

WV CHILDREN & FAMILIES FUNDING STUDY

Public Expenditure Trends Update

July 2006

Division of Criminal Justice Services / Department of Military Affairs & Public Safety / State of West Virginia

Background and Introduction

The following report provides an annual update on trends in state and federal expenditures that support services to children and families in West Virginia. The 2006 report analyzes trends in public expenditures beginning in fiscal year 1999 through state fiscal year 2004 (June 30, 2004).

This ongoing project to monitor the level of expenditures through major funding streams was begun in 2001. An initial report was released in April of 2003 titled *The Big Picture*. This initial report provided an analysis over a three year period (FY1999 through FY2001) of state and federal funds passing through state government agencies. The analysis was organized according to major functions of state government rather than by state spending units (departments, bureaus, and offices). The functional categories selected in 2002 allow for analysis of state and federal public investments in the children and families of West Virginia in six major areas. Four of these areas make up the major service systems supported by state government. These are:

- Education
- Health Care
- Economic Support
- Safety & Family Stability

The other two functional categories address economic and community development:

- Economic Development
- Community Capacity Building

Almost all (98%) of the funding identified in the initial study is spent on services in the four major service systems (Education, Health Care, Economic Support, and Safety and Family Stability). Fifty percent of total expenditures

support education services. Most (80%) of the remaining non-education expenditures are made available through federal programs. The largest federal investment by far is Medicaid funding made available to the state to provide health related services to children and needy adults. The state must appropriate a certain level of matching funds in order to tap federal Medicaid funding¹ and some other federal programs require state matching at various levels as well. Much of the available state funding for non-education expenditures is required to match the federal funding available to the state.

The Big Picture Report also provided “funding maps” of the major service systems within West Virginia and provided analysis of three year trends in spending (FY1999 through FY2001)². Information available in the 2003 report and updates published since 2003 will not be repeated here. This report provides an update of the expenditure data available through 2004 and analyzes trends in state and federal spending over a six year period (FY1999 through FY2004).

Occasionally, new federal or state funding streams are established that fall within the six functional categories described above or a previously available stream may be eliminated. In such cases, the changes in funding levels and expenditures are taken into account in order to provide for a reasonably accurate accounting of public expenditures by functional area and sub categories of spending. Care is taken in each annual trends update to track the level of public expenditures over time in order to draw conclusions about changing policy priorities and funding levels.

The reader is urged to review *The Big Picture* report for background and a detailed analysis of each functional service system. If the reader is not familiar with the 2003 report, he or she may find it useful to review that report as well as the 2005 trends analysis prior to reading this update. Details on the various types of public funds available to the state, the methodology used to calculate expenditures, and useful information about source documents and methodology can be found in the 2003 report³. Previous reports can be downloaded and reviewed at the funding study website located at www.preynet.org/fundingstudy/.

General Trends in Expenditures

Expenditures of public funds within West Virginia increase each year. Increasing expenditures in real dollar terms are to be expected over time given consistently rising costs of goods and services due to the general inflation within the economy. During state fiscal year 2004 however, the expected trend of increasing expenditures within all functional service categories was countered by several factors. The most significant factor mediating increasing spending was the Medicaid expenditures reported for the state fiscal year. Medicaid expenditures for some categories of services included in the funding study analysis were significantly less than the levels of the preceding fiscal year. This affected the total expenditures in the areas of health care, early care and education, and behavioral health as well as some other areas to a lesser extent. For purposes of consistency from one year to the next the data on Medicaid expenditures reflected in this report are based on reports provided by the state Medicaid agency covering the period of the state fiscal year 2004⁴.

Another issue mediating the general upward trend in state dollar expenditures within the service systems included in the report was multiple cuts in state spending during the 2004 state fiscal year. The Governor ordered two reductions in state spending during the year due to lower than expected tax collections and anticipated budget shortfalls.

Total expenditures in “real” dollars decreased from FY2003 to FY2004 by about \$130 Million. This is largely due to a reduced level of expenditures within the Medicaid funded services reflected in the September 18, 2004 HCFA 2082 report used as the source document for Medicaid expenditure information⁵. Total state and federal expenditures increased over the six year period for which data has been compiled from approximately \$4.50 billion in FY1999 to \$5.72 billion in FY2004, a twenty-seven percent increase. When adjusted for inflation (constant 1999 dollars) the percentage increase in total expenditures was about 12% over the six year period.

Funding streams monitored through this project are of three types: federal funds, state appropriated funds, and local education funds generated through property taxes. These three categories of expenditures make up the totals tracked in the annual updates and trends analysis. For FY2004, state expenditures tracked in the study made up 45.4% of the total, federal expenditures accounted for 41.6%, and local education dollars provided 13% of the total.

The relative percentage of total expenditures over the six year period (FY1999 through FY2004) is graphically depicted in Chart 1 below.

