D

Code 630

Ms. Sidonie Squier, Secretary, Human Services Department
Mr. Brent Earnest, Deputy Secretary, Human Services Department

ISSUES FOR HEARING
Human Services Department

- 2011 Census data shows almost 400 thousand New Mexicans, 19.6 percent of the population, lack health insurance, which ranks 46th of all states. HSD estimates that 162,025 of this group will be eligible for coverage with incomes at or below 138 percent of the federal poverty level in 2014 and that over 100,000 will sign up for Medicaid coverage by 2015.
- State costs, according to HSD analysis, include the general fund match to cover newly eligible adults, as well as the cost of enrollment for currently eligible (but non-enrolled) adults and children (commonly called the "woodwork effect"). Subject to final federal approval, HSD assumes that over 37,000 individuals covered by the State Coverage Initiative insurance program will transfer into Medicaid at the same favorable match rate as the newly eligible.
- There has been much discussion about whether to include woodwork enrollment in the base cost of the Medicaid program or as an additional ACA related cost (HSD's methodology). LFC's revenue and expenditure analysis starting on page 5 of the hearing brief do not include woodwork enrollment because they are not Medicaid expansion costs.
- The HSD does not assume full 100 percent federal coverage for newly eligible the first three years (see chart on page 5); they assume a lower federal match for about 8 percent of the newly eligible adults which they project will have kids and be moved into a "parents" category of eligibility. As a result, HSD is including $42.2 million in general fund costs for newly eligible during FY14-FY16. LFC's revenue and expenditure analysis includes these costs.

Revenues (Benefits) and Expenditures (Costs) of Medicaid Expansion:

- In addition to the policy benefits of expanded adult coverage there are revenue benefits to the Medicaid expansion under ACA (starting on page 5). The state will generate additional revenues from personal income taxes, gross receipt taxes, and premium taxes. Also, the state will benefit from reduced enrollment in the New Mexico Medical Insurance Pool (NMMIP). LFC staff used the HSD high-enrollment scenario to estimate the potential revenues the state will

collect as a result of Medicaid expansion. These revenues are compared to expenses on the following tables:

Revenues from Medicaid Expansion
(Includes Induced Effects, general fund in millions of dollars)

	FY14	FY15	FY16	FY17	FY18	FY19	FY20
PIT Increase	2.6	6.1	7.7	8.4	8.6	8.5	8.3
GRT Increase	6.6	9.3	11.0	11.7	12.0	12.3	12.5
Premium Tax	9.8	24.9	30.2	32.6	34.1	36.9	38.7
NMMIP Reduction		33.9	33.9	33.9	33.9	33.9	33.9
Total Revenues	19.0	74.2	82.8	86.6	88.5	91.6	93.4

Sources: BBER, LFC Files

20.5

87 (BBER)

Expenditures on Medicaid Expansion
(General fund in millions of dollars)

	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Newly Eligible Adults	6.4	16.2	19.6	41.0	67.6	82.1	118.8
SCI Add. match	(22.2)	(42.0)	(38.1)	(29.7)	(20.8)	(15.4)	(7.9)
Admin. Costs	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Total Expenditures*	(13.1)	(23.0)	(15.7)	14.1	49.6	69.5	113.7

* Negatives are reductions in expenditures

Sources: HSD, LFC Files

Revenues and Expenditures from Medicaid Expansion
(General fund in millions of dollars)

	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Total Revenues	19.0	74.2	82.8	86.6	88.5	91.6	93.4
Total Expenditures	(13.1)	(23.0)	(15.7)	14.1	49.6	69.5	113.7
State Gain/(Loss) *	32.0	97.1	98.5	72.5	38.9	22.1	(20.3)

* Revenues minus expenditures

Sources: BBER, HSD, LFC Files

Notes on Revenue and Expenditure Analysis

Revenues

- BBER estimates on personal income, wages and salaries, and employment were used in this analysis. As a result of Medicaid expansion, healthcare employment (and indirect employment) is projected to increase. By FY20 personal income could increase 0.6 percent, wages and salaries and employment could increase 1 percent (page 5, 6).

- Personal income taxes (PIT) could increase about 0.4 percent in FY14 and 0.6 percent in FY20. The state could collect an additional $2.6 million in FY14, and $8.3 million in FY20 in personal income taxes when fully implemented. Increased wages and salaries lead to increased gross receipts taxes of an additional $6.6 million in FY14 and $12.5 million in FY20 from gross-receipts taxes.
- Additional premium taxes from new enrollment could generate $9.8 million additional revenues in FY14 and $38.7 million in FY20 when fully implemented. The NMMIP reduction could increase revenues by $33.9 million per year starting in FY15.
- The total additional revenues are $19 million in FY14, increase to $74.2 million in FY15 and $93.4 million in FY20 when fully implemented.

Expenditures

- Coverage of newly eligible adults from the Medicaid expansion is projected to cost $6.4 million in FY14 (six months), rising to $118.8 million in FY20.
- There will be a higher federal match for the SCI population due to ACA. The additional federal revenue reduces state costs by $22.2 million in FY14 and $7.9 million in FY20.
- According to the HSD, administrative costs as a result of ACA will be about $2.8 million per year.
- In FY14 the state cost for expanded adult enrollment is offset entirely by cost savings. Because of the high federal match rate and SCI savings there is a state expenditure reduction the first three years of implementation of the Medicaid expansion. This ends in FY18 when the federal match for newly eligible drops to 94 percent. By 2020 the general fund expenditures are $113.7 million for 131,044 newly covered adults.

Combined Presentation of Revenues and Expenditures

- If the state does choose to expand Medicaid, the revenues outweigh the expenditures in the first six years, even as the match is phased down. When the program is fully implemented in FY20 the state will incur additional costs which may increase in the out-years. Under this high-level scenario the state will gain $32 million in FY14 but will begin to pay an additional $20.3 million in FY20. Six years after implementation, when the state has to pay 10 percent of the costs in FY20, the direct costs start to outweigh the revenues.

NOTE: this analysis is built on HSD's May estimates; future estimates are subject to change. Analysis assumes no major federal changes in Medicaid financing regime.

Other Issues:

- The ACA will have an impact on other healthcare programs including the county indigent fund, the sole community hospital program, and disproportionate share hospitals. The impact on these programs will require more analysis than has been provided in this brief. (See page 8.)
- There are policy benefits to the Medicaid expansion including: improved health of uninsured adults; improved availability of substance abuse treatment; and reduction in uncompensated care.
- There are challenges to implementation including: modernizing enrollment systems; implementation of new provider contracts under Centennial Care; developing a health exchange; adequacy of provider networks; and the future of Medicaid funding given federal solvency.
- There are almost twenty tax expenditures related to healthcare, and an estimated $290 million annually in foregone revenue can be attributed to these healthcare tax expenditures. With the possible expansion of Medicaid under ACA, many of these tax credits will require further review. Under ACA, access to healthcare services should increase, therefore potentially eliminating the need for some of these credits.