	<b>United States</b>	\$627
22	<b>Alabama</b>	\$598
5	<b>Alaska</b>	\$998
20	<b>Arizona</b>	\$647
12	<b>Arkansas</b>	\$787
28	<b>California</b>	\$564
49	<b>Colorado</b>	\$335
21	<b>Connecticut</b>	\$602
31	<b>Delaware</b>	\$533
1	<b>District of Columbia</b>	\$1,660
46	<b>Florida</b>	\$471
25	<b>Georgia</b>	\$581
41	<b>Hawaii</b>	\$502
32	<b>Idaho</b>	\$528
44	<b>Illinois</b>	\$481
36	<b>Indiana</b>	\$517
35	<b>Iowa</b>	\$522
47	<b>Kansas</b>	\$457
13	<b>Kentucky</b>	\$753
11	<b>Louisiana</b>	\$826
3	<b>Maine</b>	\$1,107
43	<b>Maryland</b>	\$482
14	<b>Massachusetts</b>	\$739
37	<b>Michigan</b>	\$514
27	<b>Minnesota</b>	\$570
7	<b>Mississippi</b>	\$936
16	<b>Missouri</b>	\$699
26	<b>Montana</b>	\$576
30	<b>Nebraska</b>	\$554
51	<b>Nevada</b>	\$279
40	<b>New Hampshire</b>	\$508
33	<b>New Jersey</b>	\$524
4	<b>New Mexico</b>	\$1,015
2	<b>New York</b>	\$1,220
19	<b>North Carolina</b>	\$653
23	<b>North Dakota</b>	\$585
18	<b>Ohio</b>	\$655
24	<b>Oklahoma</b>	\$583

38	<b>Oregon</b>	\$513
17	<b>Pennsylvania</b>	\$682
6	<b>Rhode Island</b>	\$965
15	<b>South Carolina</b>	\$715
29	<b>South Dakota</b>	\$561
10	<b>Tennessee</b>	\$886
44	<b>Texas</b>	\$481
48	<b>Utah</b>	\$419
9	<b>Vermont</b>	\$897
50	<b>Virginia</b>	\$313
42	<b>Washington</b>	\$489
8	<b>West Virginia</b>	\$904
38	<b>Wisconsin</b>	\$513
34	<b>Wyoming</b>	\$523
	<b>Puerto Rico</b>	\$56

**Notes:** U.S. total includes (in millions) American Samoa (\$4), Northern Mariana Islands (\$2), survey and certification (\$169), fraud control units (\$132), vaccines for children (\$1,052), Medicare Part B transfer (\$168) and adjustments (-\$17).

Data are for FY2004; the fiscal year that begins on October 1, 2003.

**Sources:** Calculations by Kaiser Family Foundation based on Table 8-16, Grants to States for Medicaid, Budget of the United States Government, Fiscal Year 2006, Department of Health and Human Services, Centers for Medicare and Medicaid Services; available at: <http://www.whitehouse.gov/omb/budget/fy2006/bis.html> and the Annual Population Estimates by State, July 1, 2004 Population, U.S. Census Bureau; available at <http://www.census.gov/popest/states/NST-ann-est.html>.