Health Care expenditures reflected the most dramatic rise over the six year period. Total publicly funded health care expenditures, captured in the analysis, increased by 65% over the six years studied in real dollars and about 45% in constant 1999 dollars⁶. Health care inflation is historically higher than the general rate of inflation; thus the significant increases in health care costs are not unexpected.

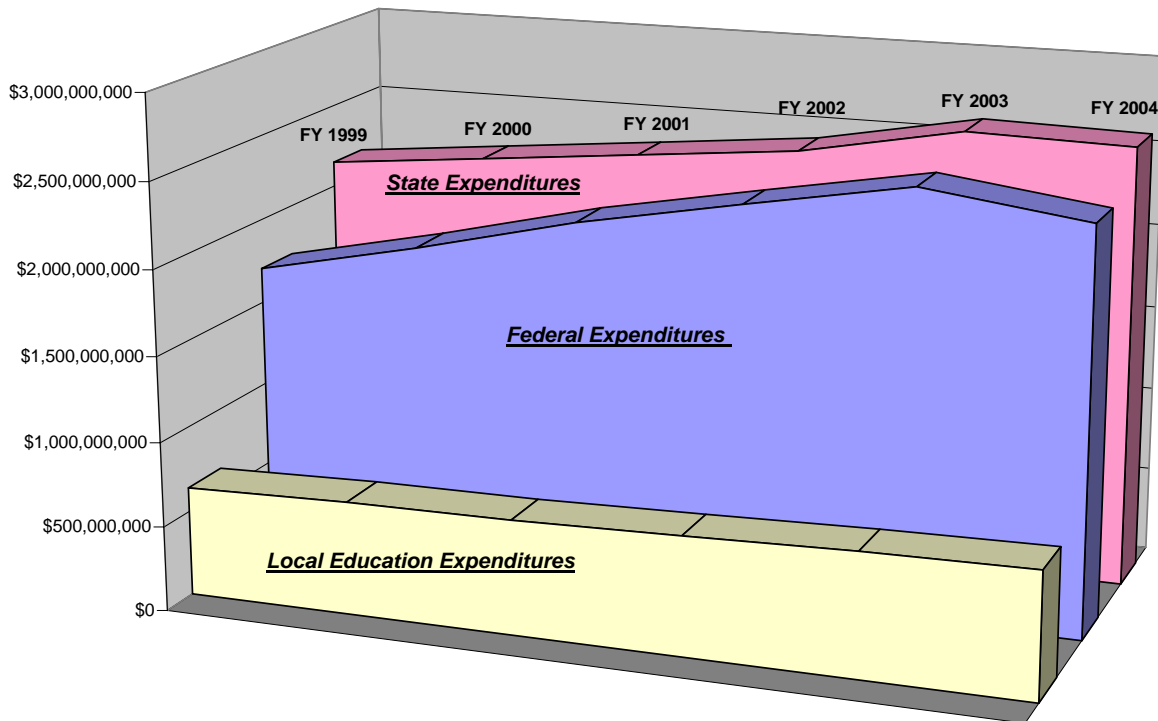
Education expenditures continued to rise. Total education expenditures increased by 19% over the period (real dollars). Investments in **Early Care and Education** declined somewhat during FY2004 yet the overall increase in this sub-category of education is significant over the six years (a 63% increase). As more children are enrolled in pre-K programs through the public education system there has been some shift of funding from K-12 programs to the preschool area, resulting in less of an increase in K-12

programs in recent years. Nevertheless, K-12 expenditures continue to rise each year (a 17.3% increase over the six year period). **Higher**

Education funding was reduced in FY2004 by \$36 million halting a trend over the preceding five years of increasing investment each year.

