

Municipal Securities Research

Municipal Commentary

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Medicaid Expansion Update

The Patient Protection and Affordable Care Act's (ACA) requirement that states expand their Medicaid programs¹ continues to be a contentious issue, with at least 17 Republican-led states considering opting out of the Medicaid program's expansion. Over the past few weeks, there have been two interesting developments concerning the expansion requirement that have the potential of significantly affecting the direction of Medicaid implementation.

- 1) The Obama administration provided new guidance to allow states to opt in and to later opt out of the ACA's Medicaid expansion.
- 2) Maine opened a new front in the states' battle against Medicaid expansion, as it has challenged the validity of the ACA's maintenance of effort (MOE) provision.

States Can Opt in and Opt out of Medicaid Program Expansion

The Center for Medicare & Medicaid Services (CMS) clarified that it will allow states to opt in and to later opt out of expanding their respective states' Medicaid program. This provides states with considerable budget flexibility, in our opinion, and increases the likelihood that most states will ultimately make the pragmatic financial decision to at least initially expand Medicaid coverage, in our view. Although some state administrations have expressed legitimate concerns about the possibility of Congress cutting the generous enhanced Medicaid reimbursement levels in the future, we believe the flexibility articulated by CMS is intended to mitigate these concerns. In addition, more hospitals should benefit from treating fewer uninsured patients, in our view.

Is the Maintenance of Effort Provision Still Applicable?

Many Republican governors have been vocal in expressing continuing opposition to the ACA, despite the Supreme Court's (the court) recent ruling to mostly uphold the law. But Maine Gov. Paul LePage has gone a step further. Since the requirement to participate in the Medicaid expansion is now optional, Maine has interpreted this to also mean that the MOE provision is no longer valid. The MOE clause prohibits states from reducing their existing Medicaid eligibility rules before 2014. Pressing the issue forward, Maine filed a state plan amendment with CMS requesting permission to change certain eligibility requirements² for MaineCare. Given Maine's budget deficit, it is understandable why the state is seeking additional Medicaid flexibility. However, even if CMS does not approve the amendment

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¹Starting in 2014, the ACA requires states to expand their Medicaid programs to cover all low-income citizens with incomes up to 133% of the federal poverty limit.

²Maine's proposal calls for reducing the state's optional coverage of nonpregnant, nondisabled adults, changing the qualification threshold for dual-eligible Medicaid enrollees, as well as eliminating coverage for 19 and 20 year olds.

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Maine's maintenance of effort challenge will likely prove unsuccessful.

request, Maine still intends to drop coverage of these citizens by September. Much like Florida led the states' constitutional challenge to the ACA, Maine is prepared to pursue litigation against the U.S. Department of Health and Human Services.

However, we believe that Maine's MOE challenge will likely prove unsuccessful. In finding the ACA's enforcement provision for Medicaid expansion to be coercive, the court remedied the problem by severing from the law the federal government's ability to punitively withhold funds for a state's existing Medicaid program if the respective state opts out of the Medicaid expansion. The court did not strike down any other aspects of the ACA, as it intended for Congress to be responsible for modifying or repealing other parts of the ACA. However, in the event that Maine prevails with its legal challenge, this would have important ramifications for other states. Others will likely move quickly to tighten their own eligibility requirements, so they can pare down their Medicaid rolls before 2014. Such a development could increase the uninsured population to the detriment of NFP hospital revenues.

Medicaid Is a Big Slice of the State Budget Pie

Expanded coverage would likely increase state Medicaid costs by 2019, according to a study by the Kaiser Commission on Medicaid and the Uninsured (KCMU). Given a zero-sum budget game, other big-ticket items, such as education, infrastructure and public services, are likely to be "crowded out" by Medicaid expansion. For example, Maine's Medicaid accounted for 28.6% of total state expenditures in FY10. This was the sixth-highest percentage among the states (Exhibit 1, Column K). Even though the total number of citizens currently under MaineCare may appear small in absolute terms, this population represents 21.3% of the state's total population (see Column L). Columns B through I shows Medicaid population growth between 2000 and 2011.

Initially Opting for Expansion Could Make Financial Sense

States will receive 100% reimbursement for the expansion between 2014 and 2016, which is further reason to take advantage of the first three years of the expanded program. Although reimbursement levels for these beneficiaries will progressively decline starting in 2017, they will only fall to a floor of 90% by 2020. With CMS's new guidance it might make financial sense for states to temporarily expand coverage and then discontinue their participation, social and political considerations notwithstanding, once federal dollars for expanded Medicaid coverage begins phasing down. In addition, perhaps an improving economy will organically reduce the Medicaid rolls by that time.

