



State Finances

Health Care Reform

AEI

June 8, 2010

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National Association of State Budget Officers





State Finances

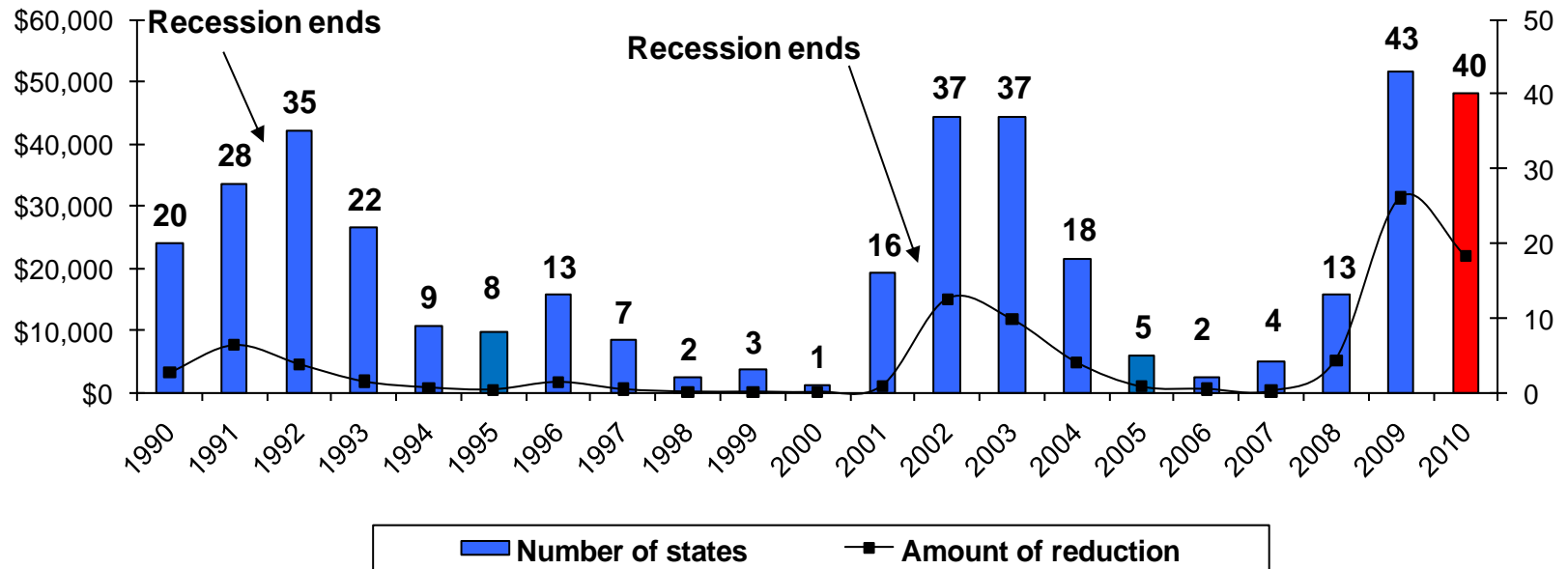
- **Hit bottom – so, only one way to go...**
- **Austere state budgets for at least the next several years**
- **Revenue *not yet* pre-recession**
- **States must address budget gaps—both from a short term and longer-term—what are implications of health care reform?**



Current Fiscal Situation: Indicators

Budget Cuts at Record Levels

Budget Cuts Made After the Budget Passed, Fiscal 1990-Fiscal 2010 (\$ millions)

