DEPARTMENT OF AUDITS AND ACCOUNTS

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Honorable Jason Spencer
State Representative
501-D Coverdell Legislative Office Building
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill (LC 37 2227)

Dear Representative Spencer:

The bill establishes the 'Expand Medicaid Now Act' which authorizes appropriations for the purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid under the federal Patient Protection and Affordable Care Act. The bill expands Medicaid to persons earning up to 138 percent of the federal poverty level (FPL).

The Department of Community Health (DCH) provided estimates of the enrollees, costs, revenue, and savings that would result from the expansion of the state's Medicaid program. The DCH analysis assumes that newly eligible Medicaid member coverage will be effective July 1, 2018 and that it will take approximately two years to reach full enrollment. DCH assumes that newly eligible Medicaid members will be placed into the Georgia Families Care Management Organization (CMO) program or similar Medicaid managed care program.[1]

In state fiscal year 2021 (once the program has reached full enrollment), total state costs are estimated between $363.6 million and $455.9 million at a cost of $568 to $576 per new enrollee (**Exhibit 1**). In addition, DCH estimates $8.2 million to $10.6 million in additional revenue would be collected.

Cost savings for state agencies that currently spend state funds on health services to the uninsured are likely to occur. These agencies include the Department of Community Health, the Department of Public Health (DPH), Department of Behavioral Health and Developmental Disabilities (DBHDD), and the Georgia Department of Corrections (GDC). Savings estimates from these

[1] Under Medicaid managed care, the delivery of medical benefits and additional services (such as care coordination and disease management) are provided through a risk-based contract between DCH and the CMOs whereby DCH reimburses the CMOs through a prospective monthly capitation rate for a defined set of benefits and services, including plan administration.

agencies are estimated to be $58.5 million in fiscal year 2019 and $53.3 million in fiscal year 2021, with the decrease attributable to reductions in federal matching percentages for the newly eligible and enrolled clients.

Exhibit 1: Estimate of Financial Impact, State Fiscal Years 2019 to 2021

($ in Millions)	FY2019		FY2020		FY2021	
	Low	High	Low	High	Low	High
Estimated Enrollment						
Newly Eligible	518,393	613,781	568,015	684,858	572,811	690,641
Currently Eligible (Woodwork)	44,452	71,246	67,183	101,197	67,381	101,489
Total Estimated Enrollment	**562,845**	**685,027**	**635,198**	**786,055**	**640,192**	**792,130**
($ in Millions)						
Ongoing State Costs						
Newly Eligible	$164.3	$194.5	$241.9	$291.6	$294.9	$355.5
Currently Eligible (Woodwork)	$34.7	$56.0	$54.7	$81.6	$56.4	$84.1
Administration(1)	$10.6	$13.6	$12.3	$16.2	$12.4	$16.3
Total State Costs	**$209.60**	**$264.1**	**$308.8**	**$389.3**	**$363.6**	**$455.9**
State Costs/Enrollee(2)	$372	$385	$486	$495	$568	$576
Additional Revenue						
Net State Insurance Premium	$7.1	$9.2	$8.1	$10.4	$8.2	$10.6

	FY2019		FY2020		FY2021	
Cost Savings(3)						
Dept. Community Health	$0.0	$26.6	$0.0	$23.8	$0.0	$20.9
Dept. Public Health	$1.8	$2.3	$1.9	$2.5	$1.9	$2.4
Dept. Behavioral Health	$10.5	$13.3	$11.3	$14.4	$11.2	$14.3
Dept. Corrections	$15.3	$16.3	$15.0	$15.9	$14.7	$15.7
Total Cost Savings	**$27.5**	**$58.5**	**$28.1**	**$56.6**	**$27.8**	**$53.3**

(1) Administration will require start-up funding in SFY 2018 of $3.2 million to $4.9 million in state funds.
(2) Amounts based on a combination of newly eligible and currently eligible enrollees, which have different federal matching rates.
(3) Agency spending for uninsured or number of uninsured served is on pages 6-7.

Totals may not sum due to rounding.

