

WV CHILDREN & FAMILIES FUNDING STUDY

Public Expenditure Trends Update

August 2005

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

Funding Study History

An interagency group of policy makers and practitioners began planning a funding study in 1998 to improve children and family services for West Virginia (WV). In 2000, the Child Welfare and Juvenile Justice Coordinating Council commissioned the study. The Governor's Committee on Crime Delinquency and Correction's Juvenile Justice Subcommittee voted to fund the WV Prevention Resource Center to conduct the study with United States Department of Justice, Office of Juvenile Justice and Delinquency Prevention grant funds in fiscal years (FY) 01-05. This report provides an update on public expenditure trends.

Funding Study Background

In April 2003, WV released the initial report on state and federal expenditures in the state.¹ This report presented the findings of an analysis of state and federal funding streams supporting public services for children and families in WV. The study's purpose was to provide citizens, including planners and policy makers, with data to inform planning and policy decisions and better understand the services provided to children and families in the state.

The study included three types of information: an analysis of spending patterns and trends, program descriptions, and available state grant funding. The report provided an initial analysis over a three year period (FY99-FY01) of state and federal funds passing through state government agencies. The analysis examined trends in public expenditures at the state level by functional service categories. The service categories used in the initial analysis were: **Education, Health Care, Economic Support, Safety and Family Stability, Economic Development** and **Community Capacity Building**.

The initial analysis identified over \$5 billion in annual expenditures. More than 98% of the total expenditures analyzed in the study were dedicated to supporting services within four major service systems: **Education, Health Care, Economic Support, and Safety and Family Stability**. Approximately 50% of total expenditures

supported education services. About 80% of the remaining non-education expenditures were federal funds and much of the available state funding for non-education expenditures was required to match the federal funding available to the state.

The first report also provided funding maps of the major service systems within WV and looked at three year trends in spending (FY99-FY01).

The initial analysis did not generally include administrative expenses incurred by state agencies; thus, almost all of the \$5 billion included in the analysis was passed through to local level providers of services through contracts, formula allocations, and grant awards. Much of the funding was distributed through population-based formula allocations. The most prominent example of this type of distribution was the way funding was provided to local boards of education through the "State Aid to Schools Formula." Nearly half of the total expenditures included in the 2003 analysis was allocated in this way to local school systems. The distribution of most of these funds was determined by county school enrollment.

Another significant amount of the available state and federal funding was distributed based on individual or family categorical eligibility. Public funding for most programs within the health care and economic support service systems was determined by eligibility criteria unique to each individual funding stream. These expenditures were contingent on meeting predetermined eligibility criteria such as some type of disability or temporary hardship situation. They may be referred to as needs-based expenditures. Examples of needs-based funding streams included: child care, Medicaid, the Children's Health Insurance Program, Temporary Assistance to Needy Families, housing subsidies, unemployment compensation, job training, special education, food stamps, nutrition supplements, and others. These needs-based funding streams amounted to approximately 45% of the total expenditures of state and federal funds examined in the initial study.

The complete analysis can be accessed at the funding study website: <http://www.prevnet.org/fundingstudy>.