Chart 1

**Total Federal, State and Local Expenditures
FY1999 - FY 2004**



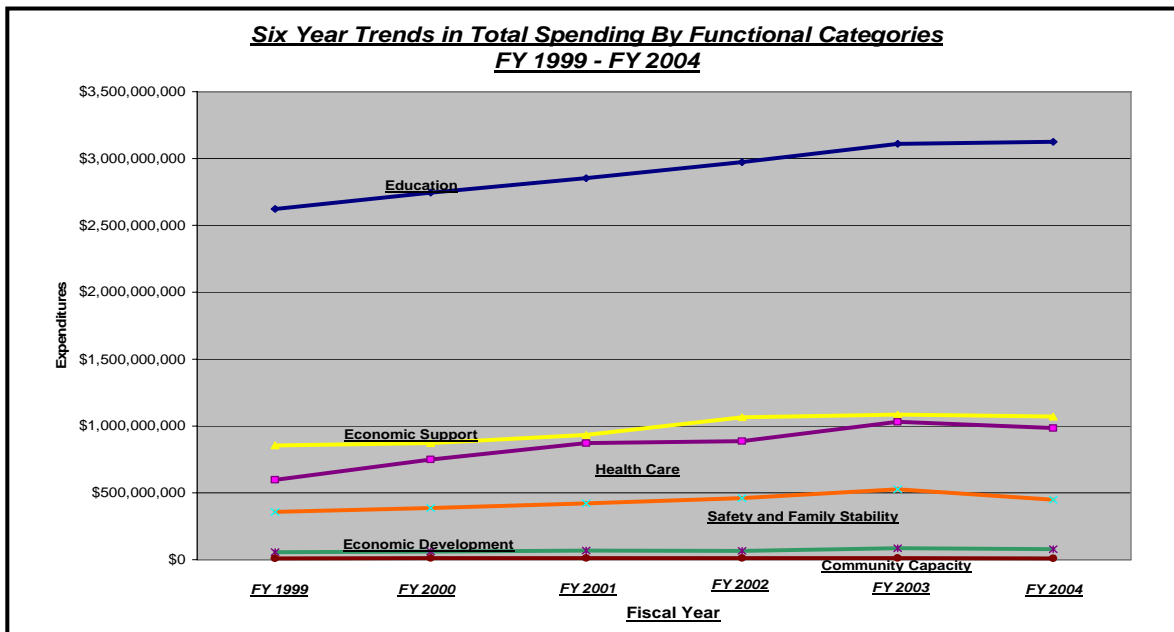
Overall spending to support low income families, reflected in the funding streams within the **Economic Support** system, decreased somewhat from FY2003 to FY2004. However, the six year trend is one of increased public investment in this area (25% increase over the six year period). Reduced levels of expenditures were noted in economic assistance payments and employment and training programs during FY2004, while expenditures related to food and nutrition (primarily the federal food stamp program) increased. Most spending in this category of services is federal dollars. State investment in **Economic Support** programs continued to decline (nearly a 10% decrease over the six year period).

Total expenditures identified within the **Safety and Family Stability** service system declined in FY2004; however, this decline was entirely due to a reduction in payments to vendors through the Medicaid program for

behavioral health services. If the Medicaid payments are not considered, spending in this functional category increased. The overall six year trend continues to be one of increased investments in the safety and family stability area. State supported costs of supporting secure facilities (prisons, regional jails, and juvenile detention centers) continued to rise.

Overall, 2004 expenditures in the area of **Economic Development** declined due to some reductions in federal funds. State support for **Community Capacity Building** programs also declined in 2004. Longer term trends in real dollar investments in these areas indicate increases over the six years. However, when adjusted for inflation to constant 1999 dollars the recent reductions in state spending on community capacity building programs have resulted in a loss of support over the six year period. Total spending in the economic development and community capacity

Chart 2



building areas are relatively inconsequential as compared to the four primary functional service systems addressed in the funding study and subsequent trends updates.

Appendix A, at the end of the report, lists the total expenditures identified within the six functional areas for each year of the study as well as the totals each year for sub-categories

that make up the functional service systems. Figures adjusted for inflation are also listed in the appendix.

When expenditure levels are corrected for inflation and shown in constant 1999 dollars, the trend lines are still generally up but do not rise as quickly (see chart 3).

Chart 3

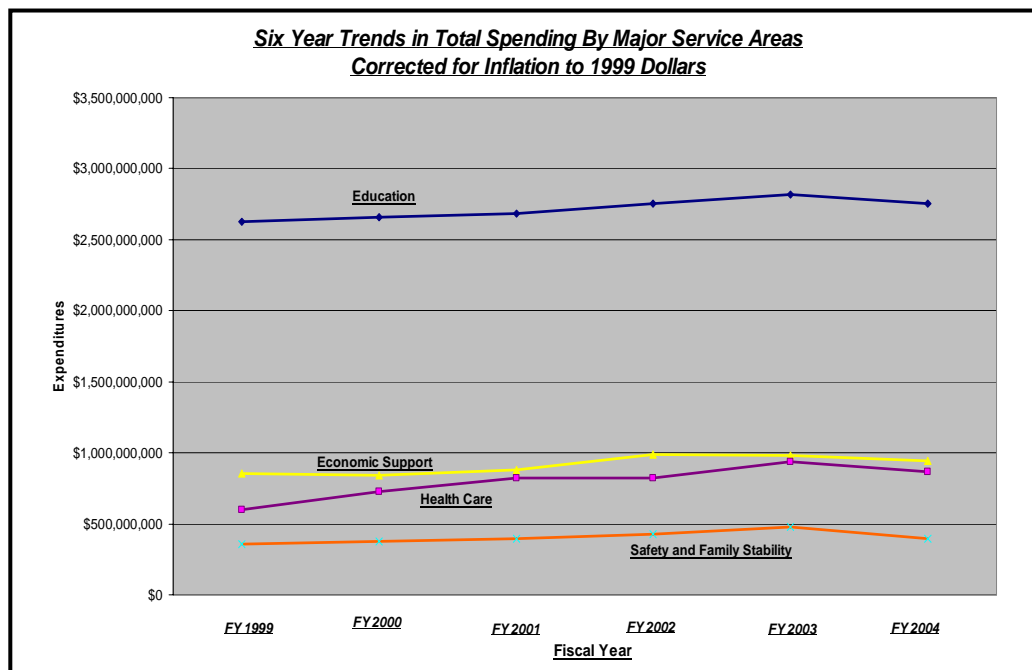


Chart 3 (expenditures corrected for inflation) also shows a leveling off of the rise in overall spending during FY2004 as compared to the previous five year period.

