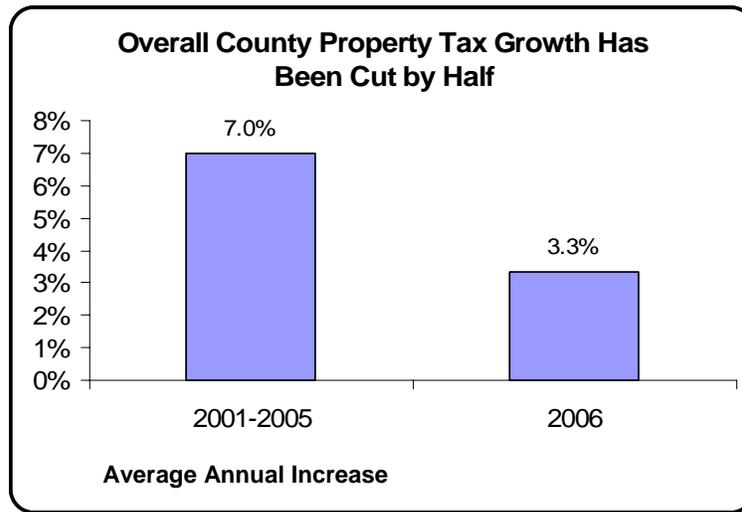


County Medicaid Update

Summary

Medicaid costs have been dramatically rising and have posed a major fiscal problem for county governments for decades. The enactment of a cap on growth in local Medicaid costs last year was a major accomplishment in relieving pressure on local property taxes. New data from the Office of the State Comptroller confirms that county property tax increases for 2006 are moderating.

Total county property taxes are growing at approximately half the rate of the previous 5-year period. The slowdown in property tax growth is occurring in conjunction with the phase-in of the new Medicaid cap, which took effect January 1, 2006. The cap limits the growth of each county's 2006 Medicaid costs to 3.5 percent above 2005 expenditures — a significant change from the double digit spending growth that many counties had been experiencing in recent years.



Background

Generally, Medicaid costs are jointly financed at the federal and state level. In New York State, however, responsibility for the State's 50 percent share is borne by both the State and county governments. New York is one of the few states in the nation that requires a local contribution. As such, Medicaid expenditures pose significant challenges to county budgets and have done so for many years. These challenges are the result of the growing cost of medical care in general, as well as enrollment spikes and program expansions. County officials have long called for State action to alleviate some of that pressure, with little progress. NYSAC had pushed for some type of State Medicaid takeover for decades, and the State assumed an increased share of the long-term care portion of Medicaid in 1983.

In recognition of these mounting concerns, OSC took a closer look at this important issue and in January 2005 released its own analysis of county Medicaid expenditures. The analysis showed

that if county Medicaid expenditures continued to grow at the rate experienced in the previous decade, the additional cost could drive a one-third increase in county property tax levies by 2010. These were sobering findings, especially for those counties already facing Medicaid costs greater than their property tax levies and those approaching constitutional tax limits.

As a result of the growing pressure and the consensus that this problem could no longer be ignored, county concerns were finally recognized with the enactment of legislation last year that caps the growth rate of most county Medicaid expenditures. Under the new cap, county expenditures subject to the cap are limited to specific growth levels over 2005 expenditures. Growth in Medicaid expenditures is capped at 3.5 percent in 2006, 3.25 percent in 2007 and 3.0 percent in 2008 and beyond. In 2008, county governments will have two options. They can either continue to pay a local share for Medicaid at the capped amount which would then grow at no more than 3 percent each year, or choose to eliminate Medicaid from their budgets altogether but allow the State to intercept a portion of local sales tax revenue instead.