Estimated Enrollment

The bill would result in additional Medicaid enrollees in two categories: those newly eligible and those already eligible who would enroll after seeking coverage due to the bill. DCH estimated the population of each group for fiscal years 2019-2021 and assumed it would take two years to reach full participation. DCH relied on the most recently issued U.S. Census Bureau data on insurance coverage to identify eligible individuals. Each category and subcategory includes a low and high participation rate (i.e., the rate at which eligible individuals will actually enroll for Medicaid coverage). Participation rates are based on data from DCH, federal health exchange enrollment, a study by the Urban Institute/Robert Wood Johnson Foundation, and population projections from the Governor's Office of Planning and Budget. By state fiscal year 2021 total enrollment is

estimated to be between 640,192 and 792,130 (**Exhibit 2**). Enrollment estimates are discussed in more detail below.

Exhibit 2: Projected Enrollment, State Fiscal Years 2019 to 2021

Enrollment Population	FY2019		FY2020		FY2021	
	Low	High	Low	High	Low	High
Newly Eligible Adults	518,393	613,781	568,015	684,858	572,811	690,641
Woodwork Effect	44,452	71,246	67,183	101,197	67,381	101,489
Total Enrollment	**562,845**	**685,027**	**635,198**	**786,055**	**640,192**	**792,130**

- *Newly Eligible* – This category includes three groups of adults, each living below 138% of the Federal Poverty Level (FPL). Estimates for each category are explained below.
    - *Currently Uninsured* – Applying a low/high participation rate of 75% and 95%, DCH estimates the enrollment of this population to be from 296,677 to 375,791 by state fiscal year 2021. A relatively high level of participation from this population is expected because these individuals are currently uninsured.
    - *Currently Insured through Employer* – Applying a low/high participation rate of 25% and 40%, DCH estimates the enrollment of this population to be from 64,526 to 103,242 by state fiscal year 2021. A percentage of this population will opt for Medicaid coverage due to lower costs than their current employer-based coverage.
    - *Currently Insured through Federal Health Exchange* – Applying a participation rate of 100%, DCH estimates the enrollment of this population to be 211,608. The participation rate is 100% due to the ability of these individuals to significantly lower their out-of-pocket costs.
- *Currently Eligible (Woodwork Effect)* – This category includes uninsured adults and children that already qualify for Medicaid coverage but are not enrolled. As a result of seeking coverage through the new program, these individuals will be identified and enrolled in the existing Georgia Families Care Management Organization (CMO) Program. Applying participation rates between 25% and 40% for the woodwork subpopulations, DCH estimates the enrollment of currently eligible to be 67,381 to 101,489 by state fiscal year 2021.

Total and State Costs

The bill's costs are estimated for three categories: payments to CMOs for those who are newly eligible for Medicaid under the proposed bill, payments to CMOs for those who were previously eligible to receive Medicaid but had not (i.e., the woodwork effect), and program administration. **Exhibit 3** presents estimates of the total costs and state portion of costs for fiscal years 2019-2021. The amount for each category is derived from the enrollment estimates provided above and the applicable Federal Medical Assistance Percentage (FMAP). A low/high cost range is included for each year. Estimates for each category are explained below.

Exhibit 3: Projected Total and State Cost, State Fiscal Years 2019 to 2021

TOTAL COSTS						
	FY2019		FY2020		FY2021	
($ in Millions)	Low	High	Low	High	Low	High
Newly Eligible	$2,527.0	$2,992.0	$2,845.3	$3,430.6	$2,948.6	$3,555.1
Woodwork Effect	$109.7	$176.8	$172.9	$257.7	$178.2	$265.7
Administration(1)	$38.4	$48.0	$43.6	$55.8	$44.0	$56.2
Admin. FTEs	306	374	347	429	350	433
Total Costs	**$2,675.1**	**$3,216.7**	**$3,061.8**	**$3,744.1**	**$3,170.9**	**$3877.0**
Cost/Enrollee(2)	**$4,753**	**$4,696**	**$4,820**	**$4,763**	**$4,953**	**$4,894**

STATE COSTS ONLY						
	FY2019		FY2020		FY2021	
($ in Millions)	Low	High	Low	High	Low	High
Newly Eligible	$164.3	$194.5	$241.9	$291.6	$294.9	$355.5
Woodwork Effect	$34.7	$56.0	$54.7	$81.6	$56.4	$84.1
Administration(1)	$10.6	$13.6	$12.2	$16.2	$12.3	$16.3
State Costs	**$209.6**	**$264.1**	**$308.8**	**$389.3**	**$363.6**	**$455.9**
Cost/Enrollee(2)	**$372**	**$385**	**$486**	**$495**	**$568**	**$576**

(1) Administration includes FY 2018 startup costs of $11.2 million to $15.6 million, with the state share estimated at $3.2 million to $4.9 million.
(2) Cost per enrollee within each year varies because the woodwork effect comprises a different percentage of enrollees within the low and high ranges. The newly eligible and woodwork populations have different FMAPs, which affects the state cost per enrollee.