Trends in State Expenditures

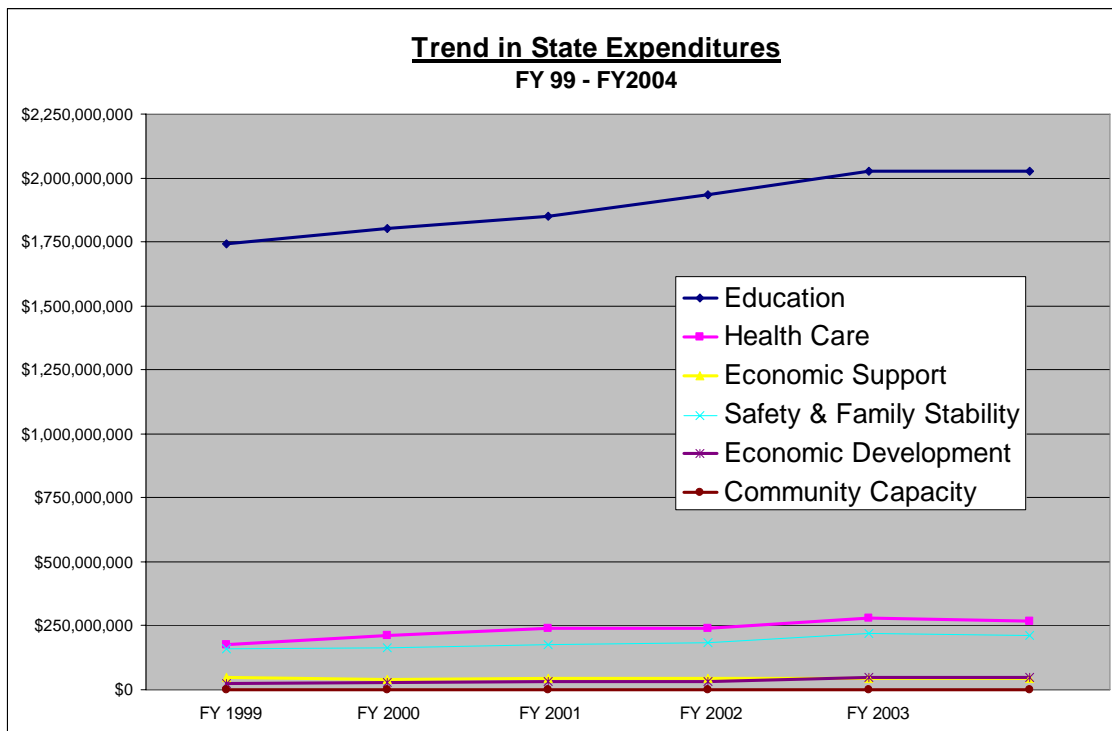
State expenditures included in the study have increased from \$2.148 billion to \$2.599 billion over the six year period. This is an overall increase of 21%. Public Education accounts for the vast majority of all state dollars included in the study. For FY2004, over two billion dollars in state money was expended in support of the education service system. **Education** services are primarily state supported with 85% of all education expenditures coming from state revenues. By contrast, the **Health Care** funding streams included in the analysis are predominately federally funded (73% federal) and the **Economic Support Service System** is almost entirely federally funded (96%). **Safety and Family Stability** services are supported by both state and federal funds (47% state and 53% federal).

The six year trends in state expenditures, within the funding streams included, show a decline in overall state investments during 2004. The six year trend is one of increases in all major functional areas except for the **Economic**

Support Service System. Over the six year period, state spending on economic support services has declined by nearly ten percent. State spending for the **Health Care** system was down very slightly in 2004 due to the decreased levels of Medicaid payments made during the fiscal year; however, the overall six year trend is one of increasing costs (54% increase in real dollars) since the state must provide state matching funds for the Medicaid program⁷. State appropriations for secure correctional and juvenile detention facilities rose significantly during FY2004 as additional secure juvenile detention capacity was developed. State investments in the **Safety and Family Stability** system declined overall in 2004 due to a dramatic reduction in Medicaid expenditures for adult behavioral health services (50% reduction)⁸. State costs in other areas of this service system continued to increase in FY2004.

Chart 4 graphically depicts the trends over the six year period in the expenditure of state funds only⁹.

