SB 28 Would Jeopardize State Finances, Health Services

Senate Bill 28 requires Missouri to apply for a Medicaid "global waiver" from the federal government. It would change the financing structure for the state's Medicaid program, known as MO HealthNet, from a federal/state matching program to a federal block grant, or capitated amount.

Currently, the federal government provides a generous match for every dollar the state spends on Medicaid services. However, the state relies heavily on a mechanism known as the "federal reimbursement allowance" (FRA) to generate its share of Medicaid spending.

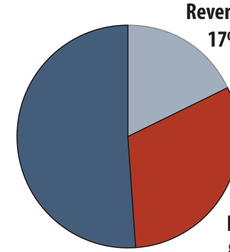
- Under a block grant or capitated amount, the federal government would give the state a predetermined set of funds, but that amount isn't linked to the actual cost of care in the future.
- Moreover, it jeopardizes the FRA funds Missouri uses to fund services.

These dynamics pose the serious risk that Missouri would need to:

- **Significantly increase general revenue funding just to maintain the existing Medicaid program.**
- **Cut MO HealthNet services significantly, or**
- **Reduce other programs in the general revenue budget.**

Missouri's Medicaid match rate is 63.21%, meaning that for every $1 the state spends in services, the federal government contributes $1.72.

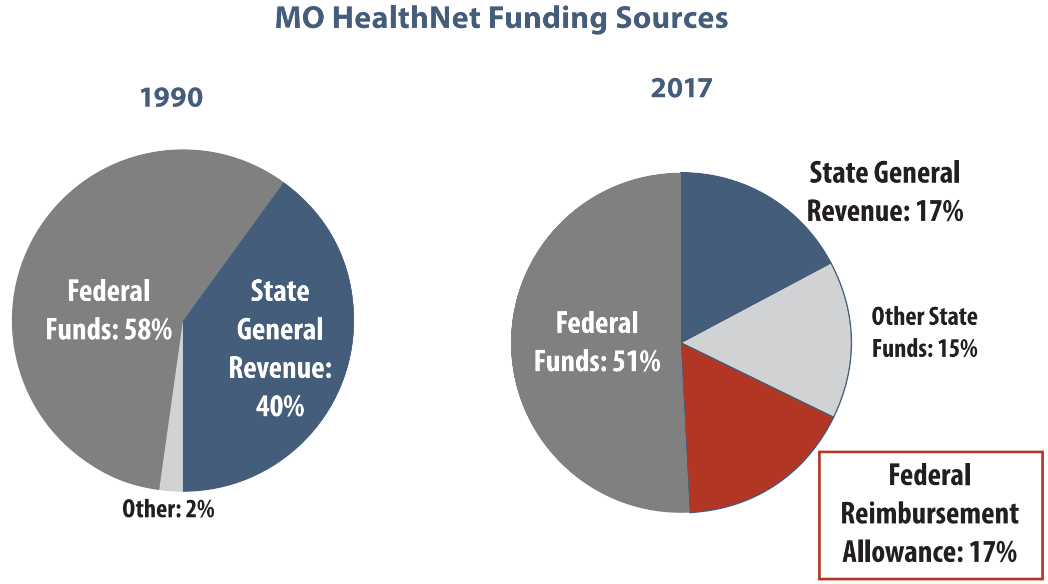
By law, the federal match rate cannot fall below 50%.



Currently, Federal Reimbursement Allowance Maximizes Federal Dollars, Minimizes GR

- The FRA, also known as the provider tax, was designed to leverage additional federal dollars for Medicaid services.
- Under the FRA, hospitals voluntarily contribute provider taxes, which are then counted as part of the state's match for Medicaid - leveraging a return of the original investment and additional federal funding for health services.
- Since FRA began in 1991, provider taxes have expanded in Missouri to cover additional health providers, including nursing facilities, pharmacy, and ambulances, and are a good deal for providers too.
- The FRA has become a major funding stream for MO HealthNet, freeing up state general revenue tax dollars for other state priorities.
- **Prior to the FRA, state general revenue funding paid for the majority of the state's share of Medicaid costs, but today the state general revenue obligation has fallen to just 17% of the total cost.**

Block Grants & Capitated Federal Financing Would Eliminate FMAP & Jeopardize the FRA



Block grants and capitated federal financing structures are designed to reduce federal costs, not state costs.

- A block grant would eliminate the federal matching rate (FMAP). Instead, Missouri would receive a set amount of funding to provide health services each year.
- As health care costs increase, there would be no guarantee that federal funding would increase in proportion to the costs.
- As a result, over time, in order to maintain the existing Medicaid structure, Missouri would need to cover a larger share of the cost with state tax dollars.

The incentive for providers to participate in the FRA program goes away under a block grant or capitated amount.

- The FRA currently works because the FMAP provides a built-in incentive for health care providers to participate in the provider tax program.
- Because of FMAP, providers know that for each dollar they contribute, they are guaranteed to draw down additional federal funding for health services.
- However, under a block grant or capitated amount, the guarantee of additional federal funding is eliminated and that incentive disappears.

If Missouri were to lose FRA funding, it would have to <u>double its state general revenue contribution</u> to Medicaid in order to simply maintain existing MO HealthNet services.

Senate Bill 28 creates unnecessary financial risks for Missouri.