**Table 3**  
**Distribution of State General Fund Expenditures (dollar amount in millions)**  
**SFY2003**

State	Elementary & Secondary	Higher Education	Public Assistance	Medicaid	Corrections	Transportation	All Other
<b>United States</b>	35.5%	12.1%	2.2%	16.5%	7.0%	0.6%	26.1%
<b>Alabama</b>	53.3%	21.2%	0.1%	5.3%	5.7%	0%	14.5%
<b>Alaska</b>	31.5%	8.2%	3.2%	8.3%	7.4%	5.9%	35.4%
<b>Arizona</b>	43.8%	16.5%	0.9%	14.1%	10.5%	0%	14.1%
<b>Arkansas</b>	49.2%	17.2%	3.3%	11.4%	5.5%	0%	13.4%
<b>California</b>	34.2%	11.7%	7.5%	13.6%	6.9%	0%	26.1%
<b>Colorado</b>	42.7%	13.9%	0%	18.3%	8.4%	0%	16.7%
<b>Connecticut</b>	16.5%	4.8%	1.8%	22.8%	4.7%	0%	49.4%
<b>Delaware</b>	34.2%	8.4%	1.4%	12.9%	7.6%	0%	35.5%
<b>District of Columbia</b>	NA	NA	NA	NA	NA	NA	NA
<b>Florida</b>	37.3%	15.0%	1.0%	17.8%	8.0%	0%	21.0%
<b>Georgia</b>	41.3%	13.6%	1.3%	11.0%	8.4%	4.4%	19.9%
<b>Hawaii</b>	37.5%	12.2%	2.3%	8.0%	4.0%	0%	36.1%
<b>Idaho</b>	48.9%	14.2%	0.4%	11.6%	7.0%	0%	17.9%
<b>Illinois</b>	32.4%	13.1%	0.5%	18.9%	6.1%	0.3%	28.6%
<b>Indiana</b>	41.0%	13.7%	0.2%	14.6%	6.2% <sup>1</sup>	0%	24.2%
<b>Iowa</b>	42.7%	17.5%	1.2%	9.5%	5.4%	0.2%	23.7%
<b>Kansas</b>	51.1%	16.2%	0.9%	11.8%	6.4%	0%	13.7%
<b>Kentucky</b>	43.2%	15.9%	1.0%	10.4%	5.3%	0.1%	24.2%
<b>Louisiana</b>	37.8%	14.9%	0.1%	12.2%	9.1%	0.1%	25.8%
<b>Maine</b>	36.3%	8.7%	1.1%	20.3%	4.5%	0.2%	29.0%
<b>Maryland</b>	31.4%	11.7%	0.5%	19.1%	7.5%	0%	29.7%
<b>Massachusetts</b>	21.1%	5.0%	2.8%	14.0%	4.2%	0.4%	52.4%
<b>Michigan</b>	4.6%	22.8%	2.8%	18.5%	19.0%	0%	32.4%
<b>Minnesota</b>	41.0%	10.0%	0.7%	17.3%	3.0%	0.8%	27.2%
<b>Mississippi</b>	43.5%	17.0%	0%	5.8%	6.8%	0.6%	26.4%
<b>Missouri</b>	36.4%	12.8%	0.7%	18.7% <sup>2</sup>	7.5%	0.2%	23.7%
<b>Montana</b>	41.5%	10.7%	0.8%	9.8%	7.6%	0.1%	29.5%
<b>Nebraska</b>	32.1%	20.2%	0.8%	17.3%	5.3%	0%	24.2%
<b>Nevada</b>	35.4%	19.1%	1.6%	25.1%	10.0%	0%	8.9%
<b>New Hampshire</b>	6.7%	9.0%	1.0%	25.1%	5.9%	0.2%	52.1%
<b>New Jersey</b>	31.8%	7.5%	0.7%	15.8%	5.0%	5.1%	34.0%
<b>New Mexico</b>	47.1%	12.2%	0.4%	11.1%	5.5%	0%	23.7%
<b>New York</b>	36.3%	7.2%	2.1%	15.8%	6.0%	0.4%	32.1%
<b>North Carolina</b>	42.4%	16.6%	0.8%	14.7%	6.2%	0.1%	19.2%
<b>North Dakota</b>	34.9%	21.5% <sup>3</sup>	0%	12.9%	4.5%	0%	26.2%
<b>Ohio</b>	27.6% <sup>4</sup>	10.6% <sup>4</sup>	0.7% <sup>4</sup>	37.0% <sup>5</sup>	7.1% <sup>4</sup>	0.2% <sup>4</sup>	16.8%
<b>Oklahoma</b>	32.8%	20.3%	1.9%	12.3%	8.4%	1.3%	23.0%