Public Expenditure Trends

Expenditure Trends Overview

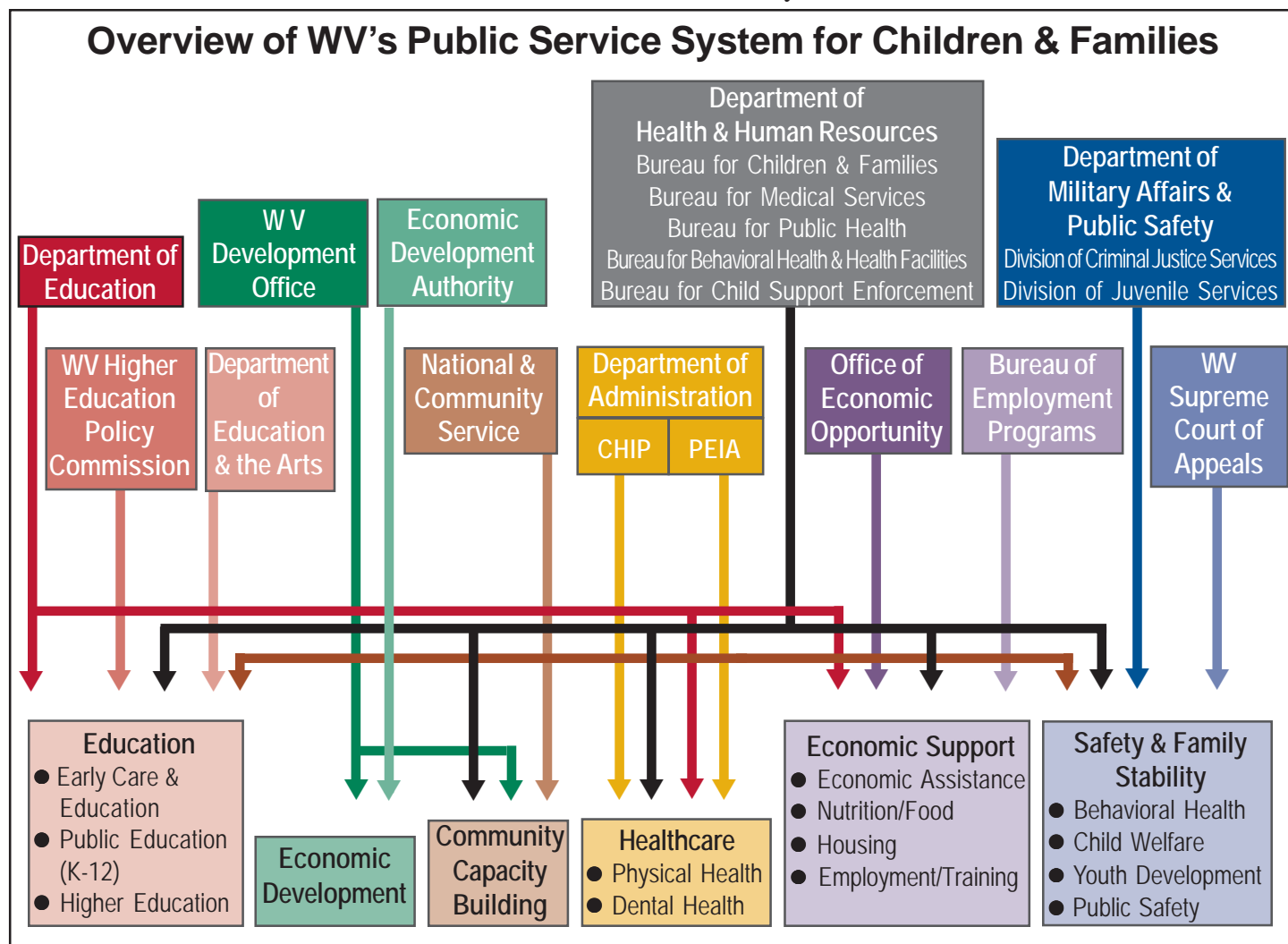
This section provides an update of the children and family services public expenditure data and analyzes trends in state and federal spending over five years (FY99 through FY03). This section also provides an updated funding map of the public service system for children and families in WV to reflect changes in state level administrative structures through which the state and federal funding streams flow. Funding streams originally identified in the 2003 report were tracked in this update, and new funding streams were added.²

