Preserving the Medicaid Cap

Historical Overview and Timeline

New York Implements Medicaid (1966). The federal Medicaid program was signed into law in 1965 by President Lyndon B. Johnson as part of historic legislation also creating the Medicare program of health insurance for all elderly Americans.

Medicaid is jointly funded: the federal government pays about half of the program costs in New York, and the other half comes from nonfederal (State or local) sources. The federal government provides authorization and oversight for Medicaid, but states develop their own plans for administering the program. Federal law grants the states flexibility to raise a portion of the nonfederal share from local governments.

New York was one of the few States in the nation to require county funds to cover the cost of the program, and the only one to require county taxpayers to fund a full half of the State's share. At that time, the federal government paid 50 percent, the State paid 25 percent, and local taxpayers in New York City and the 57 counties paid 25 percent.

In 1966, the county taxpayer share was $112 million. The costs grew quickly, and in the following years, the State gave counties authority to levy a local sales tax to help cover new costs associated with paying for Medicaid (and other social welfare programs the state was requiring counties to provide and fund at the time).
Because local taxpayers funded 25 percent of the program, it was easier for state leaders to expand the program by adopting all options put forth by the federal government. In the next couple of decades, New York State's Medicaid program grew to be the nation's largest, and most complex, state system of healthcare funding and finance.

For decades, a series of Governors, in collaboration with the State Legislature, have created a complicated system of "off-budget" financing to pay for Medicaid. The largest source of this off-budget financing was derived from local property taxes in most counties (New York City uses a different combination of local taxes to support State-mandated Medicaid costs).

Today, New York's Medicaid program is slightly smaller than California's, even though they have nearly twice the population as New York. Today's local share for Medicaid of $7.6 billion is higher than the state contribution of 43 individual states.

Timeline

State Takeover Efforts Rejected (1981). In 1981, the annual local share of Medicaid was already greater than $1 billion. The State proposed a seven-year state takeover of the Medicaid local share. The Assembly passed the Governor's plan, but the Senate rejected it. While the Senate Majority Leader acknowledged that the local share was inappropriate because Medicaid is state-run, leaders could not agree on how to fund a state takeover.

Partial Takeover Success (1983). In 1983, the State proposed a five-year plan wherein the State would bear 90% of the nonfederal share. Again, the Senate blocked the plan, but a deal was reached for the State to take on 90% of Medicaid long-term care costs (primarily nursing homes and home care) to save local taxpayers $429 million in the first year.

At the time, long-term care costs represented nearly half of Medicaid spending. This new policy significantly changed the state's Medicaid financing. By 2004, county taxpayers were paying about 16% of New York's total Medicaid bill, compared to the 25% prior to 1983.

Child Health Plus Enacted (1990). The Child Health Plus program was passed by the New York State Legislature in 1990, and by August of 1991, children began receiving coverage under the program. New York's Child Health Plus is the largest taxpayer-funded child health insurance program in the country.

In 1999, the State expanded Medicaid eligibility significantly under the Health Care Reform Act. Enrollment in Medicaid increased nearly 70% in the ensuing years. As enrollment and costs rose, so did county property taxes to fund the program.

Growth Cap Enacted (2005). By 2005, the local share of Medicaid surpassed $6 billion annually statewide ($4.3 billion in New York City and $1.8 billion in the rest of the state). In 2005, the State agreed to a cap on the local share.

The annual growth of the local share in the first three years (from 2006 through 2008) was capped at 3.5%, 3.25%, and 3% thereafter. Under this growth cap, local costs have continued to rise by $180 million each year automatically. Any cost growth above that level became the fiscal responsibility of the State.

The cap worked. Since 2005, county property taxes have risen at or below the rate of inflation.

Freezing Local Growth (2012). In 2011, Governor Andrew Cuomo took office and implemented a 2% property tax cap. To help counties and local governments adhere to the 2% property tax cap, Governor Cuomo and state lawmakers enacted two mandate relief measures: A zero-growth Medicaid cap, enacted in 2012, and a new pension tier to rein in state and local retirement costs.

Over the next three years, annual growth was reduced from 3% to 0% in 2015. Annually, thereafter, each local district's Medicaid local share could not exceed the 2015 level of $7.6 billion. All nonfederal costs above the frozen amount are now paid for by the State.

This most recent cap helped counties stabilize and, in several cases, reduce county property tax rate levies.

For more information, visit www.nysac.org/medicaid or call 518-465-1473 to speak to Dave Lucas, NYSAC Director of Finance and Intergovernmental Affairs.