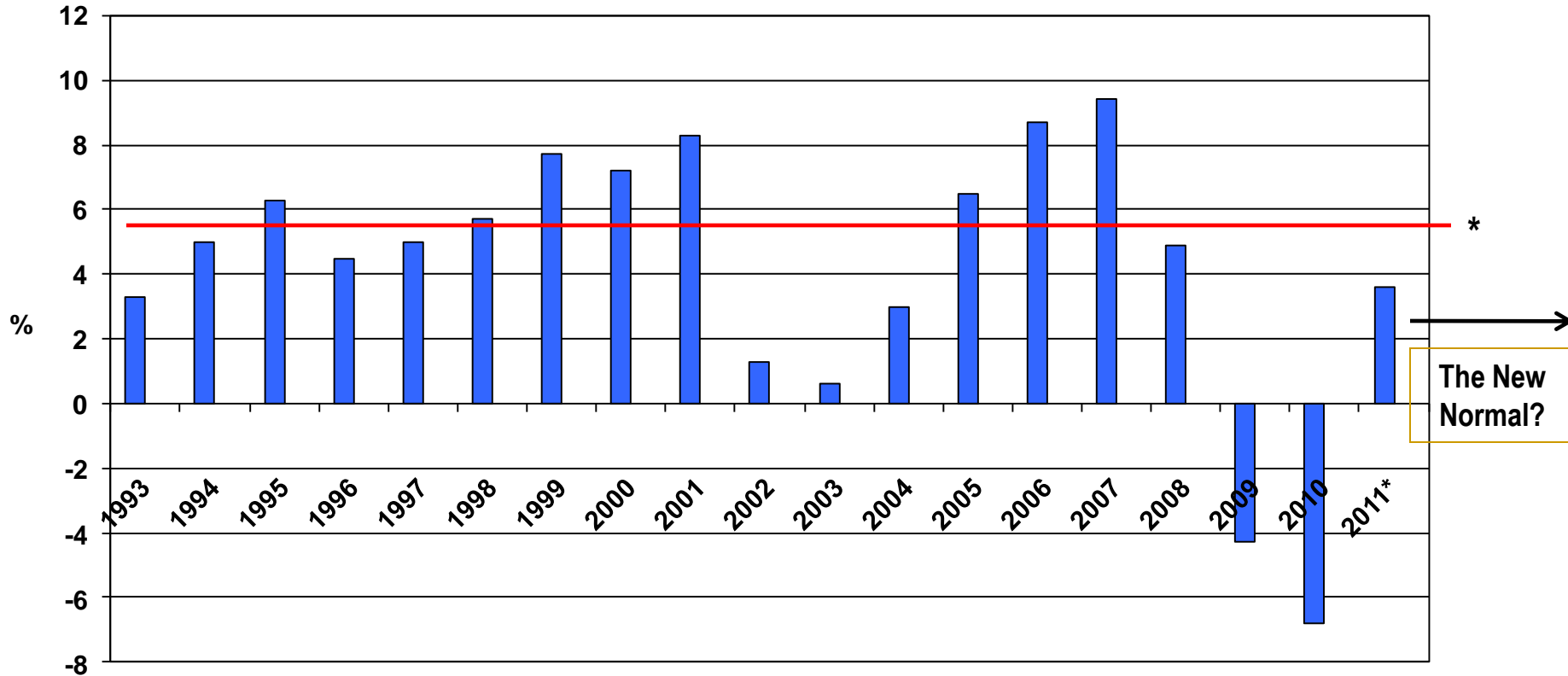


Source: NASBO June 2010 Fiscal Survey of States;; fiscal 2010 totals are estimates



Negative Spending Two Years in a Row, Slight Increase in 2011

General Fund Expenditure Growth (%)



The New Normal?

