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Significant Side Effects:
The Economic Impacts of Health Care Cuts in California Communities

Executive Summary

To address a $17.2 billion budget shortfall California policymakers are considering billions in budget cuts, including a reduction of nearly $1 billion from health programs for low- and middle-income Californians.

While there has been some analysis of the impacts of these cuts on care and coverage, **this paper attempts to detail and quantify the significant economic impacts of the proposed health care cuts**, such as those proposed by the Governor's May Revise.

State health care cuts, combined with lost federal matching funds and the resulting ripple effect on economic activity, would have significant negative economic impacts, including lost wages and jobs in every county in California. Additionally, as the proposed health cuts could lead to one million additional Californians being denied coverage[i], there would also be **a loss in worker productivity and families' financial security and stability, as well as increased health insurance premiums.**

Alternatively, the Conference Committee budget proposes an upper income tax bracket, which would raise $5.6 billion to prevent many cuts, including some—but not all—of the proposed health care cuts. This paper shows how, due to federal tax deductions and matching Medicaid dollars, **preserving California's health care budget would have *<u>three times the positive economic impact</u>* as preventing an equivalent amount of increased taxes for upper income Californians.** Given these options, the choice that best helps the state's economic health is clear.

This report also quantifies how the health care cuts in the Governor's budget would result in:

- **<u>$1.5 Billion in Lost Federal Funds</u>:** For every state dollar invested in health care coverage programs, the federal government gives California at least one dollar and sometimes more. If California's investment in health care programs is cut by more than $800 million, as proposed in the May Revision, then the state is forfeiting more than $800 million in federal matching funds--needed cash that would be sent to the economies of other states. The May Revise would result in nearly one billion in lost federal dollars in the first year. In subsequent years, once the cuts have been fully implemented, the amount of federal dollars lost could grow to nearly $1.5 billion annually.

- **$2.1 Billion in Total Lost Business Activity:** The 2008-09 cuts to health care, plus the loss of additional federal funds, would result in more than $2.1 billion in lost business activity. This includes a "multiplier effect,'' a calculation that includes the impact these dollars have on economic activity: A multiplier effect is the idea that initial spending – such as additional federal funds – can lead to an even more spending because it becomes wages, income and revenues, which leads to more economic activity: for example, a nurse who gets paid then uses those dollars to spend, which in turn gets spent through the community.

- **$740 Million in Lost Wages and Job Loss in the Thousands:** Using this methodology, the paper calculates that the cuts in the health care sector would result in more than $740 million in lost wages and nearly 16,500 fewer jobs. Fewer dollars funding the health care sector means providers may close or scale back services. Other health care-related businesses which may see a shrinking market for their goods and services would also need to shed jobs.

Additionally, because the May Revise budget would lead to greater numbers of uninsured, effects would also include:

- **Lost Productivity:** The state's budget cuts would shrink existing public health insurance programs and leave more than one million additional Californians uninsured. Countless studies have shown the uninsured live sicker and die younger. Sick workers are not only less productive, but they also infect their coworkers and colleagues, leading to a sicker and less productive workforce.[ii]

- **Destabilization of Family Finances:** Many of the low-income working families in danger of Medi-Cal or Healthy Families health coverage could wind up with significant medical debt should they need that medical coverage. A nationwide study reveals that medical problems and medical debt is a factor in half of all bankruptcies.[iii]

- **Increased Premiums:** A companion paper shows that that the May Revise budget – by increasing the number of uninsured and underinsured – would result in a "cost shift" that could increase private health insurance premiums. More uninsured patients means higher levels of uncompensated health care services, which in turn means doctors and hospitals would bill privately insured patients more to make up the difference. Because the May Revise budget leaves at least one million more Californians uninsured, and another 3.5 million underinsured, it is estimated that this shift would increase by $290 per enrollee per year.