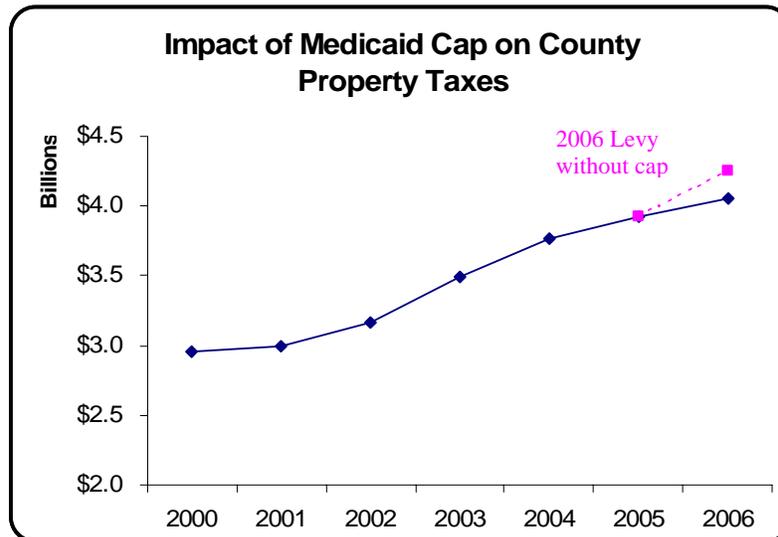
Findings

Preliminary data indicate that, now that the cap has been implemented, county Medicaid spending growth has been moderated. This action has introduced a much needed element of predictability for Medicaid spending and is clearly a positive budgetary development for county governments. The impact of the cap is already evident in the 2006 county tax levy data reported to OSC. Based on our initial review of this data, we have found that:

- Statewide, property taxes for all counties increased by 3.3 percent from 2005 to 2006, compared to the average annual growth of 7.0 percent for the previous 5-year period (from 2001 to 2005).
- More than three-quarters of the counties (49 out of 57) had 2006 property tax levy increases below their 5-year growth trends.
- However, Medicaid costs continue to grow under the cap, increasing by \$66 million in 2006 and representing roughly half of the \$131 million increase in total county property taxes levied this year. This is still a significant burden for local taxpayers.
- Without the cap, counties would have seen their property taxes grow by another \$190 million to nearly \$4.3 billion, or 4.7 percent higher than actual 2006 property tax levies. Instead, statewide property tax levies total \$4.1 billion.
- As a share of their 2006 tax levies, counties received benefits ranging from 12.2 percent (Rockland County) to 0.7 percent (Hamilton County). This is due to variations in county Medicaid costs subject to the cap, its projected Medicaid growth rate and the relative burden that Medicaid costs place on its overall budget and property tax levy.
- The ten counties with the highest levels of Medicaid expenditures subject to the cap account for \$117 million, or 60 percent, of the \$190 million benefit estimated for 2006.¹

¹ These counties are Suffolk, Nassau, Westchester, Erie, Monroe, Onondaga, Orange, Rockland, Albany and Oneida.

- The ten counties with the largest property tax levies account for two-thirds of all property taxes levied in the State (\$2.7 billion out of \$4.1 billion). These counties received \$115 million, or about 60 percent, of the \$190 million Medicaid benefit estimated for 2006.²
- Based on current trends, total benefit for counties will exceed \$550 million by 2008.



While it appears that levy increases have been tempered, it is clear this moderation in growth is dependent on continued implementation of the cap enacted last year. Furthermore, it is also important to recognize that Medicaid costs continue to consume large portions of county budgets and represent the single largest programmatic expense at the State level. Because New York taxpayers shoulder the burden regardless of whether these expenses are paid by counties or the State, efforts to restructure healthcare, control costs and prevent fraud and abuse must remain a priority.

The attached [table](#) shows 2006 property tax levies and Medicaid cap savings by county on a calendar year basis. The property tax levy information was obtained from constitutional tax limit forms filed by counties with the Office of the State Comptroller and/or via telephone confirmation. The Medicaid cap savings were calculated from estimated 2005 county Medicaid expenditures subject to the Medicaid cap, county specific growth trend factors and estimates of savings in Medicare Part D costs. This data is presented on a calendar year basis which reflects the county fiscal year and differs from information presented by the Division of the Budget with the 2006-07 Executive Budget, which reflects the State fiscal year. A reconciliation of estimated and final cap amounts will be completed by the end of 2006.

² These counties are Nassau, Westchester, Suffolk, Monroe, Erie, Onondaga, Orange, Dutchess, Niagara and Albany.