

## FMAP Formula Fails to Safeguard States Hit with Major Disasters

### Issue

Louisiana, a state with traditionally low per capita personal income and the second highest percentage of people living in poverty (18.6 percent, *Source: 2008 State of the States* report), will be penalized by the country's largest drop in Federal Medical Assistance Percentage (FMAP). The substantial decrease is due to a dramatic increase in the state's per capita personal income resulting from public and private recovery dollars infused into the state after two of the most devastating and costly hurricanes in the country's history. Louisiana is one of many states that have faced, and will continue to face, this problem if Congress does not act to mitigate this unintended consequence of the federal matching formula for Medicaid.

Historically, Louisiana's federal match for Medicaid has ranged from approximately 70 percent to 73 percent, with very small variations from year-to-year. But, within the next year, Louisiana will face the largest decrease of FMAP in the nation—a decrease almost twice that of the state with the next largest decrease, North Dakota.

The decrease facing Louisiana in January 2011 is staggering. Louisiana's FMAP, which would normally be 72 percent, is temporarily enhanced by the enactment of the American Recovery and Reinvestment Act of 2009 (ARRA). This October, the FMAP will decrease to 67 percent, and then will decrease to 63 percent in October, 2010. The ARRA enhancement, which has our rate set currently at 80 percent, ends just three months after the state's FMAP is expected to decrease to 63.16 percent. This drop of nearly 17 percent will result in a loss in federal match of approximately \$1 billion annualized. The state will begin the process of budgeting for this decrease in the next budget cycle that begins this fall. Without a doubt, major reductions will have to be made to the Medicaid program. Twenty-six percent of Louisiana's population—mostly children—relies on the solvency of this program.

The federal formula for FMAP was established by Congress to safeguard states by utilizing a three-year running average so as to avoid sudden spikes or decreases. It is computed from a formula that is based on the average per capita personal income in each state relative to the national average. Unfortunately, the formula methodology does not properly mitigate the impact of artificial inflation in per capita personal income growth caused by increased economic activity resulting from a major natural disaster. This is particularly evident in the catastrophic disaster of Hurricane Katrina or

multiple disasters in one year, such as Hurricanes Katrina and Rita in 2005. Florida faced a similar challenge after the two consecutive years of eight major hurricanes in 2004 and 2005. Likewise, this has had an impact on other coastal states, like Texas, Alabama and Mississippi.

Louisiana is seeking help, but we also are advocating that this problem be addressed in a systemic way so other states receive similar relief.

### Q&A

***Please explain how the federal government calculates the federal share percent for each state. Is there an office or bureau that determines the FMAP?***

The amount of federal payments to a state for medical services depends on two factors: the actual amount spent that qualifies as match-able under Medicaid and FMAP.

Pursuant to federal law, the Federal Government pays its share of a state's medical assistance expenditures under Medicaid based on FMAP, which varies depending on the State's relative per capita income. Although FMAP is adjusted annually for economic changes in the states, Congress may increase FMAP at any time. The Secretary of Health and Human Services is required to calculate and publish yearly in the Federal Register the FMAP for the 50 States and the District of Columbia.

The Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (ASPE), calculates the temporary FMAP increases quarterly for the 50 States and the District of Columbia. ASPE provides the FMAP to CMS, which uses the calculations to determine the amount of Federal funds to award to States through its Medicaid grant process.

***What is the projected FMAP for Louisiana in FFY 10 and FFY 11 without the enhanced rate provided through ARRA?***

Forecasts provided by Federal Funds Information for States (FFIS) and Louisiana's Medicaid calculations project the decline of FMAP for FFY 10 from its current nearly 72 percent to 67.6 percent, and then again for FFY 11 to 63.2 percent, not counting ARRA adjustments. Similarly, the state's enhanced FMAP for SCHIP, the states' children's health insurance program (LaCHIP in Louisiana) will decline from 80 percent to 74 percent.

***What months and years were used to calculate the FMAP for FFY 10 and FFY 11? Would this have an impact on Louisiana's percentage match?***

The federal formula for FMAP was established by Congress to safeguard states by utilizing a three-year running average so as to avoid sudden spikes or decreases.

