



Highlights of [GAO-09-210T](#), a Statement for the Record for the Committee on Finance, U.S. Senate

Why GAO Did This Study

GAO was asked to provide its views on projected trends in health care costs and their effect on the long-term outlook for state and local governments in the context of the current economic environment. This statement addresses three key points: (1) the state and local government sector's long-term fiscal challenges; (2) rapidly rising health care costs which drive the sector's long-term fiscal difficulties, and (3) the considerations involved in targeting supplemental funds to states through the Medicaid program during economic downturns.

To provide Congress and the public with a broader perspective on our nation's fiscal outlook, GAO previously developed a fiscal model of the state and local sector. This model enables GAO to simulate fiscal outcomes for the sector in the aggregate for several decades into the future. GAO first published the findings from the state and local fiscal model in 2007. This statement includes August 2008 data to update the simulations.

This Committee and others also asked GAO to analyze strategies to help states address increased Medicaid expenditures during economic downturns. GAO simulated the provision of such supplemental assistance to states. As we previously reported, the simulation model adjusts the amount of funding states would receive based on changes in unemployment and spending on Medicaid services.

To view the full product, including the scope and methodology, click on [GAO-09-210T](#). For more information, contact Stanley J. Czerwinski, (202) 512-6806, Czerwinskis@gao.gov.

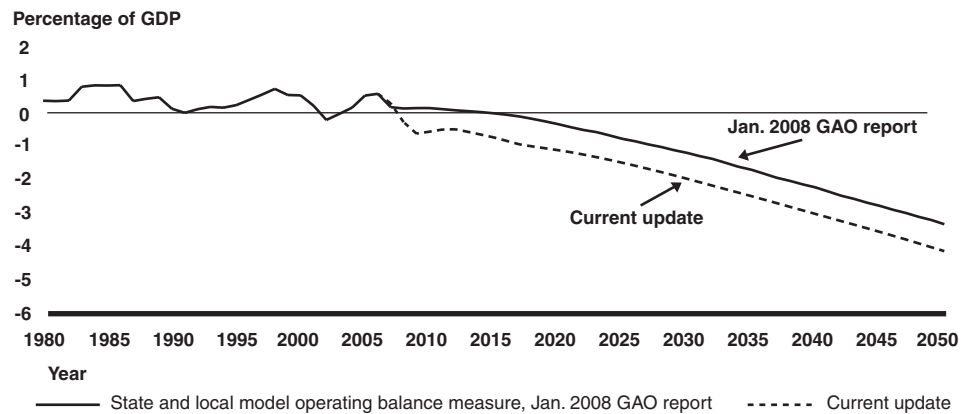
STATE AND LOCAL FISCAL CHALLENGES

Rising Health Care Costs Drive Long-term and Immediate Pressures

What GAO Found

Rapidly rising health care costs are not simply a federal budget problem. Growth in health-related spending also drives the fiscal challenges facing state and local governments. The magnitude of these challenges presents long-term sustainability challenges for all levels of government. The current financial sector turmoil and broader economic conditions add to fiscal and budgetary challenges for these governments as they attempt to remain in balance. States and localities are facing increased demand for services during a period of declining revenues and reduced access to capital. In the midst of these challenges, the federal government continues to rely on this sector for delivery of services such as Medicaid, the joint federal-state health care financing program for certain categories of low-income individuals.

Our model shows that in the aggregate the state and local government sector faces growing fiscal challenges. Incorporation of August 2008 data shows that the position of the sector has worsened since our January 2008 report.



Source: Historical data from National Income and Product Accounts. Historical data from 1980 – 2007. GAO projections from 2008 – 2050 using many CBO projections and assumptions, particularly for the next 10 years. Jan. 2008 GAO Report is GAO-08-317.

The long-term outlook presented by our state and local model is exacerbated by current economic conditions. During economic downturns, states can experience difficulties financing programs such as Medicaid. Downturns result in rising unemployment, which can increase the number of individuals eligible for Medicaid, and declining tax revenues, which can decrease revenue available to fund coverage of additional enrollees. GAO's simulation model to help states respond to these circumstances is based on assumptions under which the existing Medicaid formula would remain unchanged and add a new, separate assistance formula that would operate only during times of economic downturn. Considerations involved in such a strategy could include:

- Timing assistance so that it is delivered as soon as it is needed,
- Targeting assistance according to the extent of each state's downturn,
- Temporarily increasing federal funding so that it turns off when states' economic circumstances sufficiently improve, and
- Triggering so the starting and ending points of assistance respond to indicators of economic distress.