*

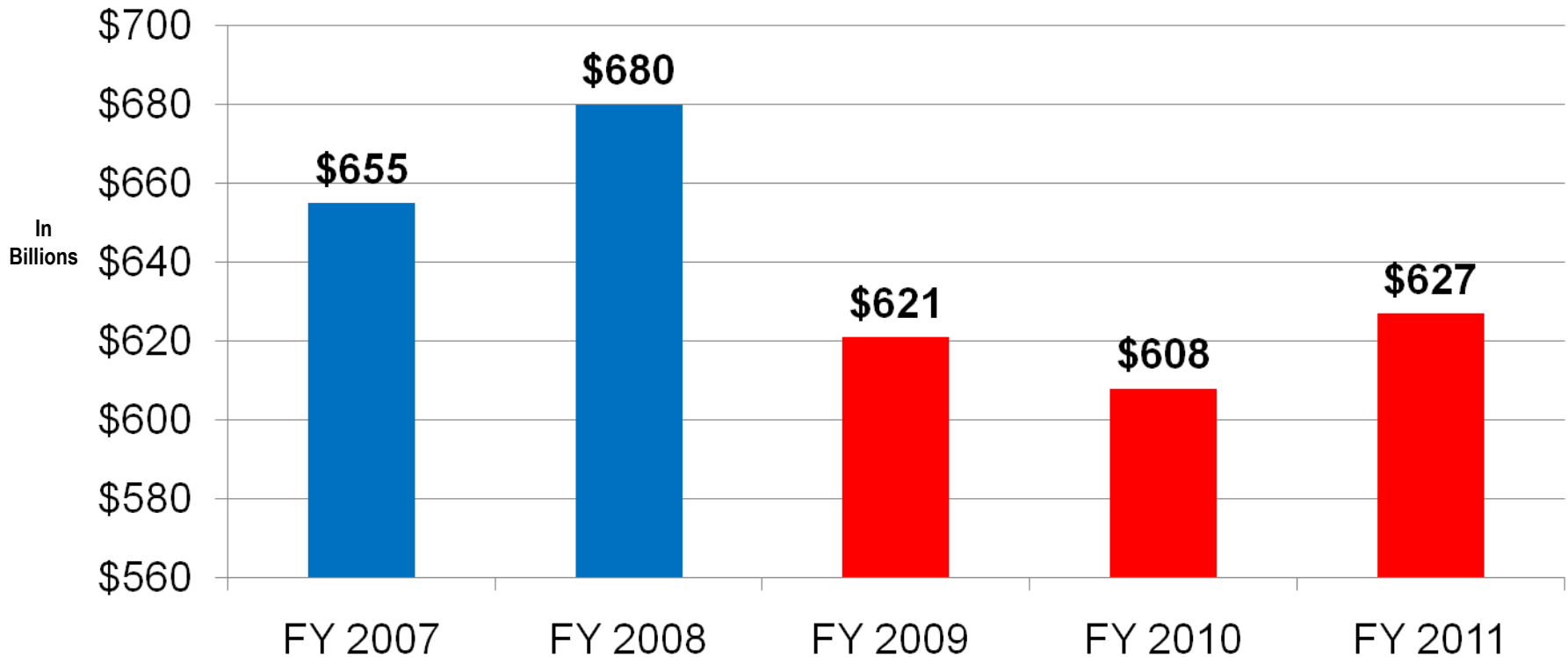
*33-year historical average rate of growth is 5.6 percent
Source: NASBO June 2010 Fiscal Survey of States

*Fiscal '11 numbers are proposed



Projected FY 2011 Revenue Not Pre-Recession Levels

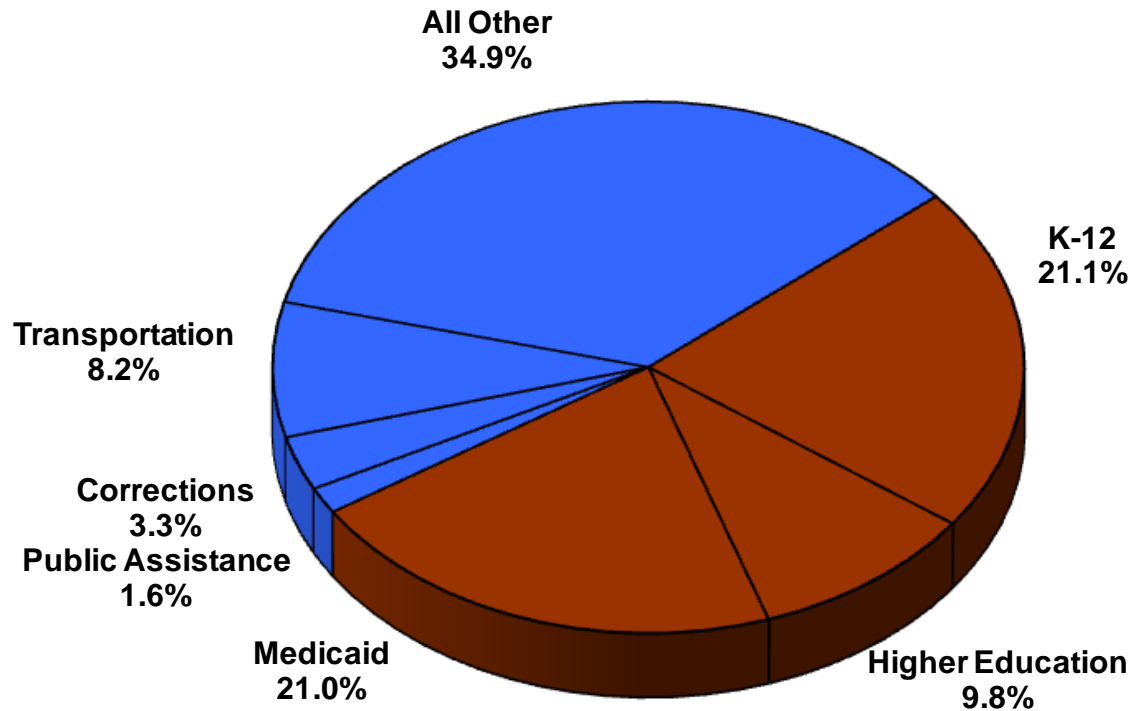
General Fund Revenue: FY 2007-FY 2011 (in billions)



