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Medicaid Expansion Ignores States' Fiscal Crises

Dennis G. Smith

Given Senator Ben Nelson's (D–NE) sweetheart deal to force federal taxpayers to pick up the cost of mandatory Medicaid expansion in Nebraska, Members of Congress are obviously unfazed about the future costs of their handiwork and the turmoil it will cause among the other states.

Under the giant House and Senate health bills, Congress is counting on enrolling 15–20 million more people into the Medicaid program, albeit with promises of enhanced federal funding. Fresh evidence from the National Association of State Budget Officers (NASBO) demonstrates that states are in no position to accept *any* increased costs of expanding Medicaid. But the bills would force more people who are currently eligible for Medicaid to enroll—and the states would be left to pick up the tab without any additional federal funding.

State General Fund Expenditures Drop for Second Year in a Row. A new report from NASBO shows that the budget situation faced by states is truly unprecedented.[1]

Over a 32-year period (1979–2010), state general fund expenditures increased on average by 5.6 percent annually. Between 1979 and 2008, general fund spending had declined only once: in 1983 by 0.7 percent from the previous year. But state spending declined by 3.4 percent in 2009 and is projected to decline by 5.4 percent in 2010.[2]

Expanding Medicaid at the Cost of Everything Else. In their 2010 budgets:

- 31 states cut personnel,
- 30 states cut K-12 education,
- 30 states cut higher education,
- 29 states cut Corrections,
- 28 states cut Medicaid,
- 25 states cut transportation, and
- 22 states cut public assistance.[3]

Given the budgetary outlook, states will continue to make program reductions. Both the House and Senate bills impose a "maintenance of effort" (MOE) requirement on states to prevent them from lowering current Medicaid eligibility. Giving Medicaid preferential treatment will force states to make deeper reductions in other program areas.

States More Reliant on Federal Funds. A second report just released by NASBO shows that states have become more dependent on federal funding.[4]

Between FY 2008 and FY 2009, total state expenditures (including federal funds through the states) increased by $82.2 billion from $1.467 trillion to $1.549 trillion.[5] But state-only spending actually decreased by 0.1 percent during this time. The difference was due to a 21.2 percent increase in federal funding through the states, most of which came through the stimulus bill.

However, states still cut program spending even though they received additional federal funds. The

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stimulus merely substituted federal dollars for state dollars. Moreover, when the federal funds expire, states will have to make up the difference in order to maintain level spending. The stimulus will have simply shifted the source of funds from state to federal and back again to states.

Aid to States Uneven. The additional federal funding varies dramatically among states.

Together, California and Michigan received nearly one-third of the entire increase in federal funding between fiscal years 2008 and 2009. Even though Michigan represents just 3 percent of the total population of the United States,[6] it received 8 percent of the entire increase in federal funding.[7] California received 24 percent of the entire increase, even though it has only 12 percent of the population.

In contrast, federal funding for Florida, which has 6 percent of the U.S. population, decreased slightly between 2008 and 2009. Overall, there was a 21 percent increase in federal funding. Michigan received an increase of 54 percent in federal funds.

There is wide variation among states for per capita spending as well. While Ohio, Nevada, and Virginia each receive less than $900 per capita, Louisiana receives four times that amount.[8]

Although the Congressional Budget Office and the Obama Administration have produced aggregate state spending estimates, neither have produced state-by-state data. Thus, Members of Congress are voting blindly to redistribute wealth across the country.

John Holahan, a widely respected analyst at the Urban Institute, warns that "[c]urrent financing plans for Medicaid expansions under health reform proposals will be complex and will set up longer-term financing inequities across states."[9]

Much of the discussion in Congress has centered on increasing the federal match rate that states receive. However, the increasing match rates apply to *new* eligibles, not those who are currently eligible.

States are also locked into their current eligibility thresholds through MOE provisions. States have billions of dollars at stake in how the MOE is applied. Holahan explains:

> The problem is that in some states, most of the new enrollees would be from among the ranks of the previously eligible. Thus not only are there likely to be fewer new enrollees in high coverage states, but more new enrollees are likely to come from the previously eligible because eligibility standards have been broader.[10]

According to Holahan, Massachusetts and Vermont will have no new eligibles under the Senate bill for which the states would receive enhanced federal funding. Meanwhile, Arizona, Maine, Minnesota, and New York would likely have only small expansions. But addressing this inequity by giving these states enhanced federal funding would mean that billions of dollars would be spent to simply replace state dollars with federal dollars without a net increase in coverage.

1. National Governors Association, National Association of State Budget Officers, "The Fiscal Survey of States: December 2009," at *http://www.nasbo.org/Publications/PDFs/fsfall2009.pdf* (January 4, 2010).
2. *Ibid.*, Table 2.
3. *Ibid.*, Table 1-B.
4. NASBO, "2008 State Expenditure Report," Fall 2009, at *http://www.nasbo.org/Publications/PDFs/FY08%20State%20Expenditure%20Report.pdf* (January 4, 2010).
5. *Ibid.*, Table A-1.
6. U.S. Department of Commerce, Census Bureau, "Population Estimates: Table 1: Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2000 to July 1, 2008," at *http://www.census.gov/popest/states/tables/NST-EST2008-01.xls* (January 4, 2010).
7. Calculated from NASBO, "2008 State Expenditure Report," Table A-1.
8. Per capita spending can be calculated by dividing the data in *ibid.* by state population as reported in footnote 7.
9. John Holahan, "Alternatives for Financing Medicaid Expansions in Health Reform," Kaiser Family Foundation, December 2009, at *http://www.kff.org/healthreform/upload/8029.pdf* (January 4, 2010).
10. *Ibid.*, p. 4.

No Time for Better Solutions? To meet artificial, political deadlines, Congress and the Obama Administration have adopted a "something is better than nothing; we will fix it later" approach. But it is already clear that the states cannot afford any new Medicaid costs, and it is increasingly obvious that Congress does not know how the proposed changes will affect the states. When it comes to health care legislation, mediocrity is apparently good enough.

—Dennis G. Smith is Senior Fellow in the Center for Health Policy Studies at The Heritage Foundation.