<b>Oregon</b>	33.2%	8.2%	0.4%	17.1%	10.7%	0.2%	30.2%
<b>Pennsylvania</b>	34.1%	9.1%	2.2%	19.4%	7.1%	1.5%	26.4%
<b>Rhode Island</b>	27.7%	6.3%	3.6%	23.5%	5.1%	0%	33.8%
<b>South Carolina</b>	35.8%	16.0%	0.5%	9.1%	7.4%	0%	31.1%
<b>South Dakota</b>	36.4%	17.4%	0.6%	17.7%	6.5%	0.1%	21.4%
<b>Tennessee</b>	33.1%	13.6%	0.2%	25.2%	5.6%	0%	22.2%
<b>Texas</b>	42.6%	16.4%	0.8% <sup>6</sup>	16.4%	11.0%	0.1%	12.6%
<b>Utah</b>	46.5% <sup>7</sup>	17.4% <sup>8</sup>	0.8%	5.6%	6.8%	1.7%	21.1%
<b>Vermont</b>	33.9%	8.6%	3.4%	14.8%	9.1%	0%	30.2%
<b>Virginia</b>	36.5%	12.4%	0.5%	15.8%	8.5%	0%	26.3%
<b>Washington</b>	43.9%	12.1%	3.9%	23.8%	5.7%	0%	10.6%
<b>West Virginia</b>	51.8%	12.8%	1.0%	6.1%	4.0%	0.2%	24.1%
<b>Wisconsin</b>	47.4%	11.6%	1.5%	13.2%	7.7%	0%	18.5%
<b>Wyoming</b>	0.7%	10.6%	0%	9.6%	6.1%	0%	73.0%

**Definitions:** NA: Data not available.

**General Fund:** the predominant fund for financing a state's operations. Revenues are received from broad-based state taxes. There are differences in how specific functions are financed from state to state.

**Elementary and Secondary Education:** excludes local funds raised for education purposes. States also were asked to include, where applicable, state expenditures that support the state's Department of Education, transportation of school children, adult literacy programs, handicapped education programs, programs for other special populations (i.e., gifted and talented programs), anti-drug programs, and vocational education. States were asked to exclude spending for day care programs in the school system and spending for school health and immunization programs.

**Higher Education:** states were requested to include expenditures made for capital construction, community colleges, vocational education, law, medical, veterinary, nursing and technical schools, and assistance to private colleges and universities, as well as tuition and fees and student loan programs. Higher education expenditures exclude federal research grants and endowments to universities.

**Public Assistance:** includes expenditures for cash assistance under the Temporary Assistance for Needy Families (TANF) programs, and other cash assistance (i.e., state supplements to the Supplemental Security Income program, general or emergency assistance). States were asked to exclude administrative costs from reported expenditures.

**Medicaid:** excludes administrative costs, while including spending from state funds, federal matching funds and other funds and revenue sources used as Medicaid match such as provider taxes, fees, assessments, donations, and local funds. Medicaid general funds include all funds appropriated to the Medicaid agency and any other agency which are used for direct Medicaid matching purposes under Title XIX. All other general funds include state functions not tracked individually, such as hospitals, economic development, housing, environmental programs, health programs (including the State Child Health Insurance Program), parks and recreation, natural resources, air transportation, and water transportation and terminals.

**Corrections:** states were asked to include, where applicable, expenditures for capital construction, aid to local governments for jails, parole programs, prison industries, and community corrections, as well as expenditures made for juvenile correction programs. States were asked to exclude expenditures for drug abuse rehabilitation programs and institutions for the criminally insane.

**Transportation:** includes capital and operating expenditures for highways, mass transit, and airports. States were also asked to include expenditures for road assistance for local governments, the administration of the department of transportation, truck and train/railroad programs, motor vehicle licensing, and gas tax and fee collection. The data exclude spending for port authorities, state police and highway patrol.