* FY 2007, 2008, and 2009 are actual. FY 2010 is estimated and FY 2011 is proposed

Total State Expenditures

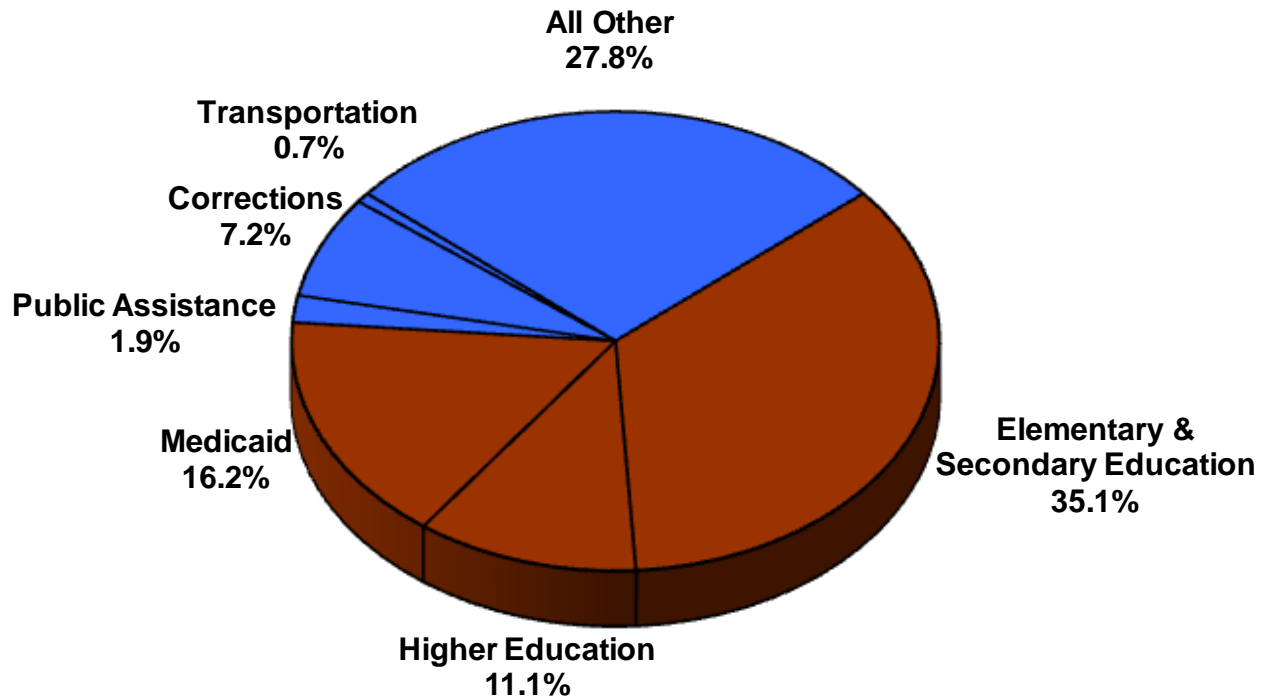
Expenditures by Function, Estimated Fiscal 2009