Totals may not sum due to rounding.

- *Newly Eligible for Medicaid* – Total costs in fiscal year 2021 for this population are estimated to be $2.9 billion to $3.6 billion, with a state share of $294.9 million to $355.5 million. The newly eligible adult member costs are derived using the low income Medicaid CMO capitation rates for adults enrolled in the Georgia Families CMO Program. To estimate cost, DCH applied the SFY 2017 Georgia Families CMO per member per month (PMPM) aggregate cost (which ranged from $285.39 to $572.14), made a 3% adjustment using fee-for-service costs to estimate mandatory retroactive coverage,[2] and included a $5.73 PMPM for non-emergency transportation (NET). Annual growth trends are based on a health care cost forecast issued by IHS Life Science in April 2016. DCH applied an FMAP rate of 93% for federal fiscal year 2019 and a 90% for federal fiscal year 2020 and 2021.

- *Previously Eligible for Medicaid (i.e., Woodwork Effect)* – Total costs in fiscal year 2021 for this population are estimated to be $178.3 million to $265.7 million, with a state share of $56.4 million to $84.1 million. The state portion of costs is higher for this category when compared to the newly eligible due to a lower FMAP. The federal percentage applied to woodwork costs is 68.35% — the regular Georgia FMAP rate for SFY 2018. The PMPM costs for the woodwork population are based on low income Medicaid rates for children and adults enrolled in the Georgia Families CMO program. Current aggregate Georgia Families PMPM for children (excluding newborns through age one) is $153.98 to $209.98.

[2] Benefits may be covered retroactively for up to three months prior to the month of application if the individual would have been eligible during that period had he or she applied.

The adult PMPM ranges from $285.39 to $572.44. Estimates include a $5.73 PMPM for non-emergency transportation (NET). Annual growth trends are based on a health care cost forecast issued by IHS Life Science in April 2016.

- *Administration* – Administrative costs are estimated to be $44.0 million to $56.2 million in fiscal year 2021, with a state share of $12.3 million to $16.3 million. In fiscal year 2018, startup costs estimated to be from $11.2 million to $15.6 million will be incurred, with a state portion estimated to be from $3.2 million to $4.9 million. DCH estimated administrative costs using its historical costs for Medicaid administration. The state share is based on a compilation of FMAP rates for various Medicaid-related activities. The aggregate FMAP ranges from 71% to 73% depending on the fiscal year and the low to high level scenarios. Depending on the activity, Medicaid administrative FMAP ranges from 75% for eligibility related functions and claims processing to 50% for program development, oversight, compliance and reporting.

Additional State Revenue

The program will generate additional state revenue through the State Insurance Premium Tax and the Hospital Medicaid Financing Program. The bill is expected to generate additional State Insurance Premium Tax revenue of $7.1 million to $9.2 million in fiscal year 2019, with the amount increasing over the next two years (**Exhibit 4**). The premium tax is paid on all health insurance plans operating in Georgia, which would include those plans resulting from the bill. Regarding the Hospital Medicaid Financing Program, a lag between hospital revenues and the payment of the program fee means that additional revenue would not be collected until fiscal year 2022 (three years after hospitals' 2019 revenue). It should be noted that this program is only authorized through June 30, 2017. If the program is not re-authorized, the state revenue will not be realized. We did not attempt to calculate the subsequent effect that the bill would have on individual income tax or sales tax.

Exhibit 4: Projected Additional State Revenue

($ in Millions)	FY2019		FY2020		FY2021	
	Low	High	Low	High	Low	High
State Insurance Premium Tax	$7.1	$9.2	$8.1	$10.4	$8.2	$10.6
	FY 2022		FY 2023		FY 2024	
Hospital Medicaid Financing Program Fee (if re-authorized at current fee level)	$7.4	$9.5	$8.4	$10.7	$8.7	$11.1

Potential Cost Savings

By expanding eligibility to Medicaid, the bill would likely result in cost savings to existing Medicaid programs and other state health programs that serve the uninsured. The amount of these savings is dependent on Medicaid policy decisions, the amount of uninsured care provided by agencies that is reimbursable under Medicaid, and a continued need to fund an infrastructure in those agencies.

