LFA
LEGISLATIVE FISCAL ANALYST

MEDICAID EXPANSION FINANCIAL ESTIMATE COMPARISON

SOCIAL SERVICES APPROPRIATIONS SUBCOMMITTEE
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ISSUE BRIEF

SUMMARY

This brief reviews and explains two different financial estimates of the optional Medicaid expansions. Here is how the optional Medicaid expansion fiscal estimates of direct impacts to the State compare: (1) average savings of $13.5 million General/ Education Fund from 2014 to 2016 and costs of $59.7 million General/Education Fund in FY 2021 from the Fiscal Analyst vs (2) savings of $19.4 million General Fund in FY 2014 and costs of $31.7 million General Fund in FY 2021 from the Public Consulting Group (PCG) report. The primary reasons for the differences are client projections, cost per client, and estimated savings from prisoner's medical costs. The Fiscal Analyst estimate comes from the fiscal note for HB 153 (Chavez-Houck) *Medicaid Amendments* from the 2013 General Session and analyzes direct impacts. In addition to direct impacts, the PCG report analyzed indirect impacts. The PCG report estimates an increase of tax revenue to the State of $4.1 million in 2014 and $11.3 million in 2023. This report also includes a comparison of the fiscal estimates by the Fiscal Analyst and PCG of the mandatory Medicaid expansion as an appendix. This brief is for informational purposes only and requires no Legislative action.

The chart below shows the fiscal estimates by the Fiscal Analyst and PCG for optional Medicaid expansion:

Medicaid Optional Expansion	**CY 2014-2016 Annual Average**		**FY 2021**	
General/Education Fund Impacts	**LFA**	**PCG**	**LFA**	**PCG**
Service	$ (17,621,600)	$ (22,895,400)	$ 55,578,400	$ 26,435,900
Administrative	$ 4,152,900	$ 3,490,200	$ 4,152,900	$ 5,306,000
Total	$ (13,468,700)	$ (19,405,200)	$ 59,731,300	$ 31,741,900
PCG vs LFA	44%	$ (5,936,500)	-47%	$ (27,989,400)

DISCUSSION AND ANALYSIS

Basic Differences in Approach to Analysis by Fiscal Analyst vs PCG

There are two main areas of differences for the analytical approach of the optional Medicaid expansion to the state: (1) scope and (2) timeline. The Fiscal Analyst did the analysis as a fiscal note for HB 153 (Chavez-Houck) *Medicaid Amendments* (http://le.utah.gov/~2013/bills/static/HB0153.html) from the 2013 General Session. PCG did a cost-benefit analysis as part of a contracted study.

1. **Scope** –The Fiscal Analyst looks at direct impacts to government, businesses and individuals, as part of the fiscal note process. The PCG report looked at these items as well as indirect impacts of changes in tax revenue and uncompensated care in hospitals.
2. **Timeline** – The Fiscal Analyst received a request for financial analysis on February 21st and the analysis was completed on February 26th, a period of 5 days (including a weekend). The contractor for the Department of Health began work in earnest in December 2012 and released the final report June 2013, a period of 6 months.

Average Annual Savings 2014 to 2016 - $13.5 Million Fiscal Analyst vs $19.4 Million PCG

The $5.9 million differences in estimates for average savings for optional Medicaid expansion for 2014 to 2016 between the Fiscal Analyst and PCG are explained in more detail in the sections below. About $5.3 million of the savings comes from higher savings estimates and the remaining $0.6 million difference comes from lower administrative cost estimates.

Service Ongoing General/Education Fund Service Impacts - CY 2014-2016 Annual Average					
Program	**FY 2012 Base**	**LFA**	**%**	**PCG**	**%**
Medicaid in Department of Health	$ 338,433,100	$ -	0%	$ -	0%
Substance Abuse & Mental Health	16,901,200	$ (10,952,600)	-65%	$ (10,676,900)	-63%
Primary Care Network	$ 4,500,000	$ (4,500,000)	-100%	$ (5,929,200)	-132%
Vocational Rehabilitation	$ 11,707,200	$ (444,000)	-4%	$ -	0%
Inpatient Hospital Medical Costs - Prison	$ 8,324,900	$ (25,000)	0%	$ (3,184,600)	-38%
Inpatient Hospital Medical Costs - Jail	N/A	$ -		$ (653,000)	
Medically Needy	N/A	$ -		$ 700,000	
Subtotal*	**$ 379,866,400**	**$ (15,921,600)**	**-4%**	**$ (19,743,700)**	**-5%**
Other Savings Identified					
Comprehensive Health Insurance Pool	$ 8,075,000	$ (1,700,000)	-21%	$ (3,151,700)	-39%
Grand Total	**$ 387,941,400**	**$ (17,621,600)**	**-5%**	**$ (22,895,400)**	-6%
***The PCG subtotal number ties to the number on page 12 of the PCG report.**					

