

# Health Spending and State Budgets, FY 2003

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August 6, 2002

# Three Purposes of Study

- Sketch recent state budget problems
- Examine state budget balancing actions in '03
- Assess state budget outlook and prospects for health spending for FY 2004

# State Budget “Crises”



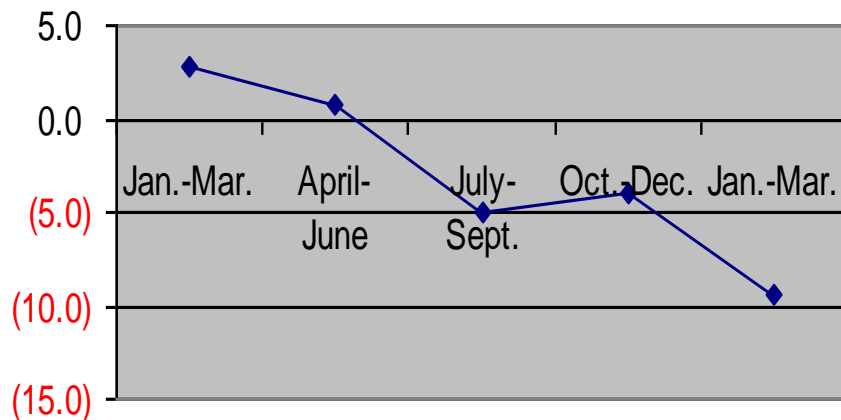
## Two Main causes:

- Sharp Decline in revenues, particularly personal and corporate income tax
- Spending growth in line with previous revenue growth

# Sharp Declines in Revenue Collections 2001-2002

## Real Change in Aggregate Quarterly Tax Revenue, Adjusting for Legislated Tax Changes and Inflation

(Source: Fiscal Studies Program, Rockefeller Institute of Government)



# Causes of State Revenue Decline

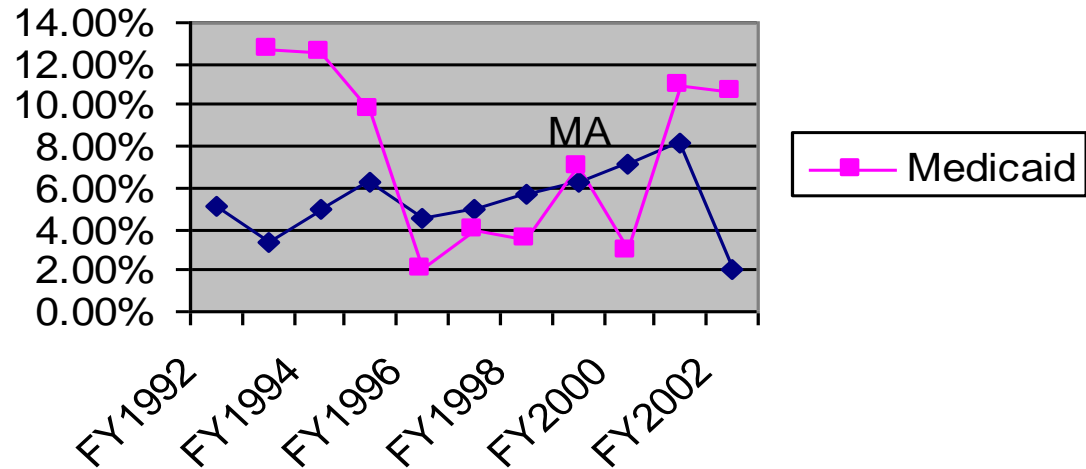
- **Recession – mildest in history, revenue impact slight**
- **Corporate income tax – off shore incorporation**
- **Market decline – very large, big hits in**
  - **capital gains**
  - **bonuses**
  - **stock options**
- **Largest in states w/ income taxes & lots of rich people**

# State Expenditure Growth

- States spent most of “good news” revenue in '90s on recurring programs
- Real per cap. expends. up 32%, 1990 -2002
- Recent increases in MA mostly real – UPL peaks in FY '01, Rx largest growth

## Nominal Changes in Expenditures and Growth in Medicaid

(Sources: NASBO 2002 Fiscal Survey of States; Neil Bergman, 8/6/02  
NASHP slide "Growth rates of MA and state budgets")



# How Have States Responded?

*(A study of 16 states with a broad range of revenue/economic conditions)*

- Arizona
- Colorado
- Georgia
- Florida
- Kansas
- Mississippi
- Michigan
- New Jersey
- Ohio
- Oregon
- Tennessee
- Texas
- Utah
- West Virginia
- Washington
- Wisconsin

