

Medicaid Expenses Increase Spending by U.S. States (Update1)

May 3 (Bloomberg) -- U.S. states' revenue and reserves rose for the first time in three years, ending states' worst fiscal crisis since the 1940s, as Medicaid expenses also increased, according to a report on states' \$516 billion of expenditures in fiscal 2004.

States' share of Medicaid rose 4.6 percent as the federal government's share rose 11.7 percent, a report by the National Governor's Association and the National Association of State Budget Officers said today. State expenses for Medicaid, a federal-state program that funds health care for those who cannot afford medical costs, are expected to rise 12.1 percent in fiscal 2005, the report said.

"Medicaid is an incredible budget driver and it's driving out other spending," said Scott Pattison, executive director of the state budget officers' group, in a phone interview. "What happens with Medicaid affects the funding of other things such as higher education."

In response to rising Medicaid costs, states are cutting administrative expenses and spending on roads, prisons and higher education while maintaining public school funding, said Pattison. States are trying to cut costs for medicine, benefits and payments to health care providers.

Over Budget

New York is \$828 million over its fiscal 2004 Medicaid budget, Florida is \$434.9 million over, Pennsylvania is \$110 million over and Maine is \$109 million over, the report said. Vermont, Nebraska, New Mexico, Montana and Wyoming all predict Medicaid costs will rise more than 20 percent in fiscal 2005, the report said.

Minnesota, Michigan, Vermont, New Hampshire, Alaska and Nevada have created a purchasing pool to attempt to negotiate lower prices for prescription drugs, Minnesota announced April 27, saying the pool could cut drug costs by \$11 million a year, or about 5 percent of its cost for medicine.

Costs for Medicaid, which accounts for a fifth of state spending, rose as states kept overall spending increases to 2.8 percent in fiscal year 2004. Governors and fiscal officers surveyed in the report said they projected a 2.8 percent rise in spending this year too.

More People, Higher Costs

Medicaid costs rose because of growing numbers of beneficiaries, rising costs for prescription drugs and increases in reimbursement to hospitals and nursing homes, said Pattison. States' share of the higher Medicaid costs was lower this year because of \$10 billion of one-time grants the federal government awarded that aren't expected for future budgets.

Medicaid enrollment across the country rose 8.8 percent in 2003 and 5.5 percent in 2002, said Raymond Scheppach, executive director of the National Governors Association. Even as 50 states cut or froze payments to providers and put in place policies to control prescription drug costs, 34 cut or restricted eligibility and 35 reduced benefits since 2002, more people become eligible, especially for nursing home care.

"The nursing home expense has been rising dramatically," said Scheppach.

States cut budgets \$4.8 billion in fiscal 2004 to balance spending with revenue, following cuts of \$12.6 billion in fiscal 2002 and \$14.5 billion by 37 states in fiscal 2004, the report said.

Revenue Increases

State revenue increased last year on rising corporate income and sales tax revenue, the report said. States are expected to have \$19.1 billion in reserve when fiscal 2004 ends, which is 3.7 percent of spending. Reserves, which have improved from the 3.4 percent of spending at the end of fiscal 2003, remain below the 5 percent level considered to be "fiscally healthy," the report said. At the end of fiscal 2000, states had \$48.8 billion in reserve, or 10 percent of spending.

During the past four years spending rose an average of 1.9 percent a year, said Scheppach, which is less than one-third of the 6.2 percent average over the past 25 years.

Last week the National Conference of State Legislatures said that rising tax receipts have erased the last \$5 billion of a record \$78.4 billion of deficits reported a year ago. Personal income rose in 18 states and 32 states predicted they would end the year with surpluses.

Fiscal years for 46 states end June 30. Alabama and Michigan's fiscal year ends Sept. 30, New York's ends March 31 and Texas's ends on Aug. 31.

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