Explanation of $5.3 Million Difference in Service Costs for CY 2014-2016

Below is a list by item of the differences that make up the $5.3 million higher savings estimate from services for the State from PCG as compared to the Fiscal Analyst:

1. Substance Abuse & Mental Health – PCG has slightly lower savings of $0.3 million. All of the savings come from state-funded substance abuse and mental health services being replaced with 100% federally-funded services.
2. Primary Care Network – PCG has higher savings of $1.4 million. Both the Fiscal Analyst and PCG assumed that the Primary Care Network would close and be replaced with 100% federally-funded services. The Fiscal Analyst assumed savings equal to the spending in FY 2012. PCG savings are close to spending levels in FY 2011. FY 2013 total State expenses were about $4.5 million.
3. Comprehensive Health Insurance Pool (HIPUtah) – PCG has higher savings of $1.4 million from Medicaid taking on individuals with incomes under 138% of the Federal Poverty Limit. The Fiscal Analyst received rough population estimates by income from HIPUtah and PCG received data from the Department of Insurance.
4. Vocational Rehabilitation – PCG does not have any of the $0.4 million in Education Fund savings from the Fiscal Analyst. The Fiscal Analyst received information from the State Office of Rehabilitation identifying state match for services to uninsured Utahns that would be covered under the optional Medicaid expansion.
5. Inpatient Hospital Medical Costs (Prison) – PCG has $3.2 million more in savings. PCG notes on page 32 of its report: "There was currently no significant Medicaid claiming for prisoners receiving inpatients services so the State serves to benefit from claiming inpatient Medicaid services." PCG assumes that 90% of all inpatient stays by prisoners could be covered by Medicaid. This would require a significant change from current billing efforts. The Fiscal Analyst assumed no change in behavior from current billing behaviors and estimated an increase based on what was being done for currently-eligible prisoners in covering medical costs, which is less than one half of one percent.
6. Inpatient Hospital Medical Costs (Jail) – PCG identifies $0.7 million in savings. In addition to the assumptions above, PCG indicates that the State would be reimbursed by counties in proportion to the costs the State pays for each eligible inmate.
7. Medically Needy – PCG identifies $0.7 million in costs. This cost is from individuals who previously had to spenddown to qualify for Medicaid, but now would qualify with no spenddown. The PCG

notes that the costs of these individuals will be covered 100% by the optional expansion. The Analyst is unclear why PCG did not also calculate the savings associated with the optional expansion.

Administrative Ongoing General Fund - CY 2014-2016 Annual Average					
State Agency	**FY 2012 Base**	**LFA**	**%**	**PCG**	**%**
Workforce Services	$ 18,557,500	$ 3,477,700	19%	$ 2,709,100	15%
Health	$ 3,791,100	$ 567,500	15%	$ 368,100	10%
Inspector General	$ 994,900	$ 107,700	11%	$ -	0%
Human Services	$ 8,085,600	$ -	0%	$ 413,000	5%
Total*	**$ 31,429,100**	**$ 4,152,900**	**13%**	**$ 3,490,200**	**11%**
***The PCG total number ties to the number on page 12 of the PCG report.**					

Explanation of $0.6 Million Difference in Administrative Costs for CY 2014-2016

Below is a list by item of the differences that make up the $0.6 million lower administration cost estimate for the State from PCG as compared to the Fiscal Analyst. For each agency where PCG listed costs, PCG calculated a per client staffing cost by agency. The Fiscal Analyst had to use a rough estimate of by agency costs for PCG's figures based on total costs. PCG estimated a lower number of enrollees for Medicaid compared to the Fiscal Analyst.