A Handful of States Could See Their Medicaid Expenses Decline

In fact, four states that currently provide a higher level of benefit than required could see their overall Medicaid spending decrease due to cost shifting to the federal government, according to the KCMU study. Reductions in state spending for Maine, Massachusetts, Hawaii and Vermont may be possible, because they voluntarily provided optional coverage of adults up to 100% of the federal poverty level (FPL) prior to the passage of the ACA. The ACA provides for these optional beneficiaries to be picked up by expanded coverage. In addition, states that currently cover optional adult populations would see related reimbursement for these populations raised to match the enhanced reimbursement rates under expanded coverage. Finally, these four states are expected to see a relatively modest number of citizens newly enrolled in Medicaid by 2019. The total number of new projected Medicaid enrollees shown in columns M and O includes new traditional Medicaid enrollees and expanded coverage enrollees. Aggregate state spending through 2019 shown in columns N and P reflects the cumulative cost of new traditional Medicaid enrollees plus the incremental cost of expanded Medicaid enrollees net of the enhanced federal reimbursement for these populations.

Four states that currently provide a higher level of benefit than required could see their overall Medicaid spending decrease due to cost shifting to the federal government.

For example, Massachusetts stands to gain the most, with close to \$1.3 billion in possible cost savings through 2019 under KCMU's standard Medicaid expansion scenario. Since Massachusetts passed its own healthcare reform legislation in 2006, less than 2% of its population remains uninsured. Thus, the state is projected to have less than 30,000 new Medicaid enrollees by 2019. Coverage for Massachusetts' existing optional enrollees will shift over to the expanded Medicaid program. Maine, too, could see its state-based Medicaid costs reduced by \$118 million through this shift of funding to the federal government. This compares favorably to the estimated \$19.3 million in state-based Medicaid costs savings that Maine could realize if it were able to drop the optional beneficiaries as it has proposed. If Maine were to opt out of the expansion, it could actually lead to a worse outcome for the state. Maine would not be able to cost shift coverage of optional enrollees to the federal government. Instead, in the interest of balancing its budget, Maine would be forced to continue tightening its eligibility rules to reduce its Medicaid rolls, leaving the state with an increasing higher uninsured population. Hawaii and Vermont are expected to see more modest, but still meaningful, reductions in their projected Medicaid. Columns M through P of Exhibit 1 detail these points.

Questions Still Remain

Governors have raised a number of other issues with CMS and are awaiting guidance. They are expected to continue aggressively pressuring the administration for specific details. For example, it is unclear whether federal health insurance exchange (HIE) subsidies would be provided to citizens with incomes below 100% of the FPL if their respective state opts out of the Medicaid program expansion. State-run and federally facilitated HIEs are the ACA's key mechanism for facilitating reductions in the uninsured population. Online HIEs, which must be established by 2014, will enable citizens to easily register for Medicaid (for both traditional and expanded coverage) and to easily purchase more affordable commercial health insurance policies. HIEs will also enable citizens to take advantage of federal HIE tax credit subsidies³ to buy commercial policies. The states are also anxious to learn what parameters there will be regarding minimum essential health benefit standards for commercial health insurance policies sold over HIEs.

Conclusion

The ability to freely opt in and opt out of the Medicaid program's expansion gives states additional flexibility to manage their budgets. Despite the rhetoric, it is likely that states will be pragmatic with their financial decision making, in our view. In the final analysis, that means that most states may ultimately choose to expand their Medicaid coverage, even if doing so contradicts their ideological opposition to the ACA. In our opinion, the federal government's generous reimbursement for expanded coverage is indeed "too good to pass up," so giving states a "free option" to take "free money" is a positive development for NFP hospitals.

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³Federal HIE premium tax credit subsidies are available for citizens with modified adjusted gross household incomes between 100% and 400% of the FPL.