California's Budget Debate: What the State Stands to Lose

As in many states, the nation's economic woes have been a topic of discussion into California's state budget debate. The state faces a $17.2 billion -- and growing – budget gap. The May Revise budget proposal raises $8 billion in revenues through more borrowing – borrowing against the state lottery and deficit bonds. But the primary mode of balancing the budget has been to cut billions – nearly $1 billion in health care program alone. Even Republican lawmakers who have staunchly opposed raising revenues via tax have agreed that the budget cannot be cut further. [iv]

In a previous Health Access report, the potential health impacts as a result of these cuts, is estimated at more than one million additional Californians without health insurance and another 3.5 million forced to pay more and/or receive less for care. In this paper, we go further to note that cuts to health care services would inflict severe and quantifiable pain to California's economy as well.

Should the May Revise budget pass, California stands to lose:

- Nearly $1 billion from the federal government in matching funds for Medicaid and other health programs, and up to $1.5 billion in federal matching funds in future years.
- $2.1 billion in total business activity total in the first year, which includes $740 million in lost salaries and wages.
- Additional $290-a-year increase in privately paid health insurance
- 16,500 jobs

And lastly, reduced spending for health programs would not protect Californians from higher financial burdens. Many consumers would wind up paying more anyway -- in higher insurance premiums.

The Choice: Health Cuts Have Three Times the Economic Impact as an Upper-Income Tax Increase

The economic impact of the May Revision budget begins with cuts to programs such as Medicaid (California's Medi-Cal) and the State Children's Health Insurance Program (California's Healthy Families), which together insure about 6.7 million low-income families – largely children. The budget also cuts funding to hospitals and providers who take care of this population, and another 5 million Californians who do not have insurance and are largely low- to moderate-income families. All told, cuts to health services for the low- and moderate-income Californians total nearly $1 billion.

Programs such as Medi-Cal and Healthy Families have a positive economic impact on the state's economy by pulling down federal matching dollars. In Medi-Cal, for every $1 the state spends, it receives $1 from the federal government. In Healthy Families, the return is even greater; for every $1 spent, the state receives $2 in federal matching funds. To the extent that California does not invest in its Medi-Cal, Healthy Families, and safety net programs as proposed under the May Revise budget, it would lose nearly $1 billion in federal dollars, doubling the actual impact of the cut on the health system.

By contrast, preventing an upper income tax bracket increase of the same amount of money has much less of an economic impact, due to the offsetting of federal tax deductions.

If an upper income tax bracket were to proceed imposing an additional $1 billion in state taxes on higher income taxpayers, these Californians would ultimately pay less than two-thirds of the collective $1 billion tax. That is because taxpayers subject to the higher bracket would be able to deduct their higher California state taxes from their federal taxes. This population is, by definition, in the highest federal tax bracket – 35 percent of income – they would receive approximately 35 cents of every additional dollar paid in state income taxes back when they file their returns. Figure 1 contrasts the losses to the state if health cuts are made, versus the additional amount paid by upper income Californians, should an equivalent amount of be raised through taxes.

Figure 1

	Health Cuts	Upper Income Tax Bracket
State/taxpayers	- $1 billion state funds	- $1 billion income taxpayers pay to state
Federal Dollars	- $1 billion federal matching funds	+ $350 million returned to taxpayers from federal government in form of itemized deduction of state taxes paid
TOTAL	- $2 billion	- $650 million

In short, investing in health care and **preventing the health care cuts has three times the positive economic impact than a preventing a tax on upper-income Californians.** For Californian policymakers this is the stark choice presented in the current budget debate, between raising revenues like the upper tax bracket (which is offset by federal tax deductions) to prevent health care cuts (which will then bring in additional federal matching funds), or the reverse (where the opportunity for those federal funds is lost.)

This figure does not include secondary economic impacts: either health care businesses or upper-income people moving as a result of cuts or taxes, although one can consider that any such effects would cancel one another out.

Lost Federal Funds: Every Dollar Cut by California is Two Dollars Cut to Our Health System and Our Economy

Federal matching dollars that do not go to California are not saved for the future: they go to other states. As it stands now, for every one dollar California citizens pay in taxes, the state receives 79 cents in return. Figure 2 shows what the state loses in federal dollars for every program where spending will be reduced.