Chart 4

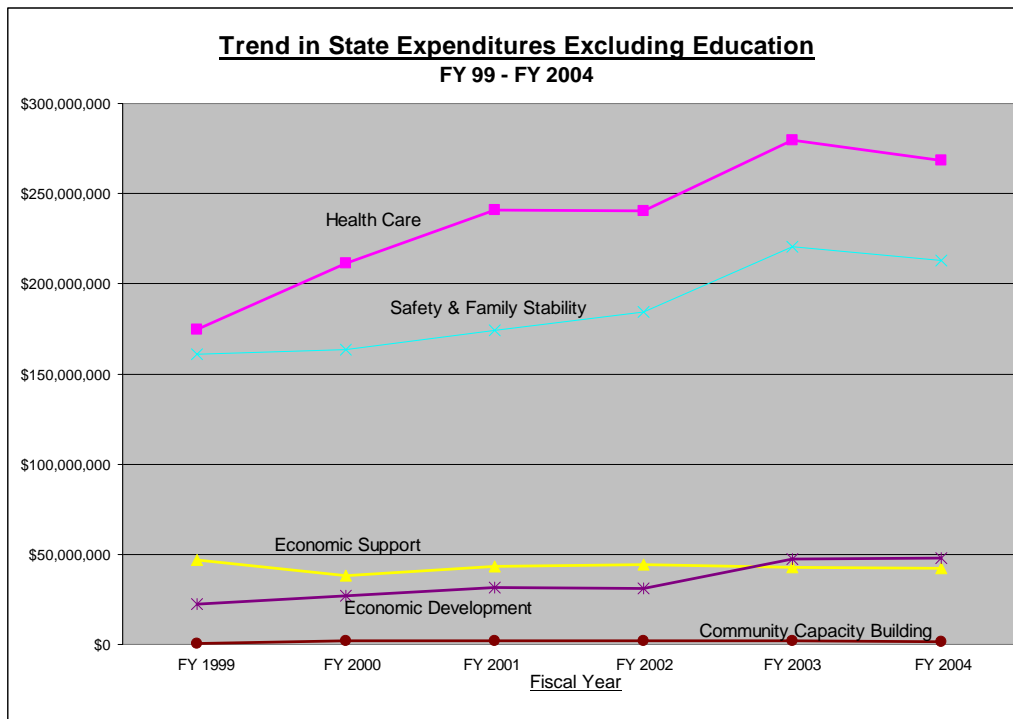


The large state investments in **Education** are quite apparent in the trend lines depicted in Chart 4. The state dollars supporting education exceed the two billion dollar level while state investments in other service systems do not approach that level. Six year trends in state expenditures for the other functional categories are easier to see in chart form when the education related expenditures are not shown. Chart 5 shows only the trend lines in the non-education areas.

Chart 5 indicates the increases over the six year period in state spending in the **Health Care**

and **Safety** functional areas. Sufficient state funds must be provided as required matching funds in order to maintain increasing levels of federal funding available through the federal Medicaid program¹⁰. State funds must also be used for the construction or operation of secure correctional and detention facilities since federal funds are not available for these purposes. As a result these two cost centers have contributed to increasing state spending over the six year period.

Chart 5



Trends in Federal Expenditures

Federal expenditures declined from FY2003 to FY2004 across all functional categories largely due to the decreased spending during the time period within the Medicaid program¹¹. There was also a reduced level of federal funding expended through the Temporary Assistance for Needy Families (TANF) program. A reduction in expenditures within the **Economic Development** functional category was also noted from FY2003 to FY2004 due to a

decline in Appalachian Regional Commission funds available to the state. Total federal expenditures were about \$125 million or one half of one percent less in state FY2004 than in FY2003.

