



## Medicaid Woes Highlight The Budget's Pre-Existing Condition

by Steven Kappel and Paul Cillo

**T**he federal government recently delivered two bits of bad news that will cost the state money. First, the Vermont State Hospital (VSH) will not be federally recertified. Second, the state's federal Medicaid match rate—the percentage of Vermont's Medicaid costs that Washington pays—will go down next year.

The current budget (fiscal 2009) that the governor signed in June assumed VSH recertification, and the federal funding that would come with it, beginning in January 2009. Without that seal of approval, Vermont will receive \$4.2 million less in federal money for health care this year. Losing hospital certification for a full year, coupled with the lower match rate, will cost Vermont \$15 million in federal funding in fiscal 2010.

With Vermont health care costs growing at about 8 percent each year<sup>1</sup> and state revenues growing at less than 3 percent,<sup>2</sup> the state cannot come close to paying for current services in the short term without severe cuts to Medicaid, cuts to other areas of the state budget, or new revenue. In the long term, the state needs to enact reforms that can slow health care cost growth rates.

The administration has already made adjustments to deal with a \$32 million drop in revenue since the budget was signed June. The loss of expected federal Medicaid funds puts even more pressure on a budget that is already in trouble both this year and next.

### Vermont State Hospital

In order for a hospital to receive federal funds (both Medicare and Medicaid), it must be certified. Certification is a process that involves both state and federal agencies. It judges whether the institution provides adequate services on measures including patient safety, patient rights, and quality of care.

VSH, which opened in 1890 and is the only public psychiatric hospital in the state, has been decertified several times since 2003. Decertification costs the state money because it must replace federal funds with state funds. In the case of Medicare, this is a dollar-for-dollar swap. For Medicaid—where most of VSH's federal money would come from—the state must make up Washington's share: about 60 percent.

Assuming the hospital's recertification effective January 1, 2009 (halfway through the fiscal year), the budget included revenues of about \$7 million in Medicaid funds (\$4.2 million in federal funds and \$2.8 million of state funds<sup>3</sup>). The state now faces replacing the \$4.2 million in federal funds in fiscal 2009. For fiscal 2010, the potential full-year loss could be over \$8 million in federal matching funds. The state is appealing the decertification.

### Federal Medicaid Match

Medicaid is a federal-state partnership that provides health care financing to two main groups of people: low-income families and people with disabilities. In Vermont, Medicaid also provides coverage for other groups not eligible in most states, such as low-income adults without children. Unlike Medicare, which is fully funded and fully regulated by the federal government, the Medicaid system is a state-federal partnership.

First, there is shared regulatory authority. Within broad federal limits, states have latitude both in whom they cover (eligibility) and what services they cover (benefits).

Second, the costs of the Medicaid program are shared. The federal government reimburses states at a fixed percentage of their spending within legal parameters. This match, known as the Federal Medical Assistance

Percentage, varies by state and over time. Vermont's match rate has historically been about 60 percent. This means that it costs the state 40 cents to purchase \$1 worth of care for a Medicaid beneficiary. Vermont was notified this month that its match rate is going down by about one-half of one percent. With a total Medicaid budget of nearly \$1.4 billion that's a loss of about \$7 million in federal matching funds in fiscal 2010.

## The Big Picture

Here's how the Vermont State Hospital and match rate developments fit into Vermont's budget picture:

In 2001, the Vermont legislature enacted a requirement that the Agency of Human Services submit a five-year state health care assistance program budget as part of the annual appropriations process.<sup>4</sup> The bulk of this budget is Medicaid, so it is typically thought of as the Medicaid budget. It comprises about one-quarter of total state health care costs.

According to the most recent estimates—made in July 2008—total health care assistance program spending for fiscal 2010 is projected to be \$1.36 billion. This spending level is expected to require \$579 million in state funding. However, as Figure 1 shows, with the match rate change and the loss of federal money for the VSH, the estimate of state funds required in fiscal 2010 rises to \$594 million, or \$15 million more than projected.

The state health care assistance program projections assume that there will be no changes in policy, such as eligibility rules, premium rates, or tax rates. So the amounts shown in **Figure 1** are those needed to pay for current services.

This \$15 million loss of federal funds adds to the already expected increase in the state's health program spending of more than 8 percent in fiscal 2010.<sup>5</sup> As **Figure 2** shows, the largest source of revenue for state health care assistance programs is the general fund. Other money comes from dedicated taxes and premiums; these are fixed amounts, with little or no flexibility.

Current revenue estimates indicate that to balance the fiscal 2010 budget overall general fund spending would need to be the same in fiscal 2010 as in fiscal 2009.<sup>6</sup> But if the state is going to pay for current health

### Figure 1. Projected State Health Program Spending and Revenue, Fiscal 2010

	(\$ in millions)
<b>Projected Fiscal 2010 Spending</b>	
Total Health Program Spending.....	\$ 1,364.3
Spending growth over Fiscal 2009.....	\$ 92.2
Spending growth (%).....	7.2%
<b>Projected Fiscal 2010 State Share (Non-federal)</b>	
Projected as of July 1, 2008.....	\$ 579.2
• Federal match rate change.....	\$ 7.0
• Loss of federal funds for VSH.....	\$ 8.4
Projected as of October 15, 2008.....	\$ 594.6
<b>Projected Fiscal 2010 State Revenue</b>	
Dedicated Funds.....	\$ 260.9
General fund at fiscal 2009 level.....	\$ 263.8
	\$ 524.7
<b>Additional General Fund Revenue Needed</b>	<b>\$ 69.9</b>