The estimate below reflects only 2008-09 dollars lost. Estimates from the Department of Finance reflect only part of the first year. In future years, the loss of federal funds would be far greater as the state will be providing fewer services to fewer people. By 2011-12, the anticipated losses of federal funds would climb to nearly $1.5 billion once the cuts – denying low-income working adults health coverage, and allowing otherwise qualified children and adults to “fall off’’ Medi-Cal rolls – are fully implemented.

Figure 2

Budget proposal	**State Dollars not spent**	**Federal dollars lost**	**Total not spent per program**
Deny low-income working parents, earning wages between $11,000 and $18,000 a year, Medi-Cal coverage. Would result in 439,000 adults losing coverage.	$31.2 million*	$31.2 million	$62.4 million
Imposes paperwork burdens on children and adults on Medi-Cal, designed to reduce enrollment. Would result in 471,500 children losing coverage.	$43 million**	$43 million	$86 million
Increases Healthy Family premiums for families between 151 to 250 percent of poverty level. Would result in approximately 60,000 children losing coverage.	$22.4 million	$40.7 million	$63.1 million
Eliminates dental benefits for adults on Medi-Cal.	$73.8 million	$73.8 million	$147.6 million
Eliminates nine benefits for adults on Medi-Cal, such as access to a podiatrist, optometrist, eyeglasses, psychologist and incontinence creams and washes	$11.6 million	$11.6 million	$23.2 million
Caps dental coverage for children on Healthy Families	$6.3 million	$11.4 million	$17.7 million
Increases Healthy Families copayments for "non-preventive" services	$3.4 million	$6.2 million	$9.6 million
Reduces reimbursement to Medi-Cal providers	$614 million	$615 million	$1.22 billion
Reduces private hospital funding	$24 million	$23.3 million	$47.3 million
TOTAL not spent per entity	**$829.7 million**	**$856.2 million**	**$1.69 billion cut from health care sector**

*Savings from this reduction would be phased in and increase to $342.5 million in 2011-12.[v] That means losses from federal matching funds are expected to increase to approximately $342.5 million in that year also.
**Savings from this reduction would not be fully realized for approximately three years, when 471,500 children lose coverage. Based on an analysis of Department of Health Care Services figures[vi], full-year savings once the program is fully implemented would be approximately $356.4 million. That means an equivalent amount lost in federal matching funds.

The financial impacts suffered by the programs themselves would be twofold or threefold – depending on the rate of the federal government match. Such a cut would decimate established programs, such as Medi-Cal's dental benefits for adults. In eliminating funding for the program would mean losing all the dentists currently providing services under this program. Rebuilding the programs to current levels would take years and money, erasing any temporary savings advantages achieved through the proposed 2008-09 May Revise budget.

Cutting Medi-Cal Dollars Has Ripple Effects Throughout the California Economy

Beyond investment in specific public programs, failure to invest in Medi-Cal programs and the subsequent loss of nearly $1 billion in federal funds means that certain health care spending would simply not occur and would need to be made up elsewhere.

Job-Killing Cuts

The loss of $1.7 billion – in state and federal funds -- in the health sector means fewer jobs. According to modeling done by health policy analysts Ella Hushagen and Beth Wikler for Families USA, a national health advocacy organization, the reduction of more than $1 billion in federal funds for California would mean a total of 16,461 jobs lost, totaling $740 million in lost salaries.[vii] Wikler and Hushagan's research, analyzed regional data for California from the Bureau of Economic Analysis, which provides multipliers for three areas of the health industry – ambulatory health care services, hospital, nursing and residential care facilities and social assistance.

Reverberations from budget cuts are already being felt. Because of the state's significant budget shortfall, lawmakers and the governor took early action that cut the payments of providers who cared for Medi-Cal recipients by 10 percent beginning July 1. Along with that pay cut is the loss of federal funds.