HHS/ASPE bases their calculations for FMAP on a rolling three-year period of a state's per capita personal income. Louisiana's percentage match for FFY 10 is based on a three-year period from 2005 to 2007; FFY 11 on a three-year period from 2006 to 2008.

After the 2005 storms, Hurricanes Katrina and Rita, Louisiana's per capita personal income growth was an extraordinary 42 percent from 2005 to 2007. By comparison, Louisiana's per capita personal income growth between 2000 and 2005 was just 6 percent.

***Which federal agency calculates per capita income?***

The Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce calculates the per capita personal income (PCPI) used to determine FMAP.

***Does ASPE or BEA take into account trends and extraordinary circumstances such as natural disasters that could potentially affect the growth in per capita personal income?***

ASPE uses a fixed formula that relies on the per capita personal income as calculated by the BEA.

BEA stated in its 2007 report State Personal Income that the substantial growth in Louisiana compared to other states is largely due to the multitude of one-time recovery dollars, such as the \$5.4 billion of Road Home subsidies from the U.S. Department of Housing and Urban Development. This resulted in an average of nearly \$1,250 per Louisiana resident. The report noted that the growth was extraordinary and that recovery dollars from insurance, Road Home and other private and public monies should be considered.

Even though the per capita personal income grew by 42 percent from 2005 to 2007, the median income remained stable, indicating that the real personal income growth was not sustained. Even more alarming is the fact that from 2005-2007, at the same time that PCPI grew by 42 percent, Louisiana's poverty rate was 17.1 percent—third highest in the nation and only a slight decrease from the previous three year period average of 17.4 percent.

It has been suggested by HHS that the growth in PCPI may not be due to the boost from disaster relief payments, but rather due to the fact that many lower income people left the state. While it is true there was an exodus of low-income individuals, we offer the following observations. First, clearly, tens of billions of dollars were infused into the state. It is extremely difficult to disaggregate the dollars resulting from recovery in the calculation of PCPI, since the dollars are blended into the economy and "percolate" throughout the various sectors.

Thus, once a dollar comes into the state for recovery, and circulates throughout the economy, it is difficult to ascertain which dollars relate to recovery and which dollars don't. There is simply no other explanation that suffices when trying to reconcile the fact Louisiana only had a 6 percent growth in PCPI from 2000 to 2005 and then saw a 42 percent spike in just two years from 2005 to 2007.

As for the argument that many low income people left the state after Katrina and Rita, we certainly agree this occurred. However, it is important to note that even while PCPI grew by 42 percent, median income did not grow. This indicates that the exodus of some low-income people did not have nearly the impact on the true calculation of income in the state as did the billions of recovery dollars churning within the economy. Furthermore, one could expect that with so many low-income people leaving the state, the Medicaid roles would have decreased. Had this occurred, an argument could be made that with a smaller burden, a lower FMAP would be in order. In fact, the opposite occurred. Medicaid roles stayed constant after 2005, and even increased in the years following Katrina and Rita. Since 2008, 40,000 additional children were enrolled in Medicaid or SCHIP, continuing an increase that endured even immediately after the storms.

***Could other states experience a similar increase?***

Absolutely, and some already have. Any time there is extensive damage to public and private property, rebuilding activity generates short-term positive economic impact for the state and local communities, though in most cases this spike in activity is merely a "rebuilding" and not true growth.

Coastal states, such as Florida, Alabama, Mississippi and Texas, and non-coastal states, such as Iowa, have recently experienced significant presidentially declared disasters as a result of either flooding or hurricanes. Data shows that in fact those states are experiencing statistically significant increases in their per capita personal income. For example, Florida, which faced four major hurricanes in 2004 and four more in 2005, saw a four percentage point decrease in its FMAP in the years following the storms—a cost of hundreds of millions of dollars.

**What is the solution?**

Louisiana, on behalf of itself and other similarly situated states, is asking Congress to pass legislation in Washington to adjust the FMAP calculation to disregard extraordinary revenues resulting from recovery after a major presidentially declared disaster when the state's per capita personal income growth exceeds an outlier threshold.

The bill will direct HHS to use historic FMAP averages for states when a state's PCPI exceeds 5 percent of its historic average after a disaster. Additionally, the historic FMAP will be adjusted for historic inflation. The adjustment will apply to the state's base FMAP.