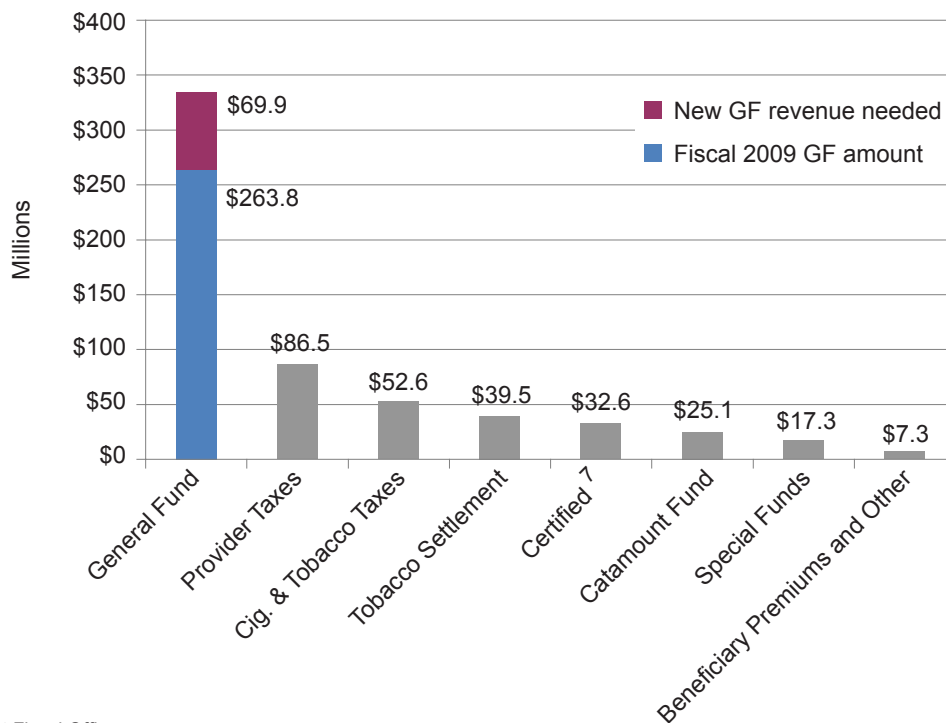
Source: Joint Fiscal Office, consensus five-year projections, July 2008; Public Assets Institute

care services at next year's projected cost with next year's projected caseloads, the general fund appropriation for health programs will need to be \$70 million more than in fiscal 2009. **Figure 2** shows the additional revenue requirement in the context of all the revenue sources that support state health programs.

Handwringing over Medicaid is nothing new. At the start of each budget cycle, there are warnings that Vermont will not be able to meet its obligations without making drastic cuts in eligibility and benefits, shortchanging health care providers or raising additional revenue. But each year Vermont has found the money to get through that year.

But as the economy weakens and revenues fall, the state has fewer options for providing one-time budget fixes. There are rumblings about another economic stimulus plan from Washington that could provide a temporary funding increase to states. And even if Vermont gets lucky again, it will just be another one-time fix. If the state is to continue providing essential health care services to Vermonters, the governor and the Legislature need to put state health care programs on solid footing—with funding—and stop hoping each year that somehow things will work out.

**Figure 2. Sources of \$594.6 Million Projected State Share of Vermont Health Program Expenditures, Fiscal 2010**



Data source: Joint Fiscal Office

## ENDNOTES

<sup>1</sup> Vermont Department of Banking, Insurance, Securities and Health Care Administration, *2006 Vermont Health Care Expenditure Analysis & 3-Year Forecast*

<sup>2</sup> Kavet, Rockler and Associates, *July 2008 Economic Review and Revenue Forecast Update*

<sup>3</sup> Joint Fiscal Office

<sup>4</sup> 33 VSA § 1901a

<sup>5</sup> Joint Fiscal Office, consensus five-year projections, July 2008

<sup>6</sup> Joint Fiscal Office, General Fund Summary & Outlook, August 2008

<sup>7</sup> Certified funds are funds spent by entities other than the State of Vermont on activities that are included in the terms and conditions of the Global Commitment waiver. These activities include:

- Reducing the rate of uninsured and/or underinsured in Vermont;
- Increasing the access of quality health care to uninsured, underinsured, and Medicaid beneficiaries;
- Providing public health approaches to improve the health outcomes and the quality of life for Medicaid-eligible individuals in Vermont; and

- Encouraging the formation and maintenance of public-private partnerships in health care.

The majority of these funds are spent in local schools, including health-related services provided to eligible students and part of the costs of the school nurse program. The funds are “certified” because there is no direct state appropriation for these services.

For example, if schools spend \$1 million to provide nursing services for the uninsured, underinsured, and Medicaid beneficiaries, this amount is certified to the federal government, which provides matching funds at the standard state match rate (about 60 percent). In this example, Global Commitment allows the state to draw down about \$600,000 of federal funds that would be unavailable in the absence of the waiver.

© 2008 by Public Assets Institute

*This research was funded in part by the Annie E. Casey Foundation and the Public Welfare Foundation. We thank them for their support but acknowledge that the findings presented in this report are those of the Public Assets Institute and do not necessarily reflect the opinions of the foundations.*

## Public Assets Institute



PO Box 942, Montpelier, Vermont 05601  
802-223-6677  
www.publicassets.org

The Public Assets Institute supports democracy by helping Vermonters understand and keep informed about how their government is raising and spending money and using other public assets.

PAI-RPT0804