



Medicaid Matters

Deciphering the Governor's FY 2009 Budget

Ted Boettner and Renate Pore

March 1, 2008 (Revised)

About Us

The **West Virginia Center on Budget and Policy** is a policy research organization that is nonpartisan, nonprofit, and statewide. It focuses on how policy decisions affect all West Virginians, especially low- and moderate-income families.

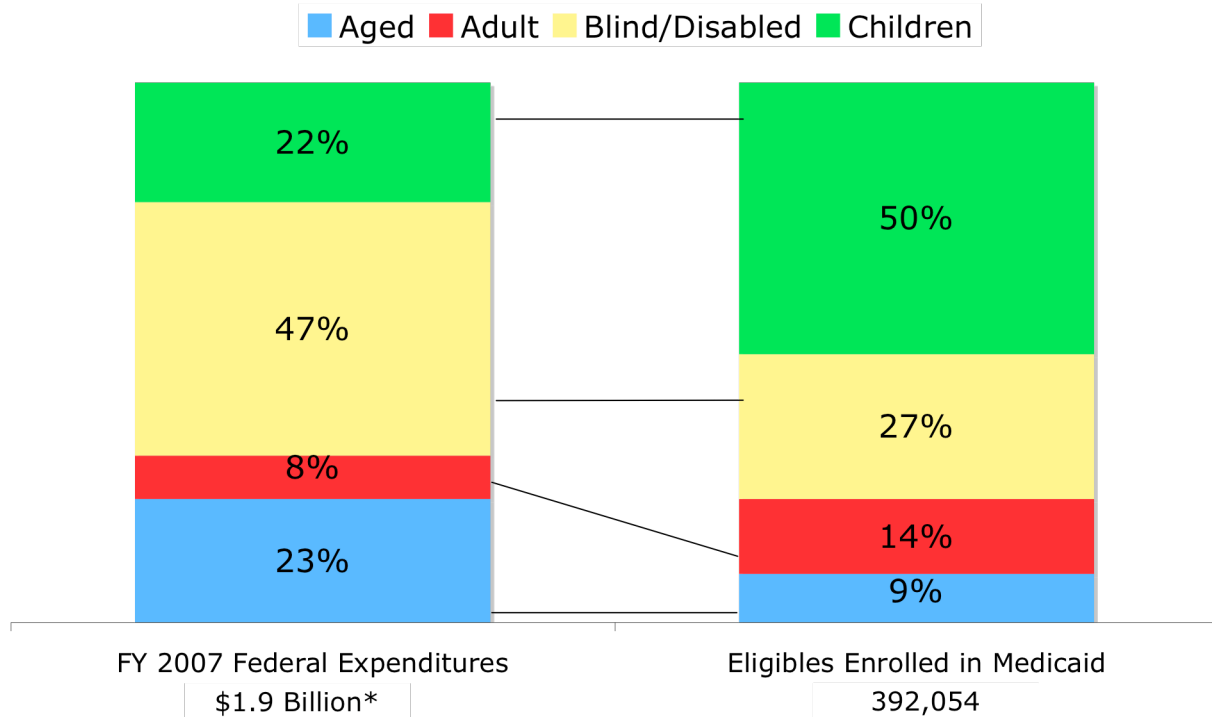
Supported with funding from the W.K. Kellogg Foundation, the Claude Worthington Benedum Foundation, Sisters of Saint Joseph Charitable Fund, Service Employees Union International 1199, and the West Virginia Affiliated Construction Trades Foundation.

West Virginia Center on Budget & Policy | 303 Washington Street | Charleston, WV 25302
Tel: 304-720-8682 | Fax: 304-342-4300 | www.wvpolicy.org

What is Medicaid?

Medicaid is a program that pays for health and long term care services. In 2007, it paid for about 390,000 West Virginians receiving a variety of benefits including hospital care, nursing home care, health care, mental health and dental health services in the community. People receiving services paid by Medicaid include children, the elderly, and people with disabilities. Children make up more than half of all people receiving services through Medicaid. Low income adults include pregnant women and some parents of children on Medicaid. About two-thirds of the costs in Medicaid are in long-term term care services for people with disabilities and the elderly.

**West Virginia Medicaid Eligibles and Expenditures by Enrollment Group
State Fiscal Year 2007**



*Does not include State only expenditures or adjustments made for federal spending reporting purposes

How do we pay for Medicaid?

Medicaid is a state and federal partnership with about 75 percent of the cost paid by the federal government. The remaining 25 percent is made up of state dollars. State dollars come from the General Revenue Fund, the Lottery, The Medical Services Trust Fund and the Provider Tax.

Medicaid Spending Authority		
* Does not include Federal funding		
	FY 2008	FY 2009
General Revenue Fund	\$427,571,570	\$427,621,172
Lottery Fund	\$34,122,578	\$34,122,578
Medicaid Services Trust Fund	\$26,071,544	\$26,084,133
Provider Tax	\$174,220,722	\$166,004,901
Total Medicaid Spending Authority	\$661,986,414	\$653,832,784
* Does not include Federal funding		

What does the Spending Authority mean for the availability of funds for the Medicaid program?

The Governor's annual budget request to the Legislature provides for the state match. This is about a quarter of the Medicaid budget. Total Medicaid spending is a combination of state funds and federal funds. Federal funds provide approximately three-fourths of the Medicaid budget. In FY 2009, the total Medicaid budget is estimated at \$2,475,254,319.

In analyzing the Governor's request, it is also important to distinguish between spending authority and actual expenditures. Spending authority is the dollar limit the Legislature authorizes an agency to spend from funds the agency collects. This applies to appropriated special (i.e. the provider tax fund) and appropriated federal funds in the budget bill.