On July 2, 2008, 100 employees at the Children's Hospital of Oakland became the first casualties of California's budget cuts. That pay cut was directly blamed for the layoffs at the Oakland children's hospitals. Among the terminated employees were three physicians, including the medical director.[viii]

Even though the Legislative Conference Committee has so far approved a budget that would substantially restore the rate reductions beginning September 1, the full Legislature has yet to approve the higher reimbursement amounts *and* the higher rates are contingent upon additional revenues in the Conference Committee budget.

All told, the reductions in Medi-Cal rate reimbursements are just one piece of the puzzle. Fewer dollars going into the health sector means lost job opportunities and reduced salaries. We will later address how this translates into reduced spending in this sector and in the overall economy.

Local Impacts: Every County's Economy Impacted by Health Cuts

On a local level, the devastation is even more acute and is already being felt. In late July, the state froze Medi-Cal payments to healthcare clinics, nursing homes and adult day care centers. The California Primary Care Association, which represents 600 clinics statewide, estimates that their clinics will collectively lose $1,500 a minute; $90,000 an hour, $2 million a day[ix], jeopardizing their ability to care for 3.6 million patients annually and keep their doors open.

One clinic near the Capitol has already closed. The Knights Landing Clinic in Yolo County, which served about 400 patients a year, shuttered its doors August 8. The loss of this clinic means patients – mainly farm workers and their children, and who are low-income, for whom transportation and high prices is an issue – will have to travel 10 miles to Woodland in order to get the same services. [x] In Napa, citing budget cuts among other reasons, Queen of the Valley Medical Center intends to lay off nearly five percent of its workforce (81 employees) and reduce the hours of nine others by the end of August 2008. Additionally, the hospital will close its 12-bed skilled nursing unit and move patients to other locations.[xi]

Not Just the Health Care Sector: Overall Economic Impacts

The loss of state and federal investment in the health care sector would eventually impact California's overall economy to the tune of nearly $2.1 billion in economic activity.[xii]

The dominoes begin falling with lost jobs and lost wages, which translates into less disposable income for workers in the health-related fields. Less investment in health care industry means vendors, providers and others in that sector also have less disposable income. Less disposable income means there would be less spending by workers touched by these cuts in the overall economy.

Additional Uninsured, Additional Uncertainty

Finally, the cuts would have a destabilizing impact on families who are laid off, whose hours are reduced, who lose health coverage and become uninsured. Sixty percent of the uninsured have outstanding medical bills or medical debt; 28 percent had to change something in their lives in order to make those payments. [xiii]

Outside of the health sector, economic reverberations are also felt. By shrinking the availability of public programs and increasing the number of workers who are uninsured, the May Revise does the opposite to stimulate the economy. According to a Harvard University study in 2007, Medicaid (Medi-Cal) expansions – such as a proposal to expand eligibility to 300 percent of poverty ($52,800 for a family of three) – would increase jobs, shift part-time workers to full-time and increase work hours. [xiv] Logically, this means workers with health coverage who are earning more money have more buying power. Lower income workers tend to spend a higher amount of the money they have earned because their income does not fully cover their basic expenses.[xv]

The May Revision's health budget also further destabilizes California's economy by leaving one million additional Californians uninsured, and another 3.5 million underinsured and having to pay more for health services. Academic literature has shown that the uninsured and underinsured seek half as much care as those who are insured. When they seek care, it is more expensive and acute care, rather than preventive care. When uninsured and underinsured workers do not go to the doctor because they cannot afford the doctors visit, they are more likely to take more days off work because they end up getting sicker later, compared with workers who see a doctor when they first become sick.[xvi] Additionally uninsured and underinsured workers who continue to go to work when they are sick risk infecting their colleagues, and are not as productive and cannot concentrate on their jobs because they do not feel well. The

Commonwealth Fund estimates that the nation loses $185 billion annually because of its workers' health problems. [xvi]

Education Impacts

Local schools would also feel a pinch. An additional 531,500 children would be left uninsured under the governor's budget. Children, who are uninsured, would get sick more often and miss more days of school because they do not have access to a regular doctor. In California, children enrolled in local Healthy Kids programs missed fewer school days than kids who were not enrolled. [xvii] Ear infections, toothaches and asthma, are treatable or preventable ailments become disruptive and painful for young children.[xviii] Asthma, in fact, has become the biggest cause of school absence, particularly among low-income children who do not have access to regular primary care. Asthma sufferers need to see a physician regularly, take medication and have an asthma management plan. Low-income children with asthma are 40 percent *less likely* to have seen a physician within the past year, yet 40 percent *more likely* to have been hospitalized. [xix] In 2005, asthma accounted for 1.9 million missed schooldays.[xx] Absences lower a school's average daily attendance rate – the calculation that is used, in part, to determine how much state money a school will receive.

Increased Premiums

At a time when Californians can least afford it, the May Revision cuts would also mean consumers would wind up paying more. The budget sharply reduces public programs, and is expected to increase the number of uninsured by one million and cause another 3.5 million low-income Californians to suffer drastically reduced benefits.[xxi]

More uninsured and underinsured low-income patients means that medical providers would end up treating more patients who do not have the ability to pay for services. Providers would need to make that money up somewhere, so they – in turn – would shift the costs to paying patients – those with private health insurance. As detailed in "Adverse Reaction: Proposed Health Budget Cuts Would Lead to Increased Premiums,'' health policy expert Peter Harbage notes that adding to the number of uninsured would mean an extra $280 a year in premiums for consumers with private insurance. [xxii] This increase comes on top of an existing cost shift of $1,186 a year that consumers of private health coverage already experience, according to a previous report, "A Premium Price,'' by Harbage at the New America Foundation.[xxiii]

The shift in costs to privately insured consumers does not take into account additional cost shifting caused by the reduction in reimbursement rates to providers who care for patients with Medi-Cal. As of July 1, 2008, rates for all Medi-Cal providers were reduced by 10 percent. Again, while the Legislature has largely restored these cuts in their Conference Committee budget, those increases are contingent upon additional revenues.

Conclusion: A Choice for California

During significant budget crises in the past, the Legislature and governors have worked together and balanced taxes against cuts. In 1967, newly elected Republican Gov. Ronald Reagan facing a $2 billion deficit, increased taxes by $1 billion -- $6 billion in 2008 dollars – raising banking and personal income taxes, and nearly doubling corporate taxes.[xxiv] Republican Gov. Pete Wilson also took a balanced approach when confronted with a $14 billion deficit, and raised more than $7 billion in taxes, including increased personal income taxes for higher income Californians.

The argument opponents have used against taxes is that they would harm an already weak economy: that they would prevent business investment, curb business activities, and result in lost wages, lost job opportunities, and cause consumers to pay more.

These arguments, however, fail to take into account the equal or greater economic impact of cuts to vital services, including public health programs, such as Medi-Cal and Healthy Families fund. The inability of the State of California -- a large employer and investor in the economy -- to fund and invest in its health programs further destabilizes an already feeble economy.

Even though the Legislature has crafted a Conference Committee budget that rejects many elements of the May Revise proposal, particularly many of his severe cuts, the Conference Committee report – which includes an additional $8.2 billion in increased taxes – has not at this date garnered the two-thirds votes needed to pass. Without additional revenues in the Conference Committee report to help pay for vital programs that were partially restored, the cut could be reopened in negotiations.

Funding important health programs like Medi-Cal and Healthy Families would give California the economic jolt it needs, by funneling in nearly $1 billion from the federal government, promoting healthy work environments and healthy spending in the economy. The extra infusion from the federal government makes the preservation of the health services budget three times more beneficial – economically speaking – than preventing a dollar-for-dollar increase in income taxes for higher income Californians.

The choice that helps provide health care to California families is the same choice that helps the health of California's economy.

ABOUT THE AUTHORS AND THE HEALTH ACCESS FOUNDATION

The authors of this report are Hanh Kim Quach and Anthony Wright, who are the policy coordinator and the executive director, respectively, of the Health Access Foundation, the statewide health care consumer advocacy organization. They also co-wrote an earlier report, "Not Just a One Time Cut: Permanent Policy Changes in Governor's Budget Would Deny Coverage to More Than One Million Californians."

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APPENDIX I.

County-by-County Breakdown[1] of Lost Business Activity, Lost Wages, and Lost Jobs as a result of Health Budget Cuts in May Revision Budget

	State Dollars Lost[2]	Total State and Federal Dollars lost[3]	Total Lost Business Activity	Lost Wages	Lost Jobs
Alameda	$23,638,936	$47,605,022	$60,376,721	$21,275,607	474
Alpine	$21,968	$43,758	$57,644	$20,313	0
Amador	$415,905	$839,228	$1,056,979	$372,459	8
Butte	$4,870,066	$9,802,834	$12,453,698	$4,388,446	98
Calaveras	$549,003	$1,112,323	$1,380,833	$486,579	11
Colusa	$701,294	$1,441,773	$1,697,350	$598,114	13
Contra Costa	$13,470,071	$27,158,738	$34,301,775	$12,087,292	270
Del Norte	$649,140	$1,306,421	$1,660,668	$585,188	13
El Dorado	$1,914,594	$3,894,146	$4,767,673	$1,680,037	37
Fresno	$31,818,469	$63,967,921	$81,616,394	$28,760,063	641
Glenn	$885,527	$1,801,419	$2,204,092	$776,680	17
Humboldt	$2,794,825	$5,654,312	$7,055,611	$2,486,263	55
Imperial	$5,471,356	$11,046,767	$13,884,314	$4,892,568	109
Inyo	$407,588	$820,251	$1,042,830	$367,473	8
Kern	$24,309,468	$49,135,817	$61,514,926	$21,676,688	483
Kings	$3,936,848	$7,957,977	$9,960,338	$3,509,833	78
Lake	$1,562,952	$3,159,511	$3,953,846	$1,393,260	31
Lassen	$515,307	$1,032,572	$1,332,622	$469,590	10
Los Angeles	$310,266,967	$624,009,008	$795,066,283	$280,166,214	6,247
Madera	$4,911,474	$9,910,063	$12,483,568	$4,398,971	98
Marin	$2,362,631	$4,785,180	$5,947,800	$2,095,891	47
Mariposa	$275,807	$555,971	$702,731	$247,629	6
Mendocino	$2,480,840	$5,005,148	$6,307,288	$2,222,568	50
Merced	$8,142,541	$16,473,882	$20,554,759	$7,243,105	162
Modoc	$241,430	$485,002	$620,458	$218,637	5
Mono	$189,566	$388,989	$461,151	$162,501	4
Monterey	$10,721,224	$21,908,992	$26,370,502	$9,292,463	207
Napa	$1,861,061	$3,807,753	$4,562,775	$1,607,835	36
Nevada	$1,102,327	$2,260,355	$2,686,729	$946,752	21
Orange	$53,624,261	$109,138,397	$133,309,328	$46,975,668	1,047
Placer	$2,946,509	$5,986,992	$7,356,407	$2,592,258	58
Plumas	$275,342	$557,295	$694,347	$244,675	5
Riverside	$38,326,812	$78,466,945	$93,807,550	$33,055,994	737
Sacramento	$27,181,387	$54,871,098	$69,003,914	$24,315,665	542
San Benito	$1,094,723	$2,235,154	$2,698,782	$950,999	21
San Bernardino	$41,933,964	$85,407,700	$104,050,343	$36,665,359	818

[1] Estimates are based on the proportion of Medi-Cal recipients in each county multiplied by the impacts calculated by FamiliesUSA California-specific Medicaid Calculator. http://www.familiesusa.org/issues/medicaid/other/medicaid-calculator/medicaid-calculator.html?state=California

[2] Estimates are based on proportion of Medi-Cal recipients and Healthy Families enrollees in each county multiplied by the amount of the state general fund reduction.

[3] Estimates are based on proportion of Medi-Cal recipients and Healthy Families enrollees in each county multiplied by the amount of total state and federal funds lost.