**"All Other":** includes all remaining programs not captured in the functional categories previously described, including the State Children's Health Insurance Program and any debt service for other state programs (i.e., environmental projects, housing). States with lotteries were asked to exclude prizes paid to lottery winners. States were also asked to exclude expenditures for state-owned utilities and liquor stores.

**Sources:** Tables 1 (All expenditures), Table 7 (Elementary and Secondary Education), Table 12 (Higher Education), Table 18 (Public Assistance), Table 28 (Medicaid), Table 32 (Corrections), Table 38 (Transportation), Table 43 (All Other), *2003 State Expenditure Report*, National Association of State Budget Officers. Available at <http://www.nasbo.org/Publications/PDFs/2003ExpendReport.pdf>.

**Footnotes:**

1. Indiana received \$103.4 million from the Federal Jobs & Growth Relief Reconciliation Act of 2003 in fiscal 2003. This amount was used to partially fund the Department of Correction, and is reflected in the general fund figure.
2. Missouri's Medicaid and CHIP data are from the CMS-64 report used for federal reporting of Medicaid expenditures. The

split between the general revenue fund and other funds is an estimate. Medicaid does not track the general revenue fund versus other state/local funds in its reporting.

3. Student loans funded from North Dakota's general fund are included.

4. Double counting of revenue and expenditures related to intrastate transactions overstates overall state expenditure activity. The overstatement is primarily found in general services.

5. Ohio's federal funds are deposited to the state general fund and total \$4,807.9 million.

6. Texas' general fund expenditures represent TANF maintenance of effort.

7. Included in Utah's general fund are school funds (income tax revenue) which in Utah are restricted by the state constitution for the sole use of public and higher education. Public education in Utah is organized to include the Utah State Office of Rehabilitation (USOR). USOR totaled \$18 million in general funds.

8. Included in Utah's general fund are school funds (income tax revenue) which in Utah are restricted by the state constitution for the sole use of public and higher education.



**Table 4**  
**State Level Impact of Federal Budget Agreement on Medicaid:**  
**How Much Each State Will Lose if Congress Cuts \$10 Billion from Medicaid from 2007-10**

<b>State</b>	<b>Federal Dollars Lost (Millions)</b>
Alabama	\$144.1
Alaska	\$34.5
Arizona	\$223.4
Arkansas	\$125.4
California	\$1,042.4
Colorado	\$79.3
Connecticut	\$111.5
Delaware	\$24.4
District of Columbia	\$48.3
Florida	\$450
Georgia	\$245.7
Hawaii	\$32.9
Idaho	\$40.7
Illinois	\$286.6
Indiana	\$190.8
Iowa	\$86.5
Kansas	\$71.8
Kentucky	\$161.6
Louisiana	\$189.5
Maine	\$76.6
Maryland	\$139.4
Massachusetts	\$282.2
Michigan	\$276
Minnesota	\$159.4
Mississippi	\$152
Missouri	\$232.3
Montana	\$29.8
Nebraska	\$53.2
Nevada	\$37.2
New Hampshire	\$37.0
New Jersey	\$240.4
New Mexico	\$99.4
New York	\$1,371.8
North Carolina	\$313.1
North Dakota	\$20.1
Ohio	\$417.5
Oklahoma	\$111.0
Oregon	\$106.4

<b>Pennsylvania</b>	\$504.7
<b>Rhode Island</b>	\$55.8
<b>South Carolina</b>	\$155.7
<b>South Dakota</b>	\$24.7
<b>Tennessee</b>	\$267.1
<b>Texas</b>	\$608.3
<b>Utah</b>	\$56.7
<b>Vermont</b>	\$29.2
<b>Virginia</b>	\$131.3
<b>Washington</b>	\$167.3
<b>West Virginia</b>	\$84.5
<b>Wisconsin</b>	\$144.0
<b>Wyoming</b>	\$13.8