

Municipal Market Comments



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Medicaid Funding Could Pressure State Credit Quality over the Long Term

The rating agencies have each published comments in recent months discussing the potential impacts on states' credit ratings of potential changes in federal funding for Medicaid. Health care funding is a primary activity for states, with Medicaid expenditures typically trailing only K-12 education spending as a component of state budgets. The Patient Protection and Affordable Care Act of 2010 (the "Health Care Reform Bill") expands Medicaid eligibility and is expected to drive significant increases in Medicaid enrollment on the state level. Separately, the automatic federal budget cuts triggered by the failure of the Congressional Supercommittee could raise pressure on Congress to make reductions in the level of federal Medicaid spending.

We do not expect that Medicaid funding changes will have a material impact on state credit ratings in the near term. Medicaid changes are generally phased in over a number of years, giving states the lead time necessary to make program changes to meet federal program requirements and to budget for changing funding levels. Over the long term, however, states may face significant pressures from growing Medicaid budget demands arising from changing federal rules and growth in costs to provide healthcare to state residents. The fact that each state has its own unique Medicaid program means that specific impacts will be primarily in response to the actions taken on the state level over time.

The table below lists the ten states with the highest percentage of total state expenditures going to Medicaid programs. We do not expect that long-term rating impacts will directly correlate with today's Medicaid expenditure levels, as we expect states' budgets and Medicaid funding levels to change over time. Generally speaking, states with the highest credit ratings have proven capable of managing their financial performance through economic cycles and changes to a wide variety of federal program funding shifts over time. States that face relatively higher levels of budget and ratings pressure may be at greater risk, as they generally have less flexibility to absorb changes in funding and are under greater pressure to balance competing demands on limited state budgets.

States with the Highest Level of Medicaid Expenditures as % of Total State Expenditures

(Fiscal Year 2010; \$ in millions)

State	Total State Expenditures	Total State Medicaid Expenditures	Medicaid as % Total State Expenditures	Current State Credit Ratings ¹	Rating Outlooks ¹
Missouri	\$ 15,356	\$ 4,051	26.4%	Aaa / AAA / AAA	Stable / Stable / Stable
Connecticut	21,169	4,980	23.5	Aa2 / AA / AA	Negative / Stable / Stable
Ohio	43,968	9,662	22.0	Aa1 / AA+ / AA+	Negative / Stable / Stable
Massachusetts	45,801	9,465	20.7	Aa1 / AA+ / AA+	Stable / Stable / Stable
Illinois	31,901	6,259	19.6	A1 / A+ / A	Negative / Negative / Stable
Pennsylvania	39,358	7,239	18.4	Aa1 / AA / AA+	Negative / Stable / Negative
North Carolina	20,811	3,683	17.7	Aaa / AAA / AAA	Stable / Stable / Stable
New Hampshire	3,254	572	17.6	Aa1 / AA / AA+	Stable / Stable / Stable
Florida	41,928	6,817	16.3	Aa1 / AAA / AAA	Stable / Stable / Negative
Washington	21,885	3,490	15.9	Aa1 / AA+ / AA+	Stable / Stable / Stable
Median All States			12.9		

¹ ratings and outlooks from Moody's, S&P and Fitch, respectively.
Sources: Fitch; Moody's; S&P



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