Exhibit 1 - State Medicaid Population Growth and Expenditures

A	B Medicaid Population Growth (June 2000-2011) ('000)										C		D	E	F	G	H Medicaid Growth Rate (2000-2011)		I	J Estimated State Population and % of Medicaid		K	L Medicaid Expenditures	M Medicaid Expansion - Standard Scenario		N Medicaid Expansion - Enhanced Scenario		O	P	Q
	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11					Average Annual % Growth	Aggregate % Growth		States Pop. July-11 ('000)	State Medicaid % of Pop.			Total New Medicaid Enrollees (2019)	Projected Spending 2014-2019 (\$M)	Total New Medicaid Enrollees (2019)	Projected Spending 2014-2019 (\$M)			
Alabama	534.2	665.2	736.1	832.3	832.3	832.3	832.3	832.3	832.3	832.3	832.3	832.3	4.2%	55.8%	4,802.7	17.3%	351,567	\$ 470	335,547	\$ 693	335,547	\$ 693								
Alaska	72.4	85.7	86.9	107.2	107.2	107.2	107.2	107.2	107.2	107.2	107.2	107.2	3.7%	48.1%	722.7	14.8%	42,794	\$ 117	49,061	\$ 219	49,061	\$ 219								
Arizona	438.9	917.3	1,105.7	1,205.7	1,205.7	1,205.7	1,205.7	1,205.7	1,205.7	1,205.7	1,205.7	1,205.7	10.1%	175.2%	6,482.5	18.6%	105,428	\$ 56	273,008	\$ 739	273,008	\$ 739								
Arkansas	329.8	492.6	514.0	526.5	545.1	545.1	545.1	545.1	545.1	545.1	545.1	545.1	4.8%	65.3%	2,938.0	18.6%	200,690	\$ 455	234,695	\$ 761	234,695	\$ 761								
California	5,048.6	6,416.2	6,899.6	7,178.6	7,367.6	7,367.6	7,367.6	7,367.6	7,367.6	7,367.6	7,367.6	7,367.6	3.6%	45.9%	37,691.9	19.5%	2,008,796	\$ 2,982	2,291,221	\$ 6,544	2,291,221	\$ 6,544								
Colorado	263.3	381.1	407.2	467.6	526.2	588.9	588.9	588.9	588.9	588.9	588.9	588.9	5.8%	78.6%	5,116.8	11.5%	245,730	\$ 286	249,208	\$ 470	249,208	\$ 470								
Connecticut	316.6	388.3	416.2	443.8	525.2	565.6	565.6	565.6	565.6	565.6	565.6	565.6	5.0%	64.6%	3,580.7	15.8%	114,083	\$ 263	113,876	\$ 440	113,876	\$ 440								
DC	115.4	126.5	130.8	145.4	189.9	189.9	189.9	189.9	189.9	189.9	189.9	189.9	6.9%	106.5%	618.0	30.7%	28,900	\$ 42	23,317	\$ 90	23,317	\$ 90								
Delaware	96.2	144.3	153.1	166.7	181.6	199.7	199.7	199.7	199.7	199.7	199.7	199.7	6.1%	89.2%	907.1	21.9%	14,474	\$ 3	22,891	\$ 62	22,891	\$ 62								
Florida	1,582.7	2,055.3	2,151.7	2,502.8	2,801.7	2,993.8	2,993.8	2,993.8	2,993.8	2,993.8	2,993.8	2,993.8	6.1%	89.2%	19,057.5	15.7%	951,622	\$ 1,233	1,073,391	\$ 2,537	1,073,391	\$ 2,537								
Georgia	912.0	1,224.5	1,266.9	1,387.1	1,487.4	1,501.7	1,501.7	1,501.7	1,501.7	1,501.7	1,501.7	1,501.7	4.8%	64.7%	9,815.2	15.3%	646,557	\$ 714	721,558	\$ 1,233	721,558	\$ 1,233								
Hawaii	148.6	184.9	192.3	214.4	234.9	247.0	247.0	247.0	247.0	247.0	247.0	247.0	4.8%	66.2%	1,374.8	18.0%	84,130	\$ (28)	64,167	\$ 30	64,167	\$ 30								
Idaho	100.9	171.9	172.8	179.4	201.3	214.4	214.4	214.4	214.4	214.4	214.4	214.4	7.2%	112.5%	1,585.0	13.5%	85,883	\$ 101	85,523	\$ 133	85,523	\$ 133								
