State Fiscal Outlook: Implications for Medicaid

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Fiscal 2018 expected to mark the 8th consecutive annual increase in general fund spending and revenues

Budget environment for most states indicates slow growth

Fiscal progress has been uneven across states, with some facing difficult budgetary challenges

With long-term spending pressures and slower revenue growth expected, FY 2018 budgets are cautious
STATE GENERAL FUND SPENDING GROWTH PROJECTED TO SLOW CONSIDERABLY IN FISCAL 2018

Annual General Fund Expenditure Growth (%)

*Average 39-year historical average annual rate of growth is 5.5 percent.
**Fiscal 2018 percentage growth is based on recommended budgets.

Source: NASBO Fiscal Survey of States
GOVERNORS RECOMMEND CAUTIOUS BUDGETS
Total Spending Increase of $8.7B Compared to $23.9B in Fiscal 2017

Recommended General Fund Spending Changes by Program Area

Source: NASBO Fiscal Survey of States

[Graph showing recommended spending changes by program area, including K-12, Higher Ed, Public Assistance, Medicaid, Corrections, Transportation, and All Other, with specific changes in billions.]
FISCAL 2017 GENERAL FUND SPENDING
NOW EXCEEDS INFLATION-ADJUSTED PRE-RECESSION PEAK

General Fund Spending: FY 2008 – FY 2018

Source: NASBO Fiscal Survey of States; Fiscal 2018 figure is based on governors’ recommended budgets.
*Aggregate spending level needed to total at least $807 billion in fiscal 2017 to be equivalent with or exceed real 2008 spending level.
33 STATES REPORTING REVENUE COLLECTIONS BELOW BUDGET PROJECTIONS

General Fund Revenue Collections Compared to Original Budget Projections

Source: NASBO Fiscal Survey of States.

*Fiscal 2017 figures are based on data collected in spring 2017, before the end of the fiscal year and before April collections were in.
AT LEAST 23 STATES MADE MID-YEAR BUDGET CUTS IN FISCAL 2017, TOTALING $4.9 BILLION

Enacted Budget Cuts Made After the Budget Passed

Source: NASBO Fiscal Survey of States
GENERAL FUND REVENUE SOURCES
ALL 50 STATES

Estimated Fiscal 2016

- Personal Income 44.6%
- Sales 31.6%
- Other Taxes & Fees 17.2%
- Gaming 0.6%
- Corporate Income 5.9%

Source: NASBO State Expenditure Report
TOTAL STATE EXPENDITURES BY FUNCTION

FISCAL YEAR 2008
$1,479 Billion

- Medicaid 20.7%
- K-12 21.6%
- Higher Education 10.2%
- Transp. 7.9%
- Corrections 3.5%
- All Other 34.5%

FISCAL YEAR 2016
$1,928 Billion

- Medicaid, 29.0%
- K-12, 19.4%
- Higher Ed, 10.2%
- Transp. 7.9%
- Corrections 3.0%
- Public Assistance, 1.4%

- All Other, 29.2%

Source: NASBO State Expenditure Report. Total state expenditures include all federal and state funds. Percentages based on 50-state totals.
GENERAL FUND EXPENDITURES BY FUNCTION
All 50 States

FISCAL YEAR 2008
$687 Billion

- Education 34.5%
- K-12
- All Other 28.4%
- Medicaid 16.3%
- Public Assistance 1.8%
- Corrections 7.0%
- Transp. 0.8%

FISCAL YEAR 2016
$779 Billion

- Education 35.1%
- K-12
- All Other 26.2%
- Medicaid 20.3%
- Public Assistance 1.2%
- Corrections 6.6%
- Transp. 0.9%

NASBO
Medicaid Has Increased as a Percentage of General Fund Spending Over Time – All States

Source: NASBO State Expenditure Report.
MEDICAID SPENDING GROWTH PROJECTED TO SLOW SOMEWHAT IN FISCAL 2018

Source: NASBO Fiscal Survey of States
**NEW DATA: STATE SPENDING ON MEDICAID EXPANSION POPULATION**

Medicaid Expenditures on Expansion Only

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Federal Funds (in billions)</th>
<th>State Funds (in billions)</th>
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</thead>
<tbody>
<tr>
<td>Fiscal 2016</td>
<td>$74</td>
<td>$5</td>
</tr>
<tr>
<td>Fiscal 2017</td>
<td>$81</td>
<td>$6</td>
</tr>
<tr>
<td>Fiscal 2018</td>
<td>$83</td>
<td>$9</td>
</tr>
</tbody>
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Notes: Under the Affordable Care Act, the federal government agreed to cover 100 percent of costs for newly eligible adults under Medicaid expansion until January 1, 2017, when states began paying five percent of those costs. The state share is set to gradually phase up to 10 percent by 2020 under current law.

The figures above only represent expenditures for the new adult eligibility group (including both “newly eligible” and “not newly eligible”). Based on NASBO’s State Expenditure Report, states spent $216 billion in state funds and $342 billion in federal funds on Medicaid overall in fiscal 2016.
MEDICAID – Repeal and Replace Legislation
Per Capita Caps & Expansion Changes

• Caps federal spending instead of sharing all eligible spending
• Per capita caps begin 2020 for 5 enrollment groups
• Per capita caps based on 2016 spending (House), 8 quarters (Senate)
• Per capita cap annual escalator – CPI-U Medical Care, +1%, then CPI-U (Senate in 2025)
• Phases down provider tax maximum rate from 6% to 5% (Senate)
• CBO estimates costs to grow more than federal funds will both versions
• Expansion enhanced funding ends 2020 (House-for new enrollees), 2024 (Senate)
• Expansion enrollees are permitted after that, at regular federal/state share
• Eligibility redetermination required (House)/permitted(Senate) every 6 months
• Statutory flexibility changes for States not yet proposed
MAJOR CHALLENGES AND RISKS IN MEDICAID

- Medicaid forecasting: What are the trends and risks to forecast?
- Concern about impact of federal regulations, costly populations, high cost pharmaceuticals.
- What will we be seeing in administrative flexibility from CMS? What will be changes in policy?
- Federal budget cuts—Any significant changes on the horizon?
MAJOR CHALLENGES TO STATE BUDGETS: 2018+

- Modest economic growth = modest revenue growth
- Medicaid spending growing at higher rate than revenues
- Pensions and retiree health liabilities
- Maintaining infrastructure and new transportation demands
- Impact of energy prices, demographic changes, tax related issues, long-term liabilities
- Federal uncertainty surrounding future funding levels, tax code, health care, infrastructure, municipal debt, etc.