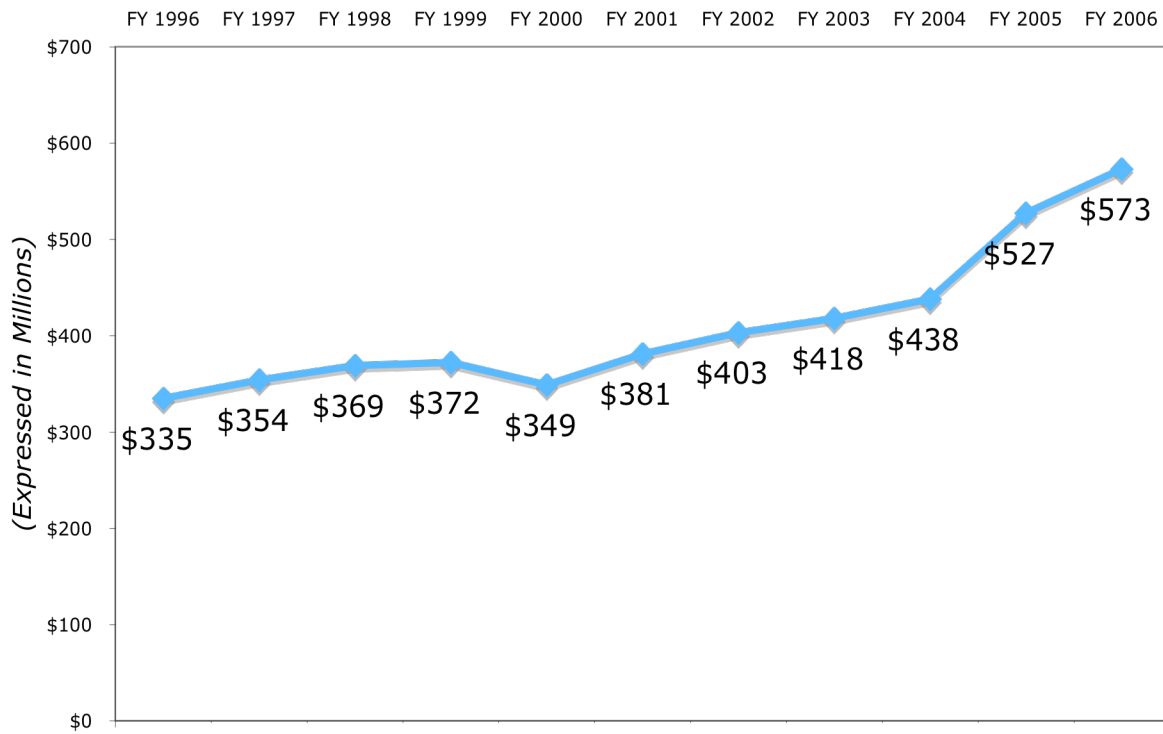
Actual expenditures may be less than the Legislature authorizes. In FY 2008, Medicaid is expecting to spend less than the Legislature authorized. Consequently, Medicaid expects to accumulate a surplus of \$93,818,975 in FY 2008. This surplus will be used to offset any increase in expenditures or decrease in funding in FY 2009, 2010.

Other factors affecting the availability of funding

- The provider tax is an important source of revenue for Medicaid. In 2001, the Legislature passed a bill to phase out the individual provider tax by 2011. Federal changes are also causing a small reduction in the provider tax. By 2011, the provider tax is projected to bring in \$156.6 million per year, a reduction of about \$18 million per year less than 2007 projections.
- West Virginia's federal matching rate is a fluctuating number with minor adjustments made every year based on the state's economic performance. The better the state's economic performance, the less the federal match. In FY 2008, the federal match increased but in the future it is expected to decrease by about 0.5 percent per year. Because federal Medicaid spending is about \$2 billion in West Virginia, even this small decrease in the match rate results in a reduction in federal matching funds of about \$10 million.
- Medicaid is an entitlement program, which means persons eligible for the program must be served. West Virginia's growing population of people over 65 will put an increased burden on the Medicaid program in the demand for long term care services.
- Over the years, the Medicaid program has been subject to law suits. In the past judgments in favor of plaintiffs have required increased spending by Medicaid. Judgments in the future may also affect Medicaid spending. Currently, a law suit before the Kanawha County Circuit Court may result in a judgment that will require West Virginia Medicaid to provide home and community-based services for about 300 people now on a waiting list. The annual cost of such services is estimated at \$50,000 per person and would require an additional \$4 million in state dollars.
- Health care inflation in the past decade has been well above the general rate of inflation at about 8 percent per year. The Executive Budget estimates health care inflation to increase Medicaid spending by about 4.5 percent per year. Between 1995 and 2008 state spending for Medicaid increased from \$334 million to \$661 million or at a rate of about 8 percent per year.

- The Medicaid budget estimates a deficit of over \$65 million in 2011 and deficits in 2012 of about \$76 million and 2013 about \$45 million. The Governor expects to use money set aside for OPEB to pay for the 2011 and beyond deficits. This deficit is a troubling aspect of the Medicaid budget given the uncertainty of the economy and tax cuts of the past two years, which may reduce state revenues and make it more difficult to pay for important programs like Medicaid.

State Medicaid Spending (FY 1996-FY 2006)



Source: National Association of State Budget Officers

“We know states are struggling with Medicaid spending and the pressure it puts on other state priorities but Medicaid costs actually grew at a slower rate than private insurance costs. The real problem is rising health care costs and the states ability to pay the bill, and not that Medicaid spending is out of control.”

Diane Rowland, Executive Director, Kaiser Commission on Medicaid and the Uninsured.