HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HM 25 Medicaid Funds/ Memorial
SPONSOR(S): Galvano and others
TIED BILLS: None. **IDEN./SIM. BILLS:** None.

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Health Care		Garner	Collins
2) Procedures			
3)			
4)			
5)			

SUMMARY ANALYSIS

Medicaid, the primary source of government-provided health coverage for low-income individuals in Florida, is one of the largest single program expenditures in Florida's budget. Florida's Medicaid budget for fiscal year 2003-04 is $12.5 billion, approximately half of which is federal matching funds, and serves a population of over 2.1 million Floridians per month.

The Medicaid program is funded through federal and state participation with Florida's counties contributing to inpatient hospital and nursing home services. Matching federal funds are contingent upon the state's continued compliance with Title XIX of the Social Security Act and regulations in Title 42 of the Code of Federal Regulations. As a federal/state partnership, the federal share of total Medicaid program costs is determined using a statutory formula that calculates the portion of each state's Medicaid expenditures that the federal government will pay, known as the Federal Medical Assistance Percentage (FMAP), also called the "federal matching rate." FMAP calculates the federal matching rate for each state on the basis of the state's per capita income (PCI) in relation to the national PCI.

The use of PCI in the federal funding formula creates a situation where as the state's PCI increases, relative to the national average, the formula provides for a decreasing federal matching rate. Because of the nature of this formula structure, two states spending the same proportion of their own budgets toward funding Medicaid services are unable, after receiving federal matching funds, to spend the same amounts per person in poverty, adjusted for cost differences related to age and geographic locations.

The U.S. General Accounting Office (GAO) argues that PCI is an inadequate measure of a state's funding ability because it is an incomplete measure of overall state resources, a poor proxy for the size of a state's population in poverty, and PCI does not take into account differences in the cost of providing health care services to people in poverty. Instead, the GAO states that a Medicaid funding formula should be based on total taxable resources, or some other mechanism that better measures a state's fiscal capacity.

HM 25 urges Congress to pass legislation to change the existing formula for the distribution of Medicaid funds from a formula based on per capita income within the state, to a formula based on total taxable resources plus the poverty rate in the state. The goal of changing the formula is to provide more equity in the distribution of Medicaid funds to the states.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

1. Reduce government?	Yes[]	No[]	N/A[X]
2. Lower taxes?	Yes[X]	No[X]	N/A[]
3. Expand individual freedom?	Yes[]	No[]	N/A[X]
4. Increase personal responsibility?	Yes[]	No[]	N/A[X]
5. Empower families?	Yes[]	No[]	N/A[X]

For any principle that received a "no" above, please explain:

If Congress changed the funding formula for Medicaid from the current per capita income-based formula, to a formula based on total taxable resources (TTR), the federal match received by Florida would increase. With an increase in the Medicaid federal match, the Legislature would have three policy options that could affect taxes in the state.

- ✓ The first policy option would be to keep state contributions to Medicaid at the current level of funding, which would not affect taxes, yet would generate additional Medicaid funds through a higher federal match.
- ✓ The second option would be to set the state contribution at a level that would produce the same per capita allocation as it currently exists. With a higher federal match from the change in the funding formula this would allow a lower overall state contribution, which could result in lower taxes.
- ✓ Finally, the Legislature could choose to increase Florida's Medicaid contribution (which could possibly result in an increase in taxes) to increase the federal matching funds. The combination of the higher contributions would make more funds available to either eliminate the Medicaid deficit or provide higher levels of services for Medicaid beneficiaries.

B. EFFECT OF PROPOSED CHANGES:

HM 25 urges Congress to pass legislation to change the existing formula for the distribution of Medicaid funds from a formula based on per capita income within the state, to a formula based on total taxable resources plus the poverty rate in the state. The goal of changing the formula is to provide more equity in the distribution of Medicaid funds to the states.

<u>PRESENT SITUATION</u>

Medicaid is the primary source of government-provided health coverage for low-income individuals in Florida. Medicaid provides access to health care services for some of the most vulnerable populations in Florida including: 27% of children; 44% of pregnant women; 66% of nursing home days; 885,000 adults/parents, aged and disabled; and 52% of people with AIDS.

Medicaid is one of the largest single program expenditures in Florida's budget. Florida's Medicaid budget for fiscal year 2003-04 is $12.5 billion, approximately half of which is federal matching funds. The program services over 2.1 million persons per month which includes both categorical and optional eligibles.

<u>MEDICAID FUNDING</u>

The Medicaid program is funded through federal and state participation with Florida's counties contributing to inpatient hospital and nursing home services. Matching federal funds are contingent upon the state's continued compliance with Title XIX of the Social Security Act and regulations in Title 42 of the Code of Federal Regulations. As a federal/state partnership, the federal share of total

Medicaid program costs is determined using a statutory formula that calculates the portion of each state's Medicaid expenditures that the federal government will pay, known as the Federal Medical Assistance Percentage (FMAP), also called the "federal matching rate."