San Diego	$42,026,073	$85,796,985	$103,636,880	$36,519,662	814
San Francisco	$12,456,319	$25,124,452	$31,689,460	$11,166,762	249
San Joaquin	$15,892,387	$32,213,739	$39,925,722	$14,069,064	314
San Luis Obispo	$3,831,491	$7,774,694	$9,599,278	$3,382,603	75
San Mateo	$8,981,123	$18,163,344	$22,694,395	$7,997,072	178
Santa Barbara	$9,668,917	$19,544,711	$24,463,014	$8,620,300	192
Santa Clara	$29,214,610	$58,992,982	$74,110,113	$26,114,992	582
Santa Cruz	$5,274,757	$10,669,086	$13,324,120	$4,695,166	105
Shasta	$3,538,762	$7,169,259	$8,902,311	$3,137,005	70
Sierra	$48,946	$98,992	$123,672	$43,580	1
Siskiyou	$951,801	$1,917,439	$2,428,903	$855,899	19
Solano	$6,600,036	$13,287,009	$16,871,315	$5,945,130	133
Sonoma	$6,858,988	$13,989,273	$16,957,257	$5,975,414	133
Stanislaus	$13,747,479	$27,743,250	$34,927,998	$12,307,961	274
Sutter	$2,466,912	$5,015,806	$6,148,506	$2,166,616	48
Tehama	$1,566,556	$3,162,581	$3,976,379	$1,401,200	31
Trinity	$281,416	$568,142	$714,260	$251,692	6
Tulare	$18,428,239	$37,082,431	$47,160,552	$16,618,480	371
Tuolumne	$742,479	$1,507,548	$1,857,181	$654,435	15
Ventura	$16,093,918	$32,610,411	$40,469,670	$14,260,741	318
Yolo	$3,294,267	$6,668,548	$8,304,387	$2,926,308	65
Yuba	$1,862,340	$3,764,604	$4,711,601	$1,660,278	37
TOTAL	$829,700,000	$1,676,900,000	$2,100,000,000	$740,000,000	16,500

APPENDIX II: **Medicaid Multiplier Effect Methodology**

Based on an analysis by Health Policy Analysts Ella Hushagen and Beth Wikler

The Health Access Foundation relies on a Bureau of Economic Analysis model, adapted by the national consumer group Families USA. In order to measure and quantify the role of Medicaid in state economies, Families USA conducted an economic input-output analysis of the state-level impact of the Medicaid program on the economies of all 50 states, including California. Our analysis is based on the work of Richard Clinch, Director of Economic Research at the Jacob France Institute of the Merrick School of Business at the University of Baltimore, whom we originally retained to perform the analysis in 2004.

This economic input-output analysis is based on the most recently updated Regional Input-Output Modeling System (RIMS II) economic model created by the U.S. Department of Commerce, Bureau of Economic Analysis (October 2007). The RIMS II model is built on Department of Commerce data that show the relationships among nearly 500 industries in the economy. These relationships are adjusted and updated to reflect a state economy's current industrial structure; trading patterns; and wage, salary, and personal income data.

Programs such as Medicaid have an economic impact by pulling in federal dollars, which promote new spending that would otherwise not exist in a state. A new source of spending from outside a state creates a larger impact on a state economy than the amount of new spending alone through what economists call "multiplier effects." An economic multiplier quantifies the total impact on a state economy of successive rounds of spending that occur as the new spending is earned by state businesses and residents who then spend these earnings on purchases from other state firms or residents, who in turn make other purchases, creating successive rounds of earnings and purchases. These multiplier effects are measured by the RIMS II economic model. The RIMS II model allows economists to estimate three economic impacts:

1. **Economic output**, or the value of goods and services produced in the state;
2. **Employment**, or the number of jobs in the state; and
3. **Employee earnings**, or the wage and salary income associated with the affected jobs.

In fiscal year 2008, the federal match for Medicaid will range from $1.00 for every $1.00 of state Medicaid spending (in 13 states) to $3.22 for every $1.00 of state Medicaid spending (in one state). This federal spending represents a new source of funding to a state's economy because it supports health care expenditures that would otherwise not occur or that would need to be taken from other sources of spending. The way that a state changes its Medicaid budget affects the total level of federal Medicaid matching funds that will flow into the state: When a state increases its Medicaid spending, it gains federal matching dollars; when it decreases Medicaid spending, it loses matching dollars. Because the level of state Medicaid spending determines the amount of this federal support, changes in state Medicaid budgets can have a significant impact on the overall level of health care spending and related health care-sector employment and earnings. Furthermore, these changes in spending influence the broader economy through the multiplier effects discussed above.

Relative to other kinds of state spending, spending on Medicaid is especially beneficial to the state's economy. This economic advantage derives from the federal match. Medicaid has a *net* positive economic impact when compared to state spending on other programs because it pulls a large infusion of new dollars into the economy from outside the state. The magnitude of this unique net positive impact on a state's economy differs from state to state based on both the size of the state's federal matching rate and the state's economic multipliers (which reflect economic conditions in the state).

The economic impact of estimated state Medicaid spending in fiscal year 2008 and the economic impact multipliers for fiscal year 2008 are based on *federal* fiscal year 2008. All references in the report to fiscal year 2008 refer to the federal fiscal year that begins on October 1 of the preceding year—in this case, October 1, 2007.

The fiscal year 2008 economic impact multipliers presented in this calculator can be applied to changes in state Medicaid spending to calculate the economic impact on any state's 2008 fiscal year. These multipliers can also be used to estimate the economic impact of changes in state fiscal years 2009 and 2010, since the federal matching rate and the economic conditions of the state do not usually change dramatically over several months or even over a period of one or two years.

The Economic Impact of Estimated Fiscal Year 2008 State Medicaid Spending

The first analysis measures the economic impact of state Medicaid spending in fiscal year 2008. We obtained fiscal year 2008 data on estimated state and federal Medicaid expenditures from the CMS-37 reports collected by the Centers for Medicare and Medicaid Services (CMS), U. S. Department of Health and Human Services. We derived the economic impact multipliers for state Medicaid spending in four steps:

1. The Bureau of Economic Analysis provides three RIMS II health care industry multipliers for different types of spending (rather than a single, aggregated health care industry multiplier):

- Ambulatory health care services,
- Hospital and nursing and residential care facilities, and
- Social assistance.

Using CMS-37 report expenditure data, we categorized each state's specific Medicaid spending as either ambulatory, hospital, nursing and residential care, or social assistance according to the North American Industry Classification System (NAICS) definitions of those industries. Based on each state's expenditure breakdown, we derived a weighted average health care industries multiplier for each state.

2. The next step was the development of a state-specific federal matching multiplier based on CMS-37 report expenditure data that reflected the total amount of actual federal matching funds received by the state for each dollar of state funds spent. We calculated actual federal matching rates by dividing the level of federal Medicaid assistance *and* administrative payments by the level of state Medicaid assistance *and* administrative spending to derive the average number of federal matching dollars generated for each dollar spent by the state government. We then derived the state-specific federal matching multiplier using the following formula: (1 / (1 – Federal Medical Assistance Percentage) – 1). This multiplier measures the estimated federal dollars that will flow into the state for every state dollar spent on Medicaid in fiscal year 2008.

3. Then, for each state, we derived a total economic impact multiplier for Medicaid spending by combining the state-specific federal matching multiplier with the appropriate state-specific weighted health care economic multipliers.

4. The economic impact multipliers that we derived for each state calculate the impact on business activity and wages in 2005 dollars. However, the CMS expenditure data for fiscal year 2008 must be adjusted to 2005 dollars to derive the economic impact multiplier for jobs. Deflators exist for the three health care industries (ambulatory health care services, hospital and nursing and residential care facilities, and social assistance). Based on the spending breakdown we arrived at by analyzing the fiscal year 2008 CMS-37 Medicaid expenditure data, we derived weighted deflators for each state. We applied the deflators to the economic impact multipliers measuring the relationship between health care spending and jobs.

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