Illinois	1,286.5	1,930.3	2,043.4	2,191.5	2,451.8	2,566.2	2,566.2	2,566.2	2,566.2	2,566.2	2,566.2	2,566.2	6.5%	99.5%	12,869.3	19.9%	631,024	\$ 1,202	694,012	\$ 2,468	694,012	\$ 2,468								
Indiana	562.4	787.7	827.4	920.3	984.8	978.4	978.4	978.4	978.4	978.4	978.4	978.4	5.2%	74.0%	6,516.9	15.0%	297,737	\$ 478	337,987	\$ 899	337,987	\$ 899								
Iowa	202.0	314.2	335.0	374.4	407.5	431.0	431.0	431.0	431.0	431.0	431.0	431.0	7.2%	113.4%	3,062.3	14.1%	114,691	\$ 147	117,621	\$ 257	117,621	\$ 257								
Kansas	189.8	245.1	253.7	264.4	285.0	325.3	325.3	325.3	325.3	325.3	325.3	325.3	5.2%	71.4%	2,871.2	11.3%	143,445	\$ 166	131,528	\$ 260	131,528	\$ 260								
Kentucky	563.3	695.0	698.5	748.5	775.0	794.5	794.5	794.5	794.5	794.5	794.5	794.5	3.2%	41.0%	4,369.4	18.2%	329,000	\$ 515	337,987	\$ 695	337,987	\$ 695								
Louisiana	601.4	827.0	860.1	898.4	974.1	996.7	996.7	996.7	996.7	996.7	996.7	996.7	4.8%	65.7%	4,574.8	21.8%	366,318	\$ 337	409,869	\$ 536	409,869	\$ 536								
Maine	161.1	262.0	254.5	262.1	279.7	282.7	282.7	282.7	282.7	282.7	282.7	282.7	5.4%	75.5%	1,328.2	21.3%	43,468	\$ (118)	41,858	\$ (65)	41,858	\$ (65)								
Maryland	412.0	525.0	549.8	659.6	770.7	847.9	847.9	847.9	847.9	847.9	847.9	847.9	6.9%	105.8%	5,828.3	14.5%	245,996	\$ 533	267,555	\$ 1,060	267,555	\$ 1,060								
Massachusetts	839.8	997.9	1,053.6	1,095.5	1,150.2	1,190.9	1,190.9	1,190.9	1,190.9	1,190.9	1,190.9	1,190.9	3.3%	48.1%	6,587.5	18.1%	29,921	\$ (1,274)	43,508	\$ (628)	43,508	\$ (628)								
Michigan	1,042.5	1,502.1	1,526.3	1,684.8	1,870.0	1,940.2	1,940.2	1,940.2	1,940.2	1,940.2	1,940.2	1,940.2	5.9%	86.1%	9,876.2	19.6%	589,965	\$ 686	635,231	\$ 1,096	635,231	\$ 1,096								
Minnesota	466.1	585.3	603.8	663.9	714.9	831.1	831.1	831.1	831.1	831.1	831.1	831.1	5.5%	78.3%	5,344.9	15.5%	251,783	\$ 421	211,781	\$ 745	211,781	\$ 745								
Mississippi	445.8	509.9	577.3	607.5	617.8	617.8	617.8	617.8	617.8	617.8	617.8	617.8	3.3%	38.6%	2,978.5	20.7%	320,748	\$ 429	350,091	\$ 581	350,091	\$ 581								
Missouri	670.8	717.8	750.7	778.3	801.5	824.4	824.4	824.4	824.4	824.4	824.4	824.4	2.2%	22.9%	6,010.7	13.7%	307,872	\$ 431	324,276	\$ 773	324,276	\$ 773								
Montana	69.6	90.1	89.2	95.1	105.9	112.5	112.5	112.5	112.5	112.5	112.5	112.5	4.5%	61.6%	998.2	11.3%	57,356	\$ 100	56,889	\$ 155	56,889	\$ 155								
Nebraska	175.9	177.2	177.3	190.0	201.1	207.2	207.2	207.2	207.2	207.2	207.2	207.2	1.7%	17.8%	1,842.6	11.2%	83,898	\$ 106	71,053	\$ 155	71,053	\$ 155								
Nevada	105.9	170.2	188.9	213.5	263.6	290.9	290.9	290.9	290.9	290.9	290.9	290.9	10.0%	174.7%	2,723.3	10.7%	136,563	\$ 188	156,023	\$ 338	156,023	\$ 338								