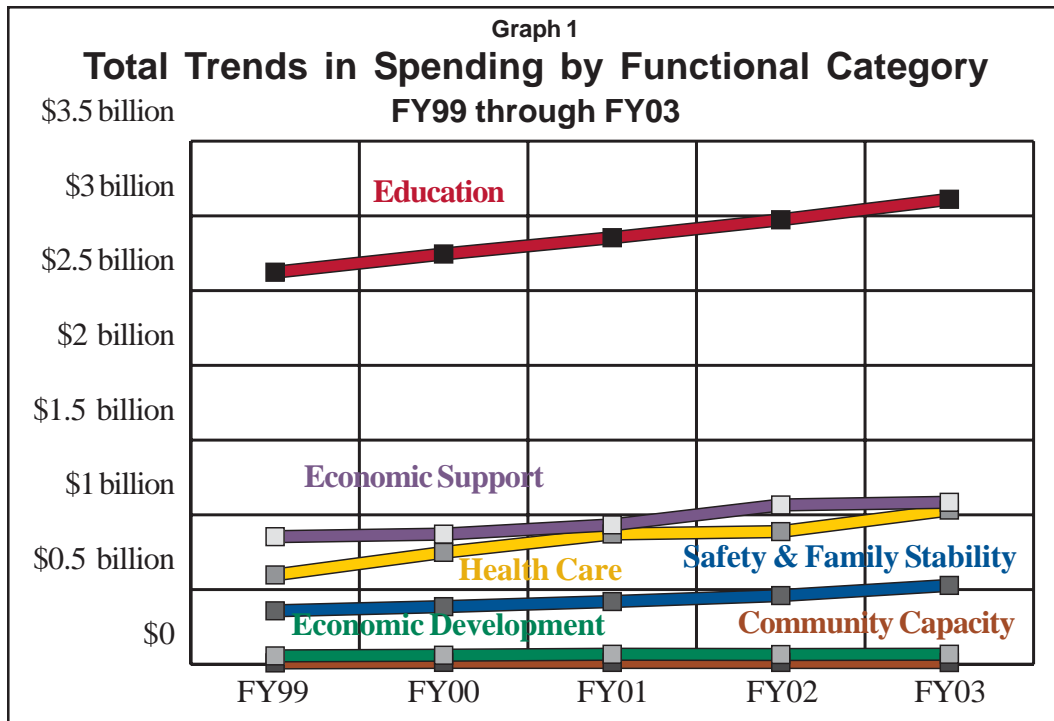
All information in the initial 2003 report is not repeated in this update. Please review *The Big Picture* report for background and detailed analysis of each functional service system prior to reading this update. The 2003 report provides an explanation of the various types of funding streams contained in the analysis, the methodology used to calculate expenditures, and information about source documents.³ *The Big Picture* report can be downloaded

and reviewed at the funding study website at www.prevnet.org/fundingstudy.

Functional Service Systems in WV

This report reflects two additional years of data and analyzes trends. It is organized around six functional service systems defined in the 2003 report. Since 2003 some structural changes were made in how state government administers the funding streams supporting services to children and families. The state legislature established a state-level Economic Development Authority charged with making grants for economic development initiatives funded through the sale of bonds. More recently, the Office of the Governor's Cabinet on Children and Families housed within the Governor's Office was eliminated. These changes are reflected in the following diagram which identifies the primary state-level agencies responsible for administering funding streams supporting the six functional service systems within WV.





General Trends in Expenditures

The general trend in public expenditures within WV is one of consistently increasing costs. Increasing trends in expenditures are expected over time since the cost of providing goods and services generally rises due to inflation. When the total expenditures are corrected for inflation and shown in constant 1999 dollars, spending within each functional category of services still tends to increase consistently over the five year period of the study.⁴

Total expenditures increased by 30% over the five year period from approximately \$4.50 billion in 1999 to \$5.85 billion in 2003. When adjusted for inflation (constant 1999 dollars) the percentage increase in total expenditures was about 18%.

Health Care expenditures showed the most dramatic increase over the five-year period. This was expected because health care inflation is historically higher than the general rate of inflation. Total publicly funded health care expenditures for children and adults increased by 73% over the five year period in real dollars and 56% in constant 1999 dollars.⁵

Education expenditures continued to rise steadily with the largest percentage of increase in **Early Care and Education** (67%) and significant increases in real dollar terms within the public education system (K-12) of \$315 million.

Spending to support low income families reflected in the funding streams within the **Economic Support** system increased by 27%. All of the increase in economic support was supported by federal funds. State expenditures within the economic support system showed a downward trend.

The **Safety and Family Stability** service system grew by approximately 48% reflecting an increase in real dollars of about \$170 million. Much of this increase was due to rising costs of behavioral health and child welfare programs supported by the Medicaid program and increased expenditures on prisons, regional jails, and juvenile detention centers.

A small increase in **Economic Development** investments due to the sale of bonds for economic development projects was noted in the analysis. Even smaller increases were noted in **Community Capacity Building** due almost entirely to an appropriation by the state legislature in FY00 to support Family Resource Networks at the local level. It should be noted that total spending in the economic development and community capacity building areas are relatively inconsequential when included in the total expenditures for the four major service delivery systems addressed in the study.

Total expenditures within each of the functional service systems generally increased over the five year period (FY99-FY03) at a significant rate. These increases were dominated by the rising cost of health care, particularly increases in costs within the state's Medicaid program. Public education expenditures also rose steadily and public safety costs for secure facilities have also showed steep rates of increase. Other functional sub-categories of spending show flat or even declining trends in spending. Trends will be examined in more detail on the following pages. Graph 1 above depicts the rising trends in expenditures over the five year period of the study.

Table 1
Total State & Federal Expenditures in Millions of Dollars
By Functional Category of Spending

Service System	FY 99	FY 00	FY 01	FY 02	FY 03	(FY 99-03) % Increase
Education						
(real dollars)	2,623	2,745	2,854	2,974	3,111	18.6%
(1999 dollars)	2,623	2,655	2,685	2,753	2,818	7.4%
Health Care						
(real dollars)	598	749	872	888	1,032	72.6%
(1999 dollars)	598	725	820	822	935	56.4%
Economic Support						
(real dollars)	854	871	933	1,066	1,084	27.0%
(1999 dollars)	854	843	878	987	982	15.0%
Safety & Family Stability						
(real dollars)	358	386	420	460	528	47.6%
(1999 dollars)	358	373	395	426	478	33.7%

This table lists total expenditures (real dollars in green) for each of the major functional service systems and the percent increase over the five year period. Total expenditures in constant 1999 dollars (shown in blue) are also listed for each major service system.

Trends in State Expenditures

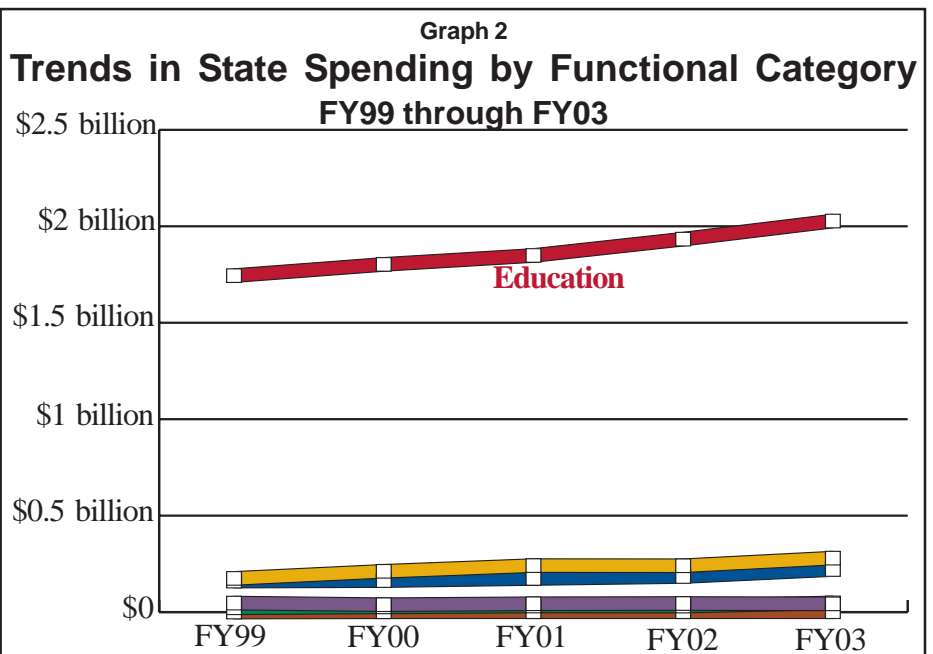
State expenditures included in the study increased from \$2.148 billion to \$2.620 billion over the five-year period. This is an overall increase of 21.9%. Most of the state funding spent each year for services to children and families is for **Education**. For FY03, more than 77% of all state expenditures included in the study were allocated to support the Education service system, and 85% of the total funding supporting Education was state dollars. The **Health Care** funding streams 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 with a more balanced state-federal investment (42% state and 58% federal).

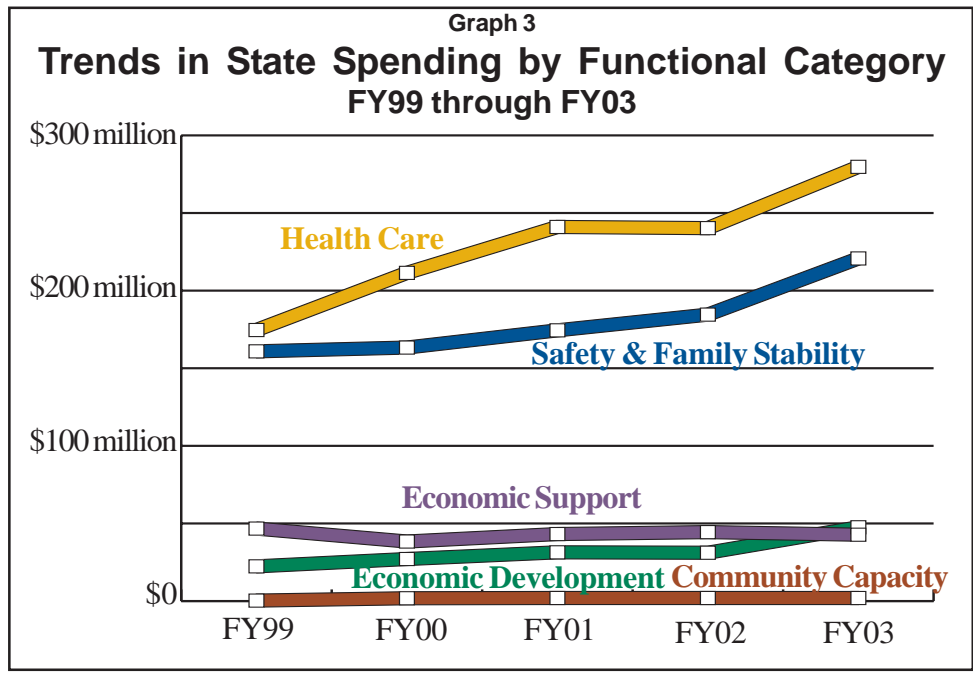
Trends in state expenditures alone look somewhat different than the trends in total state and federal spending. The most rapid increase in state expenditures over the period FY99 through FY03 was in the **Economic Development** area. Although this increase reflected only about \$25 million dollars in additional state spending, it accounted for a 112% increase in economic development investments by the state. State spending for the **Health Care** system increased by 60% due largely to the demand for state matching funds for the Medicaid program.⁶ Increasing state appropriations for secure correctional and juvenile detention facilities accounted for a 37% increase in the **Safety and Family**

Stability system amounting to nearly \$60 million in additional spending in this functional service area. Graph 2 depicts the trends over the five-year period.⁷

The trends in state expenditures for the other functional categories can better be seen when the education related expenditures are not shown. Graph 3 shows only the trend lines in the non-education areas.

Graph 3 more clearly indicates the increases in state spending in the **Health Care** and **Safety** functional areas. The state must provide additional matching funds in order to maintain increasing levels of federal funding available through the federal Medicaid program,⁸ and federal funding is not available to assist with the construction or





operation of secure facilities. As a result these costs tend to drive up state spending.

It is interesting to note that state investments in economic development now exceed state investments in basic “safety net” programs for low income persons. State expenditures in the economic support area actually declined in real dollars over the five year period by 8.44%. A relatively small additional investment of state funds (\$19 million) related to the debt service on economic development bonds sold to support grants to local projects accounted for an increase in state funding for economic development. The economic support service system which provides for income assistance, housing subsidies, nutrition programs and employment services is almost entirely federally supported; thus, even this small investment in economic development by the state brings the level of state support for economic development programs above the level of state funding for the safety net programs.

Significant Trends Within Categories

Education

All three sub-categories making up the education service system showed steady increases in spending each year. The decision by the state legislature in 2002 to require public schools to phase in pre-school education for four-year-old children contributed to the steady increases in spending for Early Care and Education. K through 12 public schools also showed steady increases in public expenditures over the five-year period. Public investments in the state’s colleges and universities significantly increased in 2002 with additional general revenue appropriations and a new funding stream generated through state licensing of video poker and other gambling.⁹

Education expenditures were by far the most significant portion of overall spending each year accounting for half of all annual expenditures. The rate of increase in education spending was, however, somewhat lower (18.6% in real dollars) than any of the other service systems.