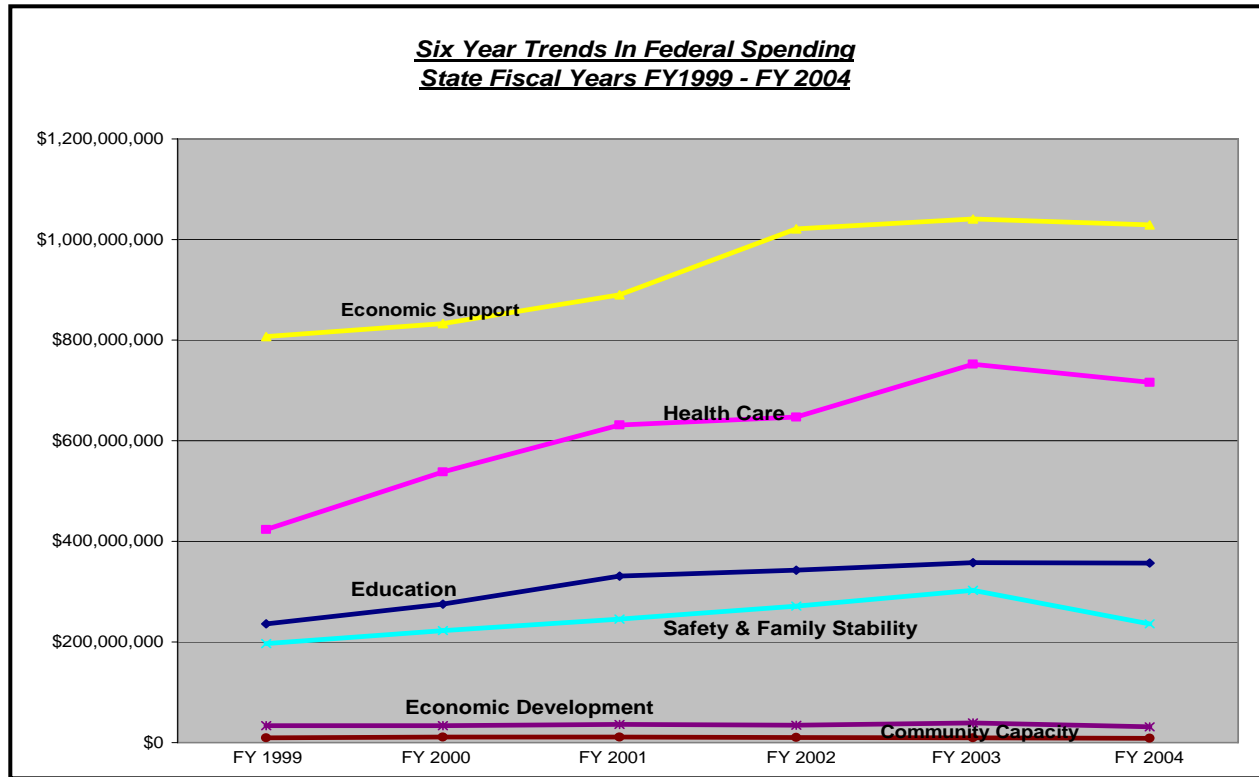
Over the six year period, trends in federal expenditures show an overall increase within the four major service systems (**Education, Health, Economic Support, and Safety/Family Stability**), and a decrease in **Economic**

Development and Community Capacity Building.

Total federal dollars expended through the funding streams included in the analysis increased from \$1.71 billion in FY1999 to \$2.38 billion in FY2004, a 39.3% increase over the

period. When adjusted for inflation (constant 1999 dollars) federal investments in West Virginia service systems supporting children and families increased by about 23% during the six year period.

Chart 6



Significant Trends Within Each Functional Category of Services

Education

Expenditures for public education continue to increase however, public funds available to higher education institutions declined in FY2004 after five years of increases (FY1999 through FY2004). The continuing development of preschool education programs, by public schools throughout the state, is resulting in some shifting of resources within the education system from K-12 education to Early Care and Education services. Overall, the trend in public education continues to show increased expenditures and the long term trend in higher education also reflects growth over the six year period.

Health Care

Health care expenditures within the funding streams monitored by the study declined in FY2004 due to decreasing levels of Medicaid venter payments. As mentioned earlier, this may be due to a back-log of Medicaid payments made during the state fiscal year rather than any real reduction in health care expenditures. Audited figures for the Medicaid program, as a whole, do in fact show an increase in Medicaid expenditures for the federal fiscal year (October 1, 2003 through September 30, 2004).¹²

Economic Support

Expenditures for economic support services went down in FY2004 after five years of increasing costs. The decline is in the sub-category of *Economic Assistance* programs and *Employment and Training* programs. Expenditures for *Food and Nutrition* and *Housing* increased from FY2003 to FY2004. The overall decline in expenditures for this functional category of services is largely due to reduced levels of payments in both unemployment insurance and public assistance (Temporary Assistance to Needy Families) and reduced funding available through the federal Work Force Investment Act.

The Earned Income Tax Credit (EITC) (a refundable tax credit for low income working families) continued to put more money in the pockets of low income West Virginia families in FY2004. The six year trend for credits taken through the EITC is one of steadily increasing amounts rising by over \$31 million during the six year period.

Six year trends in funding for economic support programs is generally up and is 93% federal dollars.

Safety and Family Stability

Expenditures within the safety and family stability service system declined in FY2004 due to significant reductions in payments through the Medicaid program for child and adult behavioral health services. State fiscal year vendor payments in FY2004 for adult behavioral health services were dramatically reduced from the payment levels in FY2003 (reduced by more than half). Again, this is likely not a real reduction in services delivered but reflects a delay in payments to vendors during the state fiscal year. The *Child Welfare* sub-category of the Safety and Family Stability system showed increases in FY2004 following the six year trend of increasing costs in that area.

Expenditures in the *Public Safety* area continue to show a trend toward more spending on secure facilities for juveniles and less spending on preventive programs such as community policing. Investment in *Youth*

Development programs has leveled off after 2002 reductions in this area.