New Hampshire	82.0	110.1	114.3	124.1	130.5	133.9	133.9	133.9	133.9	133.9	133.9	133.9	4.6%	63.3%	1,318.2	10.2%	55,918	\$ 63	52,146	\$ 117	52,146	\$ 117								
New Jersey	620.7	761.4	812.4	855.9	898.1	898.1	898.1	898.1	898.1	898.1	898.1	898.1	3.4%	44.7%	8,821.2	10.2%	390,490	\$ 533	455,627	\$ 1,078	455,627	\$ 1,078								
New Mexico	287.9	380.4	432.3	472.7	509.0	507.3	507.3	507.3	507.3	507.3	507.3	507.3	5.4%	76.2%	2,082.2	24.4%	145,024	\$ 194	163,105	\$ 278	163,105	\$ 278								
New York	2,719.2	4,101.0	4,139.6	4,417.9	4,722.2	4,928.0	4,928.0	4,928.0	4,928.0	4,928.0	4,928.0	4,928.0	5.7%	81.2%	19,465.2	25.3%	305,945	\$ 50	706,575	\$ 2,859	706,575	\$ 2,859								
North Carolina	872.6	1,179.6	1,238.2	1,331.1	1,358.4	1,391.4	1,391.4	1,391.4	1,391.4	1,391.4	1,391.4	1,391.4	4.4%	59.5%	9,666.4	14.4%	633,465	\$ 1,029	661,292	\$ 1,791	661,292	\$ 1,791								
North Dakota	43.4	51.7	51.9	58.7	63.7	65.7	65.7	65.7	65.7	65.7	65.7	65.7	4.0%	51.4%	683.9	9.6%	28,884	\$ 32	26,457	\$ 57	26,457	\$ 57								
Ohio	1,062.7	1,581.2	1,653.3	1,797.6	1,945.8	1,991.8	1,991.8	1,991.8	1,991.8	1,991.8	1,991.8	1,991.8	6.0%	87.4%	11,545.0	17.3%	667,376	\$ 830	670,992	\$ 1,335	670,992	\$ 1,335								
Oklahoma	369.1	525.9	522.4	593.0	602.6	627.3	627.3	627.3	627.3	627.3	627.3	627.3	5.0%	70.0%	3,915.5	16.5%	357,150	\$ 549	367,541	\$ 789	367,541	\$ 789								
Oregon	379.5	356.5	393.4	455.5	541.5	541.5	541.5	541.5	541.5	541.5	541.5	541.5	3.6%	42.7%	3,871.9	14.0%	294,600	\$ 438	292,651	\$ 555	292,651	\$ 555								
Pennsylvania	1,417.2	1,887.6	1,925.7	2,017.8	2,115.9	2,215.7	2,215.7	2,215.7	2,215.7	2,215.7	2,215.7	2,215.7	4.2%	56.3%	12,742.9	17.4%	482,366	\$ 1,054	458,200	\$ 2,041	458,200	\$ 2,041								
Rhode Island	144.7	163.7	158.7	159.3	165.6	170.8	170.8	170.8	170.8	170.8	170.8	170.8	1.6%	18.0%	1,051.3	16.2%	41,185	\$ 70	40,850	\$ 100	40,850	\$ 100								
South Carolina	535.0	618.6	643.4	681.7	690.8	691.5	691.5	691.5	691.5	691.5	691.5	691.5	2.5%	29.3%	4,679.2	14.8%	344,109	\$ 470	334,296	\$ 615	334,296	\$ 615								
South Dakota	69.5	89.7	90.9	95.3	101.3	102.2	102.2	102.2	102.2	102.2	102.2	102.2	3.6%	47.1%	824.1	12.4%	31,317	\$ 32	27,160	\$ 46	27,160	\$ 46								
Tennessee	1,347.0	1,215.3	1,237.0	1,266.3	1,266.4	1,289.1	1,289.1	1,289.1	1,289.1	1,289.1	1,289.1	1,289.1	-0.3%	-4.3%	6,403.4	20.1%	330,932	\$ 716	372,894	\$ 1,523	372,894	\$ 1,523								
Texas	1,761.4	2,864.9	2,882.6	3,099.7	3,358.5	3,592.0	3,592.0	3,592.0	3,592.0	3,592.0	3,592.0	3,592.0	6.8%	103.9%	25,674.7	14.0%	1,798,314	\$ 2,619	2,055,888	\$ 4,514	2,055,888	\$ 4,514								
Utah	135.2	197.3	203.1	241.1	259.8																									

Additional information is available on request.

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