- *DCH Medicaid Programs* – DCH currently provides Medicaid coverage to certain categories of individuals, a portion of which would be eligible under the bill's provisions. Individuals who meet the eligibility requirements under the bill (most notably the FPL requirement) could be placed in the newly eligible category, which has a higher FMAP and lower state costs than the current categories under which these individuals qualify for coverage. While there are policy considerations beyond costs related to a transition, DCH identified the categories as the Medically Needy Program, the Breast and Cervical Cancer Waiver, and the Family Planning Waiver. DCH provided a "high level estimate" of potential state savings of $26.6 million in fiscal year 2019, $23.8 million in fiscal year 2020, and $20.9 million in fiscal year 2021.

  The Robert Wood Johnson Foundation (RWJF) issued a report in March 2016[3] examining the budget impact of Medicaid expansion in eleven states: Arkansas, California, Colorado, Kentucky, Maryland, Michigan, New Mexico, Oregon, Pennsylvania, Washington, and West Virginia. Pregnant women, medically needy, disabled adults, breast and cervical cancer program, and family planning were identified as savings categories. However, not all states expected savings in every category.

- *Other Healthcare Programs* – The state provides funding to multiple state agencies that provide health care to individuals who would become Medicaid eligible under the bill. As uninsured individuals enroll in Medicaid, a portion of state funding would be replaced with federal Medicaid funds. We collected client and service counts from the Departments of Behavioral Health and Developmental Disabilities, Public Health, and Corrections and estimated cost savings to the state as described below.

  - *Behavioral Health* – Under a Medicaid expansion, some DBHDD services would be covered by Medicaid (e.g., physicians, prescriptions, therapy), but other services would not be (e.g., housing, supported employment, crisis services). DBHDD indicated that it provided care for 53,233 uninsured individuals during fiscal year 2016 and that Medicaid applicable services totaled $1,019 per recipient during the period. We estimate that implementation of this bill will result in approximately 11,230 to 14,368 currently uninsured DBHDD clients becoming insured (including both woodwork and newly eligible clients). As a result, the state would receive federal funding of approximately $10.5 million to $13.3 million for FY2019.

    Five states reviewed by RWJF (AR, CO, KY, MI, WA) reported actual or expected savings of state funds for mental/behavioral health spending.

  - *Public Health* – DPH provides some health care services in the community via county health departments. Like DBHDD, county health departments provide services that would be reimbursable under Medicaid, while providing others that would not. DPH reportedly served 520,369 Medicaid clients and 531,519 non-Medicaid clients in fiscal year 2016.[4] We estimate implementation of this bill will

[3] *States Expanding Medicaid See Significant Budget Savings and Revenue Gains*, Robert Wood Johnson Foundation Issue Brief: March 2016

[4] Includes some clients with private insurance and some as uninsured or "self-pay."

result in approximately 112,125 to 143,465 currently uninsured DPH clients becoming insured (including both woodwork and newly eligible clients). As a result, the state would receive federal funding of approximately $1.8 million to $2.3 million for FY2019.

Two states reviewed by RWJF (AR, WA) expected to replace some state public health spending with federal funds.

- *Corrections* – According to the RWJF report, "Medicaid will cover services provided to an inmate during an inpatient stay of at least 24 hours in a medical institution such as an acute care facility. To qualify, the inmate must be otherwise Medicaid-eligible." GDC reported 947 individual inmates accounting for 1,263 inpatient hospitalizations and 7,082 inpatient bed days greater than 24 hours in fiscal year 2016. While it is difficult to know the percentage of inmates eligible under the bill, we expect a majority to meet the income requirements. If 75% to 80% are eligible, this bill will result in approximately 710 to 758 offenders becoming insured. As a result, the state would receive federal funding of approximately $15.3 million to $16.3 million for FY2019.

  Four states reviewed by RWJF (AR, CO, MI, WA) expected to save state funds related to inmate hospitalization.

DBHDD and DPH have fixed costs and are required to operate a statewide infrastructure. State funding would be necessary to ensure that the agencies maintain the capacity to serve those without insurance or to provide those services that are not reimbursable.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

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