FMAP calculates the federal matching rate for each state on the basis of the state's per capita income (PCI) in relation to the national PCI. States with a low per capita income receive a higher federal match based on the assumption that the state's capacity to raise revenue to cover the expenditures of its low-income Medicaid participants is less than those states with higher PCI that receive a lower federal match. The federal Medicaid statutes also provide for a 50 percent minimum federal matching rate ("50 percent floor") that reflects a federal commitment to fund at least half of the cost of each state's program. The FMAP formula is calculated using the following formula:

$$\text{Medicaid Federal Matching Rate} = 1.00 - .45\,(\text{State PCI / U.S. PCI})^2$$

Under this Medicaid Federal Matching Rate formula, the 1.00 represents the total Medicaid expenditures. From these expenditures, the federal government subtracts almost half (.45) and multiplies this amount by an adjustment factor for per capita income in the state (State PCI) divided by the national average per capita income (U.S. PCI). This adjustment factor is then squared for mathematical/statistical reasons when using averages. The result is a formula that attempts to split the cost of Medicaid between the federal government and the state in such a way that each pays half of the costs, while at the same time, adjusts for differences in average income in the state compared to the national average.

<u>The Effect of Using Per Capita Income as a Base for Determining Medicaid Federal Match</u>

The use of PCI in federal grant formula dates to 1946, when it was chosen as a proxy for a state's ability to fund public services. As such, PCI is used as a proxy for both state resources and as a measure of low-income population. The use of PCI in the federal funding formula creates a situation where as the state's PCI increases, relative to the national average, the formula provides for a decreasing federal matching rate.

The Medicaid formulas using PCI reduces by 20 percent the differences among states in their ability to fund program services, compared with the national average funding ability. However, while the formula narrows differences for 30 states, making the average differences in funding ability smaller, it moves 21 states farther away from the national average (including Florida, although Florida has one of the highest poverty rates in the nation).

Because of the nature of this formula structure, two states spending the same proportion of their own budgets toward funding Medicaid services are unable, after receiving federal matching funds, to spend the same amounts per person in poverty, adjusted for cost differences related to age and geographic locations. For example, in fiscal year 1999-2000, Florida and Iowa each devoted $6.48 per $1,000 in state resources toward their Medicaid programs. But, after adding the federal match, Iowa could spend $6,729 per person in poverty, cost adjusted, while Florida could spend just $3,160 per person according to a 2003 report issued by the U.S. General Accounting Office (GAO).

<u>Total Taxable Resources (TTR) as an Alternative Base for Determining Medicaid Federal Match</u>

The GAO report goes on to explain that basing the Medicaid funding formula on per capita income is inappropriate. The GAO argues that PCI is an inadequate measure of a state's funding ability because it is an incomplete measure of overall state resources, a poor proxy for the size of a state's population in poverty, and PCI does not take into account differences in the cost of providing health care services to people in poverty. Instead, the GAO states that a Medicaid funding formula should be based on total taxable resources, or some other mechanism that better measures a state's fiscal capacity.

HM 25 urges the federal government to replace the current Medicaid formula with a formula that is based on the total taxable resources (TTR) of a state. TTR was developed in the mid-1980s by the U.S. Treasury as a new measure of a state's capacity to raise public revenues. TTR is a measure of all income potentially subject to taxation that is either produced within a state or received by state residents from out-of-state sources. TTR is considered a better indicator of a state's resources, or its ability to support its population in poverty.

The GAO has recommended changing the Medicaid formula to a TTR-based calculation since 1991, believing that it would be a more equitable funding formula, allowing all states the ability to spend the same per capita amount for Medicaid services, adjusted for geographic areas. Specifically, the GAO recommended going to the following allocation formula:

Medicaid Federal Matching Rate = 1.00 -.4052 (State Share of TTR / State Share of Poverty)

In this alternative Medicaid Federal Matching Rate formula, the 1.00 represents the total Medicaid expenditures. From these expenditures, the formula subtracts less than half (.4052) and multiplies this amount by an adjustment factor for the total taxable resources in the state (State Share of TTR), divided by the state's percentage of persons under the federal poverty level (State Share of Poverty). The result is a formula that attempts to split the cost of Medicaid between the federal government and the state in such a way that each pays half of the costs, while at the same time, adjusts for differences in a state's fiscal capacity compared to its poverty rate.

By using a TTR-based formula, there would be a significant redistribution of federal Medicaid dollars, and certain large states, including Florida, would receive more federal funds. Since this would only be redistribution, changing the formula would be budget-neutral for the federal government. In the GAO's 1991 report, the Office estimated that Florida would receive a 21 percent increase in federal funding using the TTR-based mechanism.

C. SECTION DIRECTORY:

None.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   See Fiscal Comments section.

2. Expenditures:

   See Fiscal Comments section.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   Any fiscal effects on local government revenue would be contingent on the Legislature's choice to use the additional federal match to offset current county contribution requirements.

2. Expenditures:

Any fiscal effects on local government revenue would be contingent on the Legislature's choice to use the additional federal match to offset current county contribution requirements.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

According to the Agency for Health Care Administration, the fiscal effect on state government is unknown due to the lack of specificity regarding the revised formula.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

This memorial does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds. This bill does not reduce the percentage of a state tax shared with counties or municipalities. This bill does not reduce the authority that municipalities have to raise revenue.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

Not applicable.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES