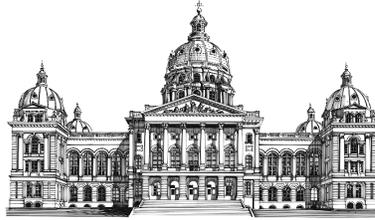

Iowa Legislative Services Agency Fiscal Services

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State Capitol
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Medicaid Funding Growth FY 2005 through FY 2007

ISSUE

The Medical Assistance (Medicaid) Program faces significant funding issues for the next three years. State General Fund expenditures for Medicaid are estimated to increase \$339.8 million from FY 2005 through FY 2007. The increase is due to three factors:

- Caseload growth - \$139.4 million. Caseloads are expected to grow between 6.2% and 4.0% each year. The average annual increase for each of the three years is approximately \$46.5 million.
- Depletion of the one-time balance in the Senior Living Trust Fund - \$134.3 million.
- Impending elimination of Intergovernmental Transfers (IGTs) - \$66.1 million.

AFFECTED AGENCIES

Department of Human Services (DHS)

CODE AUTHORITY

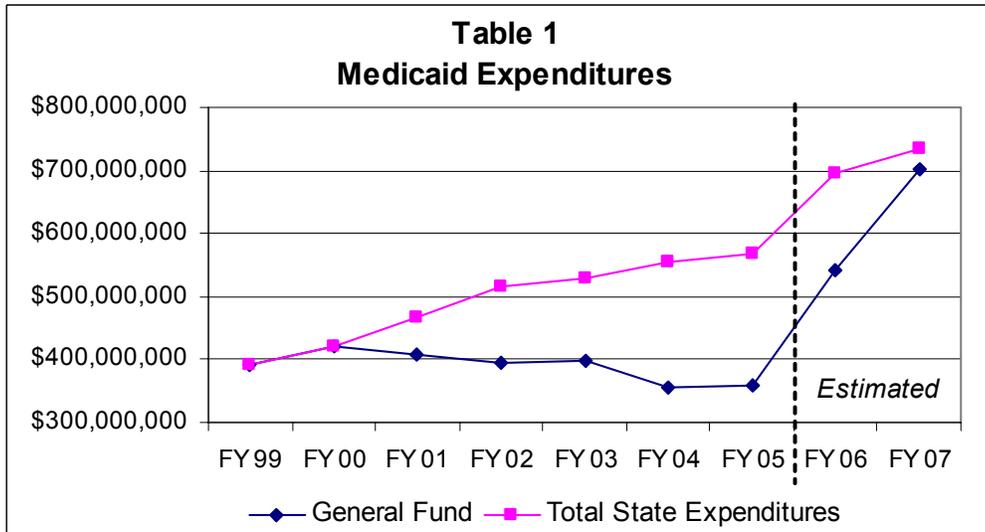
Chapter 249A, Code of Iowa

BACKGROUND

Medicaid is a Medical Assistance Program funded jointly by State and federal funds to provide health care services to people with low-income and few resources. Medicaid covers low-income people who are also aged, blind, disabled, pregnant, children under age 21, or members of families with dependent children. For Federal Fiscal Year 2005, the federal matching rate for Iowa is 63.55%.

Historically, the State match for the Medicaid Program was funded by the State General Fund. Economic conditions over the past four years have resulted in a large increase in the Medicaid caseload nationally, and in Iowa. In addition, increases in medical costs, particularly prescription drugs, have increased expenditures in the Program. Beginning in FY 2001, other

State funding sources were used to offset the State General Fund cost (see **Table 1**). The shift has grown over time; in FY 2005, the total State appropriation is \$568.2 million, of which \$361.4 million is from the General Fund and \$206.8 million is from other funds.



In FY 2005, the other funds include:

- \$35.0 million from the Healthy lowans Tobacco Trust.
- \$134.3 million from the Senior Living Trust Fund (SLTF).
- \$37.5 million from the Hospital Trust Fund.

The amount of funding available from other funding sources begins to decline in FY 2006 (see **Table 1**). On the graph this is shown by the increase in the General Fund relative to Total State Expenditures. This is due to two factors. First, the balance in the SLTF will be depleted by the end of FY 2006 at the current rate of expenditure. Second, revenue from Intergovernmental Transfers (IGTs) is likely to be discontinued by the federal government at the end of FY 2005.

SENIOR LIVING TRUST FUND

The SLTF receives federal revenue from an Intergovernmental Transfer based on nursing home reimbursement rates. The transfer yielded \$399.0 million in federal revenue from FY 2001 through FY 2003 (see **Attachment 1**). A change in the federal regulations in January of 2001 limited the amount of the IGT and beginning October 1, 2003, the federal revenue was reduced to approximately \$5.5 million annually. A balance of \$366.8 million accumulated in the Fund by the beginning of FY 2004. This one-time balance in the SLTF has funded an increasing proportion of the on-going Medicaid State match. The SLTF appropriation for Medicaid in FY 2005 is \$134.3 million, which is 23.6% of the total State appropriation.

At the current rate of expenditure, the SLTF's one-time balance will be depleted during FY 2006, and there will be an estimated shortfall of \$10.4 million in the Medicaid Program. These costs will need to be shifted to the General Fund, or another funding source yet to be identified, or changes will need to be made to the Program. This results in a General Fund increase of \$10.4 million in FY 2006, and \$134.3 million in FY 2007 in the Medicaid Program.

House File 2039 (98% Expenditure Limitation Act) transfers a portion of the General Fund ending balance to the SLTF. It is estimated that this provision will transfer approximately \$30.0 million to the SLTF after the close of FY 2006. This has not been factored into the SLTF shortfall estimate discussed above as there are other programs (i.e. Department of Elder Affairs and the Conversion Grants Program) funded from the SLTF. Some or all of the \$30.0 million may be used to offset the Medicaid shortfall, however, that may eliminate funding for the other programs. For the purposes of this estimate, it is assumed that all revenue transferred as a result of HF 2039 is used for non-Medicaid expenditures.

INTERGOVERNMENTAL TRANSFERS

The second factor contributing to the decrease in availability of other funds is the impending elimination of IGTs. The IGTs are a financing mechanism in the Medicaid Program that leverages approximately \$66.1 million in federal revenue for Iowa annually. This federal revenue directly offsets State General Fund expenditures for the Medicaid Program. There are several variations of how IGTs work, but one component they share is a revenue transfer from one governmental entity to another (such as the University of Iowa and the State Medicaid Program). Recent actions at the federal level indicate that IGTs will likely no longer be available as a financing strategy beginning in FY 2006.

In FY 2006, the State of Iowa will receive approximately \$66.1 million in increased federal match over and above the federal matching rate, including:

- \$5.5 million through the SLTF.
- \$23.9 million through the Hospital Trust Fund.
- \$18.3 million through the Supplemental Disproportionate Share.
- \$18.4 million through the Indirect Medical Education.

Over the past year, the federal Centers for Medicare and Medicaid Services (CMS) has exerted significant pressure upon states to negotiate the end of IGTs. The CMS is withholding federal approval of all of Iowa's State Plan Amendments to the Medicaid Program until Iowa withdraws its IGTs. The DHS developed a proposal to phase-out Iowa's IGTs and discussed it with CMS; however, CMS has not taken action on the proposal. Other states have negotiated with CMS to end their IGTs, but little information is available regarding the specific arrangements in each state.

It appears likely that Iowa's \$66.1 million in IGTs will be discontinued in FY 2006. It is unknown whether the State will be successful in receiving approval of strategies that would offset a portion of the funding loss to the Medicaid Program.

FY 2005 AND FY 2006 ESTIMATES

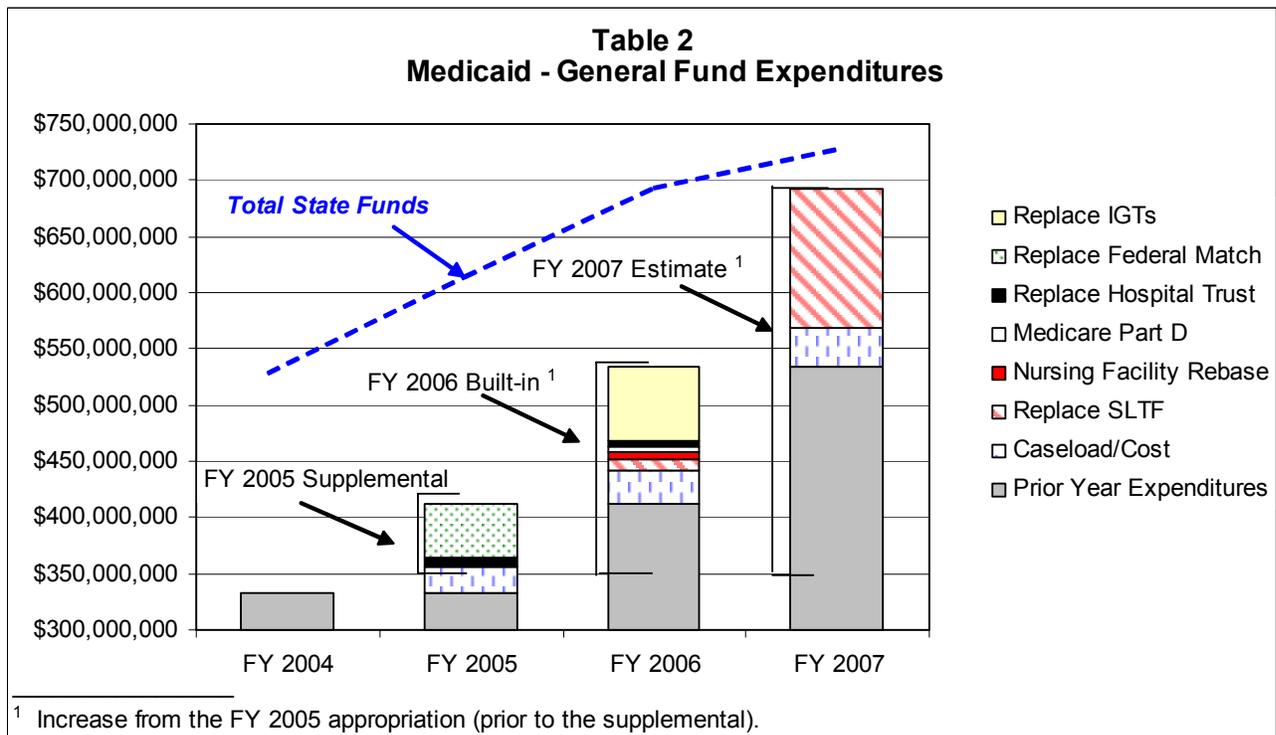
The loss of other funding sources due to the depletion of the balance in the SLTF and elimination of IGTs will require increases from the General Fund in FY 2006 and FY 2007 to make up the difference, unless programmatic changes are made or other fund sources are identified. The estimated increases for FY 2005, FY 2006, and FY 2007 are discussed below.

The Legislative Services Agency (LSA) notified the General Assembly at the time the FY 2005 budget was enacted that a supplemental would likely be required. The current estimate of the General Fund shortfall for FY 2005 is \$52.0 million to \$85.0 million. The majority of the shortfall can

be attributed to the elimination of a \$48.0 million one-time increase in federal funds in FY 2004 that is discontinued in FY 2005.

The LSA has estimated the General Fund increase for FY 2006 is \$115.4 million compared to the original FY 2005 appropriation (prior to the FY 2005 supplemental need) if revenue from IGTs continues. Since it is likely that federal action will result in the IGTs being discontinued, this adds \$66.1 million to the estimate, for a total General Fund increase of \$181.5 million, including:

- An increase of \$60.0 million to adjust FY 2006 for the FY 2005 supplemental (LSA estimate. The range agreed to by Department of Management, DHS, and LSA is \$52.0 million to \$85.0 million.)
- An increase of \$28.7 million for 6.2% caseload growth. The FY 2004 caseload increased 6.4%.
- An increase of \$15.4 million to offset shortfalls in the Hospital Trust Fund and the Senior Living Trust Fund.
- An increase of \$7.0 million to rebase nursing facility reimbursement rates.
- An increase of \$4.3 million for costs associated with the new federal Medicare Part D prescription drug benefit.
- An increase of \$66.1 million to replace revenue from discontinued IGTs. The Department of Human Services is negotiating with the federal government for approval of some items to partially offset the loss. At this time, how much will be offset cannot be determined.



Of the total \$181.5 million increase for FY 2006, \$81.5 million (44.9%) is due to decreases in non-General Fund sources and elimination of IGTs. An additional \$60.0 million (33.1%) is due to the FY 2005 supplemental.

FY 2007 ESTIMATES

For FY 2007, the LSA estimates an increase of \$339.8 million compared to the original FY 2005 appropriation (prior to the FY 2005 supplemental). This is an increase of \$158.3 million compared to estimated General Fund expenditures in FY 2006. The FY 2007 increase includes:

- \$181.5 million for increases related to FY 2005 and FY 2006.
- \$123.9 million to replace the SLTF.
- \$34.4 million for caseload and medical cost increases.

By FY 2007, the Senior Living Trust Fund will have a balance of \$0 at the current rate of expenditure. In addition, the Fund will no longer have the IGT as a revenue source. This results in an increase of \$123.9 million from the General Fund in FY 2007. Revenue to the Fund as a result of HF 2039 will not be transferred until the end of FY 2006. Some or all may be used to offset the Medicaid shortfall, however, that may eliminate funding for other programs. For the purposes of this estimate, it is assumed that all revenue transferred as a result of HF 2039 will be used for non-Medicaid expenditures.

ALTERNATIVES

There are two primary alternatives available to the Legislature to address the increased Medicaid costs:

- Reduce benefits and/or eligibility in the Medicaid Program. There are alternatives for cost containment without making benefits/eligibility changes; however, the potential savings would only partially offset the estimated increases.
- Identify an alternative funding source.

The Medical Assistance Crisis Intervention Team created by SF 2298 (FY 2005 Omnibus Appropriations Act) and chaired by the President of the University of Iowa has been meeting over the course of the fall. The DHS was required to list \$130.0 million in budget savings options, and the Team is required to report its findings by December 1, 2004. The DHS's list included many savings options including provider rate reductions, eligibility reductions, service level reductions and other programmatic changes. Some of the options overlap. The DHS list can be found at: <http://www.dhs.state.ia.us/Publications/macit/Medicaid%20Project%20Crisis%20Team.xls>.

Further information is available from the LSA upon request.

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**DRAFT
SENIOR LIVING TRUST FUND
LEGISLATIVE SERVICES AGENCY, FISCAL SERVICES DIVISION**

ATTACHMENT 1

	Actual FY 2001	Actual FY 2002	Actual FY 2003	Estimated FY 2004	Estimated FY 2005	Projected FY 2006	Projected FY 2007
Revenues							
Beginning of SFY Fund	\$ 0	\$ 60,891,949	\$ 127,046,631	\$ 366,831,372	\$ 286,141,856	\$ 139,442,813	\$ 0
Intergovernmental Transfer	95,621,331	129,880,808	120,587,491	52,876,607	5,458,818 ⁶	0	0
General Fund Transfer	0	0	0	0	0	0	30,000,000
Intergovernmental Transfer (Hospital Trust Fund)	0	13,203,977	0	0	0	0	0
Medicaid Transfer	0	5,964,781	28,039,039	0	0	0	0
Pending Fund Transfer	0	0	169,484,518	0	0	0	0
Interest	3,807,946	4,408,806	6,358,599	7,297,465	3,499,208	2,509,971	0
Total Revenues	\$ 99,429,277	\$ 214,350,321	\$ 451,516,278	\$ 427,005,444	\$ 295,099,882	\$ 141,952,784	\$ 30,000,000
Expenditures							
DHS Grants and Services							
NF Conversion Grants/LTC HCBS Funds	\$ 454,258	\$ 7,939,565 ³	\$ 1,791,701	498,780	3,673,852 ⁵	3,673,852 ⁵	3,673,852
NF Conversion Grant Carry Forward	0	0	0	0	2,677,693	0	0
Iowa Finance Authority Revolving Loan Funds	0	0	0	0	7,000,000	7,000,000	7,000,000
Assisted Living Rent Subsidy	0	75,552	283,817	205,747	700,000	700,000	700,000
DHS Administration & Contracts	341,792	7,050	0	0	323,406	323,406	323,406
Medical Assistance:							
Medicaid HCBS Elderly Waiver	0	710,000	710,000	710,000	710,000	710,000	710,000
NF Case Mix Methodology	33,650,000	24,750,000	29,950,000	29,950,000	29,950,000	29,950,000	29,950,000
Medicaid Supplement	0	48,500,000	45,465,000	101,600,000	101,600,000	101,600,000	101,600,000
Medical Assistance Subtotal	33,650,000	73,960,000	76,125,000	132,260,000	132,260,000	132,260,000	132,260,000
DHS Total	\$ 34,446,050	\$ 81,982,167	\$ 78,200,518	\$ 132,964,527	\$ 146,634,951	\$ 143,957,258	\$ 143,957,258
DEA Service Delivery							
Senior Living Program	\$ 3,798,109	\$ 4,897,625	\$ 5,987,285	\$ 6,965,460	\$ 7,698,461	\$ 7,698,461	\$ 7,698,461
Administration & Contracts	293,169	423,898	497,103	523,657	523,657	523,657	523,657
DEA Total	\$ 4,091,278	\$ 5,321,523	\$ 6,484,388	\$ 7,489,117	\$ 8,222,118	\$ 8,222,118	\$ 8,222,118
DIA - Asst'd. Living & Adult Day Care Oversight	\$ 0	\$ 0	\$ 0	\$ 409,944	\$ 800,000	\$ 800,000	\$ 800,000
Total Expenditures	\$ 38,537,328	\$ 87,303,690	\$ 84,684,906	\$ 140,863,588	\$ 155,657,069	\$ 152,979,376	\$ 152,979,376
Ending Trust Fund Value	\$ 60,891,949	\$ 127,046,631	\$ 366,831,372	\$ 286,141,856	\$ 139,442,813	\$ -11,026,592	\$ -122,979,376

¹ A Pending Fund was established to receive funds not yet available for appropriation. After the federal government approved the funds for expenditure, the moneys were transferred to the Senior Living Trust Fund.

² Of the \$20.0 million appropriation for nursing facility conversion grants, \$15.9 million was transferred to the Medical Assistance Program (Medicaid) for FY 2001.

³ HF 2245 (FY 2002 Medical Assistance Program (Medicaid) Supplemental Act) transferred \$9.5 million from the conversion grant appropriation to Medicaid.

⁴ Of the \$20.0 million appropriation, the DHS anticipates expending \$3.7 million.

⁵ Estimated actual expenditures; \$20.0 million is appropriated. Of the \$20.0 million appropriated, \$2.0 will be transferred to Medicaid for an inflation adjustment for nursing facility reimbursements, and \$7.0 million is allocated to the Iowa Finance Authority (IFA) for revolving funds that will support alternative long-term care services.

⁶ Deposits from the Intergovernmental Transfer mechanism will likely be discontinued by the federal gov't. after FY 2005.

Assumptions:

Interest rate of 2.0% in FY 2004 and FY 2005; 3.0% thereafter.
Appropriations for future fiscal years will continue at the FY 2005 levels.

KEY: NF = Nursing Facility LTC = Long-Term Care DEA = Dept. of Elder Affairs DIA = Dept. of Inspections & Appeals