Economic Development

FY2004 investments in Economic Development were less than in FY2003 due to reductions in several federal funding streams supporting this area¹³.

Community Capacity Building

Funding for Community Capacity Building initiatives has declined over the three years period FY2002 through FY2004 after making some modest gains during the period FY1999 through FY2001. Capacity building investments are very small relative to other categories within the funding study.

Summary of Findings

Almost all of the federal and state funding streams included in the study tend to increase over time. Some reduced levels of expenditures were noted in FY2004 as compared to the preceding fiscal year; however, these reduced levels of spending were nearly all found within the Medicaid program and likely reflect delays in payments rather than real reductions in costs. When the six years of expenditure data are considered in constant 1999 dollars (corrected for inflation) all functional categories with the exception of **Community Capacity Building** reflect upward trends in total spending over the period (community capacity investments declined in adjusted dollars by 2.6%).

Education expenditures are by far the most significant portion of overall spending each year accounting for well over half of all annual expenditures. The rate of increase in education spending is, however, somewhat lower (19.1% in real dollars over the six year period) than any of the other major service systems.

Health Care expenditures increased at the highest rate over the six year period.

State investments in the **Economic Support** service system (primarily safety net programs for low income West Virginians) has declined by more than ten percent over the six

year period while federal investments have increased.

Investments in secure detention and correctional facilities for youth have increased the amount of state dollars going to the **Safety and Family Stability** service system over the six year period as federal investments in youth development and prevention have declined.

State investments in **Economic Development** increased in FY2003 with the sale of economic development bonds and remained at an increased level in FY2004.

State and federal expenditures identified in the study that support **Community Capacity Building** both declined in FY 2004.

Endnotes

¹ The state of West Virginia provided 25 cents of each dollar expended through the Medicaid program during FY2004.

²For details on the three year trends in expenditures and explanation of the functional service systems see the *WV Children and Families Preliminary Funding Report The Big Picture*, April 2003.

³ Primary source documents for expenditures through the funding streams included in the study are the *State of West Virginia Single Audit* and the State Budget Bill which lists funds appropriated by the state legislature. Some expenditures included in the study are estimated based on the best available data.

⁴ The funding study analysis is based on expenditures reported by the state Medicaid agency in reports generated in September of each year that reflect the preceding fiscal year. These reports are known as the HCFA 2082 reports.

⁵ The HCFA 2082 report on expenditures and services is used as the source of data for the funding study; however,

the data reflected on this report is most likely not an accurate representation of the level of services provided during the fiscal year. The WV Medicaid agency was in the process of moving to new data management and payment system during this time and experienced a back log in payments to vendors which resulted in expenditure data that is not reflective of actual services provided during FY04.

⁶ Public expenditures for health care services include Medicaid, the Children's Health Insurance Program, and several smaller federal health care funding streams. Medicaid expenditures for the elderly (persons over age 65 years) are not included in the study. Expenditures through the Public Employees Health Insurance program are also not included.

⁷The reader is reminded that health care expenditures included in the study do not include Medicaid costs for those persons over age 65 years or costs associated with the Public Employees Insurance Agency.

⁸ The reduced Medicaid spending in FY 2004 as reflected in the HCFA 2082 report may be due to a back-log of payments not paid until FY2005.

⁹ This does not reflect total state spending but only the spending through the funding streams included in the analysis that supports the functional service systems defined in the 2003 Big Picture Report.

¹⁰ The federal Medicaid program requires a state match that increases as total expenditures within the Medicaid program increase. The state's share is known as the Federal Matching Assistance Percentage (FMAP) and was 24.81% for the 2004 fiscal year.

¹¹As reported in HCFA 2082 report, run date 9/18/04.

¹²Audited Medical Assistance Program federal expenditures were \$1,615,986,774 for federal FY04 as opposed to \$1,373,540,032 for FY03 – State of West Virginia Single Audit.

¹³ Reductions were noted in funding through the Community Development Block Grant Economic Development Initiative and the Appalachian Regional Commission.