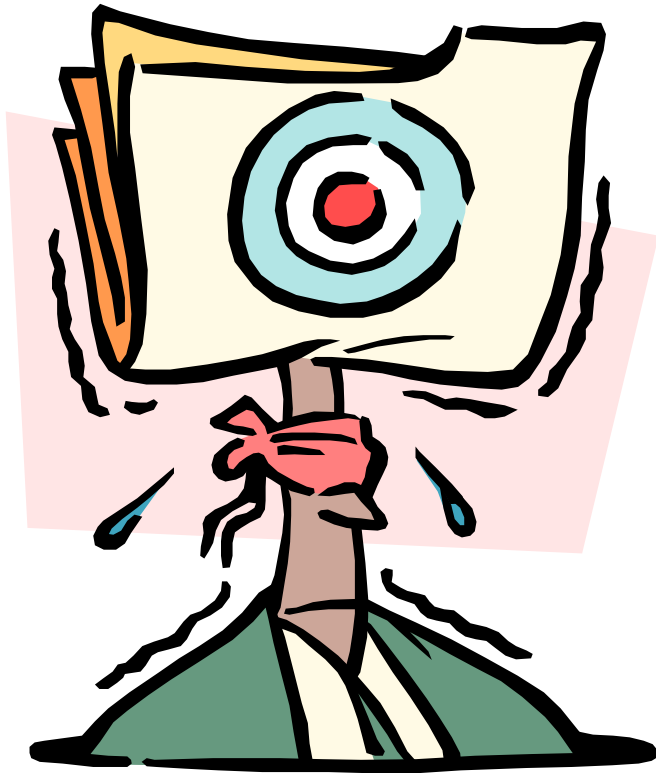
# Overview: States Responses are Similar to earlier recessions (“*Low pain*” actions )

- Draw down reserves
- Shift funding sources
- Postpone spending, accelerate revenue
- Raise popular taxes (e.g. tobacco)

- Hiring freezes, across the board spending cuts



# Overview: States Responses are Similar to earlier recessions (Postpone “High Pain”)



- Broad-based tax increases
- Significant spending cuts
- Layoffs

# Sharp Decline in State Surpluses

<u>FY</u>	<u>Fund Balance Change as a % of Expenditures</u>
1999	(.8)
2000	2.0
2001	(2.6)
2002	(3.0) - preliminary
2003	(1.3) - proposed

Source: NASBO, Fiscal Survey of States, May 2002

# Budget Balancing More Revenue Than Spending

State	% Revenue	%Spend	MA as %of cut
UT	58%	42%	%20
OH	33%	66%	<5%
WI	91%	9%	1%
OR	55%	45%	1.4%
NJ	40%	60%	1%
AR	20%	80%	increase
TN	75%	25%	100%
MI	80%	20%	25% increase
CO	18%	82%	5.4%
KS	50%	50%	<1%

- West Virginia, Georgia, Florida Texas did no unusual gap filling in FY '03 budget as enacted – mid year corrections are wither enacted or likely in most of these states.
- Mississippi's budget is not yet final

# Major Revenue Enhancements

- Broad Base tax increases
  - New Jersey – corporate income tax
  - Kansas – sales tax
  - Tennessee – sales tax
- Sin Tax Increases
- Surplus drawdown, rainy day funds
- Funding shifts-one-shots, earmarked funds, tobacco settlement

# Major Expenditure Cuts

- **Across the Board Cuts: 1-4% range**
- **Hiring Freeze/early retirement step-up**
- **Medicaid related typically small**
- **Other services take bigger hits – 100% state funded**
  - **Education**
  - **Public Safety**

# Medicaid Related Budget Actions

- TN - TennCare retrenchment
- NJ - Rollback of Family Care
- Some rate freezes, cuts, outreach reductions, various prescription drug actions, home healthcare, long term care
- Sizable increase in expenditures in Arizona, New York, Michigan

# Conclusions

- “Low Pain” responses predominate
- Medicaid not singled out-other services take bigger hit
- Mid year budget corrections likely in several states
- Problematic impact on capacity
  - worker caseloads rise
  - processing time in lengthened

# What Happens in FY 2004? Outlook is Gloomy



- Early Returns not promising
  - payments with returns off an average of 19%
  - first estimated payments on 2002 income off 14%
- Economic recovery forecast is slow - a double dip is still possible
- Market still very weak
  - capital gains could be even worse than last year
  - bonuses and stock options income likely down as well
- States with income taxes have worst outlook
- Declining supply of one-time remedies
- UPL phase-out

# How Should Health Agencies Respond?

## **1. Make money for the Governor**

- UPL/DSH**
- Medicaid human service**

## **2. Talk about jobs! - Medicaid is large economic development program**

## **3. Enlist constituency – big employers/purchasers**

- Hospitals**
- Nursing Homes**
- MR/MH facilities**