Health Care

Health care expenditures increased significantly each of the five years studied. Since most of the health care dollars identified in the study were expenditures within the Medicaid program, this significant rate of increase resulted in continual increases in the state’s share of the Medicaid program costs. With the exception of FY02 when health care expenditures showed little increase over the preceding year, spending within the health care funding streams increased by well over \$100 million each year during the five-year period. Public expenditures within the health care funding streams included in the study increased by more than \$434 million during the period. Most of this increase was attributable to significant increases in Medicaid expenditures. The study did not include expenditures for persons over 65 years of age, and it is this elderly population which accounted for a substantial portion of overall costs within the Medicaid program. Nevertheless, the steady increases in health care costs for children and adults under age 65 years covered by the Medicaid program was significant.

Economic Support

Expenditures for economic support services increased at a significant rate over the five-year period. The increase in the economic support funding streams totaled \$230 million, a 27% increase. This increase is entirely attributable to increased federal spending. In fact, there was a decrease in real dollar terms in direct state spending for low income

persons. Most of this increase was in unemployment compensation and in payments to low income families found under the sub-category of economic assistance within the original 2003 *The Big Picture* report.

A significant portion of the total rise in economic support funding streams was due to a steady increase in unemployment compensation claimed by unemployed persons within the state. The increase in this single funding stream was over \$75 million over the five-year period. Although unemployment compensation payments were reflected as a federal expenditure, the funds necessary were provided by an assessment on employers within WV.

Payments made through the federal *Earned Income Tax Credit* put significantly more dollars in the pockets of low income West Virginians. The EITC refundable tax credits increased from about \$210 million to \$238 million over the period at least partially due to increased outreach and education efforts assisting people in claiming the credit.

State investments in the Economic Support service system (primarily safety net programs for low income West Virginians) declined by more than 8% over the five-year period while federal investments increased. The federal increase was primarily due to a 58% increase in unemployment compensation payments to state residents over the four-year period FY00 through FY03.

Safety & Family Stability

Expenditures within the safety and family stability service system showed a steadily increasing upward trend. After a slow rise in expenditures in this service system early in the five-year period, costs increased more rapidly. Significant increases in expenditures were noted in both behavioral health services and child welfare services. These increases were driven by the escalating costs of Medicaid covered services in these areas as well as increased state spending on social services. Another significant factor driving up the level of spending in the funding streams related to safety and family stability was the significant increases in state spending over the period on secure facilities for the incarceration of juveniles. The increased spending on secure detention and correctional facilities over the past four years came at a time when federal investments in juvenile justice and youth development programs began declining.

Economic Development

After four years of relatively flat expenditures for economic development programs (FY99-FY02), the state made a significant investment in this area through the sale of bonds during FY03 to support the awarding of grant funds for local development projects. The state appropriation for debt service on the bonds is included in the analysis beginning with FY03. Although total economic

development expenditures remain low as compared to the major service systems discussed above, the state investment in 2003 resulted in a significant upward trend in this area, an increase of 53% compared to FY99.

Community Capacity Building

Investments over the five-year period in building the capacity (skills and abilities) of local community organizations remained generally steady. A state investment in local Family Resource Networks beginning with FY00 year resulted in some increase in capacity building efforts over the period. Expenditures on programs targeted at improving local community capacity are extremely small as a percentage of the total expenditures analyzed in the study at about 0.2%.

Endnotes

¹ For 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.

² New state funding streams established by the state legislature include the debt service on economic development bonds, Promise Scholarships, and the Higher Education Improvement Fund. There are also 5 new education-related funding streams added in 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 Consumers Price Index (CPI) is used to adjust the total expenditures within each functional category of spending to constant 1999 dollars. The broader measure recommended by the U.S. Bureau for Labor Statistics (the CPI-U year-to-year averages) is used.

⁵ 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.

⁶ The 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.

⁷ 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.

⁸ 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 24.96% for the 2003 fiscal year.

⁹ Excess lottery revenue generated from video poker machines has resulted in two new state funding streams to support higher education – Promise Scholarships and the Higher Education Improvement Fund.

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