Appendix A
Expenditure Summary and Percent Change – FY99 through FY2004

<u>Functional Category</u>	<u>FY99</u>	<u>FY2000</u>	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>% Change</u>
<u>Education</u>							
Early Care and Education	\$121,698,359	\$148,546,723	\$178,868,337	\$197,092,240	\$203,203,281	\$198,101,118	62.8%
Public Education	\$2,136,371,994	\$2,210,582,309	\$2,276,134,436	\$2,330,721,555	\$2,451,029,575	\$2,505,350,266	17.3%
Higher Education	\$365,360,105	\$386,671,835	\$399,489,993	\$445,770,324	\$457,017,274	\$421,452,514	15.4%
Total Education	<u>\$2,623,430,458</u>	<u>\$2,745,800,867</u>	<u>\$2,854,492,766</u>	<u>\$2,973,584,119</u>	<u>\$3,111,250,130</u>	<u>\$3,124,903,898</u>	19.1%
<i>Adjusted to 1999 dollars</i>	\$2,623,430,458	\$2,655,513,411	\$2,685,317,748	\$2,753,318,629	\$2,818,161,350	\$2,755,647,176	5.0%
Total Health Care	<u>\$597,876,843</u>	<u>\$749,332,034</u>	<u>\$872,018,345</u>	<u>\$887,697,810</u>	<u>\$1,032,027,074</u>	<u>\$984,384,950</u>	64.6%
<i>Adjusted to 1999 dollars</i>	\$597,876,843	\$724,692,489	\$820,337,107	\$821,942,417	\$934,807,132	\$868,064,330	45.2%
<u>Economic Support</u>							
Economic Assistance	\$471,964,404	\$502,791,642	\$579,446,929	\$672,433,396	\$672,275,081	\$645,598,872	36.8%
Nutrition/Food	\$322,688,236	\$303,444,872	\$293,952,331	\$319,929,201	\$335,388,375	\$362,292,691	12.3%
Housing	\$12,536,120	\$12,738,799	\$14,443,559	\$14,735,616	\$14,870,051	\$15,132,126	20.7%
Employment & Training	\$46,532,844	\$52,266,576	\$45,320,146	\$58,573,048	\$61,280,366	\$48,121,030	3.4%
Total Economic Support	<u>\$853,721,604</u>	<u>\$871,241,889</u>	<u>\$933,162,965</u>	<u>\$1,065,671,261</u>	<u>\$1,083,813,873</u>	<u>\$1,071,144,719</u>	25.5%
<i>Adjusted to 1999 dollars</i>	\$853,721,604	\$842,593,703	\$877,857,916	\$986,732,649	\$981,715,465	\$944,572,063	10.6%
<u>Safety & Family Stability</u>							
Behavioral Health	\$191,555,571	\$219,377,576	\$248,281,801	\$273,513,908	\$311,784,195	\$220,796,461	15.3%
Child Welfare	\$134,073,223	\$127,939,999	\$130,384,612	\$144,639,786	\$169,404,731	\$175,984,937	31.3%
Youth Development	\$4,461,843	\$4,986,186	\$5,458,621	\$4,447,646	\$4,528,747	\$4,829,165	8.2%
Public Safety	\$27,538,997	\$33,522,007	\$36,076,588	\$37,640,151	\$42,057,514	\$47,144,738	71.2%
Total Safety and Family Stability	<u>\$357,629,634</u>	<u>\$385,825,768</u>	<u>\$420,201,622</u>	<u>\$460,241,491</u>	<u>\$527,775,187</u>	<u>\$448,755,301</u>	25.5%
<i>Adjusted to 1999 dollars</i>	\$357,629,634	\$373,139,041	\$395,297,857	\$426,149,529	\$478,057,235	\$395,727,779	10.7%
Total Economic Development	<u>\$56,315,405</u>	<u>\$60,859,079</u>	<u>\$67,398,972</u>	<u>\$65,569,940</u>	<u>\$86,519,793</u>	<u>\$79,401,909</u>	41.0%
<i>Adjusted to 1999 dollars</i>	\$56,315,405	\$58,857,910	\$63,404,489	\$60,712,907	\$78,369,378	\$70,019,320	24.3%
Total Community Capacity Building	<u>\$9,441,465</u>	<u>\$12,925,783</u>	<u>\$12,715,082</u>	<u>\$12,496,350</u>	<u>\$11,730,647</u>	<u>\$10,426,183</u>	10.4%
<i>Adjusted to 1999 dollars</i>	\$9,441,465	\$12,500,757	\$11,961,507	\$11,570,694	\$10,625,586	\$9,194,165	-2.6%
Total Expenditures	<u>\$4,498,415,409</u>	<u>\$4,825,985,420</u>	<u>\$5,159,989,752</u>	<u>\$5,465,260,971</u>	<u>\$5,853,116,704</u>	<u>\$5,719,016,960</u>	27.1%
<i>Adjusted to 1999 dollars</i>	\$4,498,415,409	\$4,667,297,311	\$4,854,176,625	\$5,060,426,825	\$5,301,736,145	\$5,043,224,832	12.1%

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Funding Study Project Staff:

Michele Bush, Planning Specialist
Steven Heasley, Consulting Analyst & Primary Author

Funding Study Advisory Workgroup Members

Chairperson: Sue Hage, Bureau for Children & Families, DHHR
Mike Lacy, WV Supreme Court of Appeals
Cindy Largent-Hill, Division of Juvenile Services
Steve Mason, Division of Alcoholism and Drug Abuse, DHHR
Angela Saunders, WV Supreme Court of Appeals
Brenda Thompson, House Committee on Government Organization