Source: NASBO 2008 State Expenditure Report

General Fund: Medicaid & Education Over 62%

General Fund Expenditures by Function, Estimated Fiscal 2009



Source: NASBO 2008 State Expenditure Report



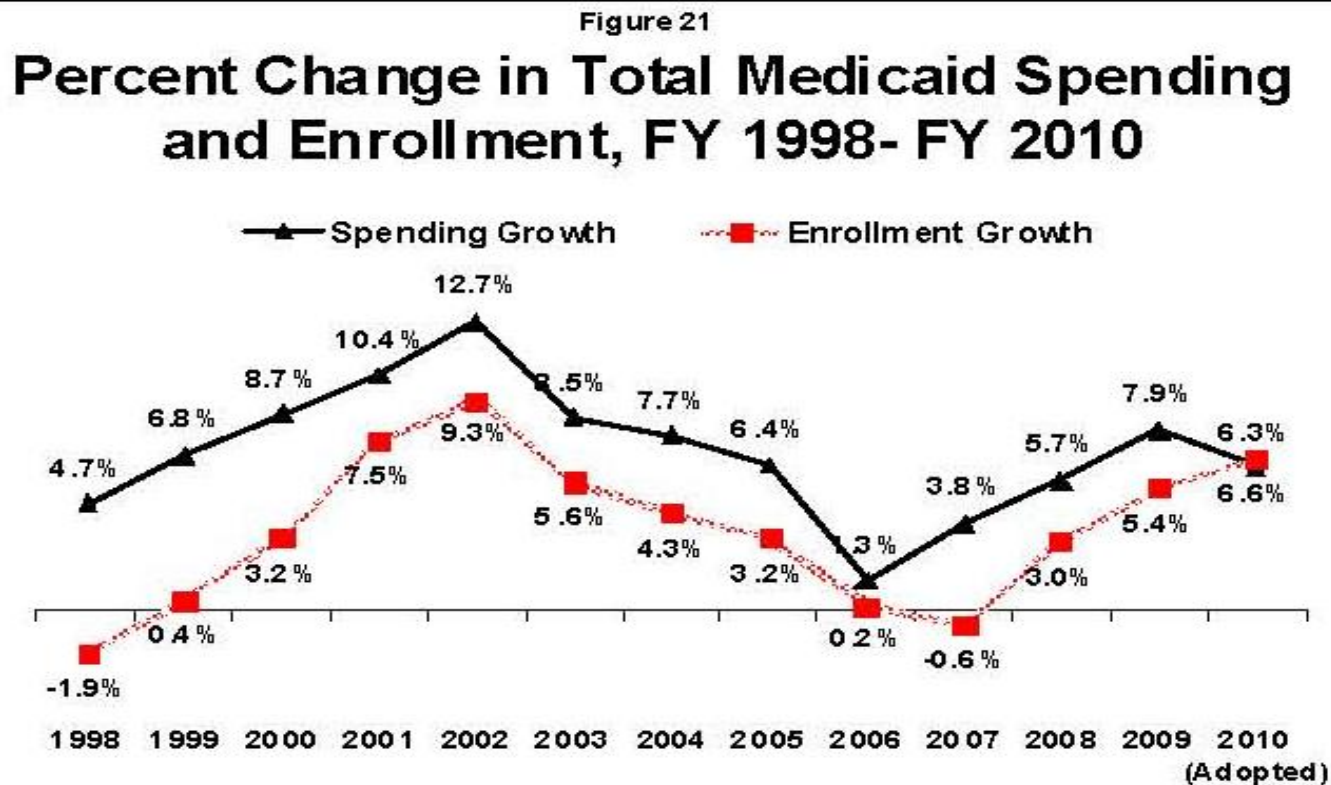
Health Care



Medicaid Spending and Enrollment

- **Even before expansions under health reform, Medicaid spending and enrollment accelerating due to economic downturn.**
- **Total Medicaid spending estimated to increase by 10.5 percent in fiscal 2010.**
- **Medicaid enrollment increased 6 percent during fiscal 2009 and is estimated to climb 8.3 percent in fiscal 2010 and 5.4 percent in fiscal 2011.**
- **Enrollment – growth of 21 percent over this 3-year period.**

Increases in Medicaid Spending and Enrollment



NOTE: Enrollment percentage changes from June to June of each year. Spending growth percentage changes in state fiscal year.

SOURCE: Enrollment Data for 1998-2008: *Medicaid Enrollment in 50 States*, KCMU. Spending Data from KCMU Analysis of CMS Form 64 Data for Historic Medicaid Growth Rates. FY 2009 and FY 2010 data based on KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, September 2009.



Medicaid Cost Containment

- **About three-quarters of states are planning to contain Medicaid costs in proposed fiscal 2011 budgets.**
- **The most common strategy for both fiscal 2010 and fiscal 2011 would be to reduce or freeze provider payments.**
- **Other strategies include limiting benefits, limiting prescription drugs, eliminating benefits, and expanding managed care.**
- **States are also raising provider taxes or fees to generate additional resources for the Medicaid program.**



Longer-term Strategies to Deal with Budget Gaps

- **Core government services**
- **Consolidations—review of government operations/services**
- **Pensions and retiree health benefits**
- **Health care cost containment—limits with MOE requirements—implications of national health care reform**



Implications of National Health Care Reform

- **Immediate changes—maintenance of effort (MOE) provision continues, pharmacy rebates, temporary high risk pools, changes in insurance markets**
- **Administrative capacity**
- **Uncertainty about economic impact, including factors such as impact from current eligibles and pressure on provider rates**



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