1. Workforce Services – PCG is lower by $0.7 million. The Fiscal Analyst negotiated an administrative cost acceptable to the Analyst and the agency. This negotiated cost was significantly lower than the original agency request.
2. Health – PCG is lower by $0.2 million. The Fiscal Analyst used the specific request for staffing by the Department of Health for 20 FTEs.
3. Inspector General – PCG does not have any of the $0.1 million in costs from the Fiscal Analyst. The Fiscal Analyst assumed that the Inspector General would need an 11% percentage increase in staffing similar to the Department of Health. PCG notes that the Inspector General is another agency that will be affected by the optional expansion but states: "Administrative cost fiscal figures were either not available or were expected to be relatively nominal for the other entities due to expansion and therefore are not included here."
4. Human Services – PCG recognized a cost of $0.4 million. PCG's per client cost for Human Services only applies to children. Human Services did not submit any potential administrative costs to the Fiscal Analyst.

Service Ongoing General/Education Fund Service Impacts - FY 2021					
Program	**FY 2012 Base**	**LFA**	**%**	**PCG**	**%**
Medicaid in Department of Health	$ 338,433,100	$ 73,200,000	22%	$ 36,755,900	11%
Substance Abuse & Mental Health	$ 16,901,200	$ (10,952,600)	-65%	$ 2,238,900	13%
Primary Care Network	$ 4,500,000	$ (4,500,000)	-100%	$ (6,136,500)	-136%
Vocational Rehabilitation	$ 11,707,200	$ (444,000)	-4%	$ -	0%
Inpatient Hospital Medical Costs - Prison	$ 8,324,900	$ (25,000)	0%	$ (3,597,700)	-43%
Inpatient Hospital Medical Costs - Jail	N/A	$ -		$ (730,100)	
Medically Needy	N/A	$ -		$ 700,000	
Subtotal*	**$ 379,866,400**	**$ 57,278,400**	**15%**	**$ 29,230,500**	**8%**
Other Savings Identified					
Comprehensive Health Insurance Pool	$ 8,075,000	$ (1,700,000)	-21%	$ (2,794,600)	-35%
Grand Total	**$ 387,941,400**	**$ 55,578,400**	**14%**	**$ 26,435,900**	**7%**

Cost in FY 2021 - $59.7 Million Fiscal Analyst vs $31.7 Million PCG

The $28.0 million differences in estimates of costs for optional Medicaid expansion in FY 2021 are explained in more detail in the sections below. Of the $28.0 million difference, $29.1 million is from lower services from PCG and $1.1 million is from higher administration costs for PCG. The explanation for the $28.0 million difference in FY 2021 services costs to the State from optional Medicaid expansion is similar to the difference in savings included further above. The table above shows that the only figure for LFA that changed is the cost to Medicaid, while nearly all the other figures changed. The primary difference is that PCG estimated future cost savings for each individual program. The Fiscal Analyst realized all differences in future costs within the costs to Medicaid. The Fiscal Analyst realized the savings at a point in time 2014, and then adjusted for future cost changes all in the Medicaid program.

PCG $1.1 Million Higher Administrative Costs vs Fiscal Analyst for FY 2021

Below is the detail of the $1.1 million difference in administrative costs for PCG vs Fiscal Analyst. The Fiscal Analyst did not include increases for future years in administrative costs as these decisions are subject to annual decisions by the Legislature.

Administrative Ongoing General Fund - FY 2021					
State Agency	**FY 2012 Base**	**LFA**	**%**	**PCG**	**%**
Workforce Services	$ 18,557,500	$ 3,477,700	19%	$ 4,118,500	22%
Health	$ 3,791,100	$ 567,500	15%	$ 559,600	15%
Inspector General	$ 994,900	$ 107,700	11%	$ -	0%
Human Services	$ 8,085,600	$ -	0%	$ 627,900	8%
Total*	**$ 31,429,100**	**$ 4,152,900**	**13%**	**$ 5,306,000**	**17%**

General Assumption Differences Fiscal Analyst vs PCG

The table below details the assumptions used by PCG and the Fiscal Analyst for estimating the financial impacts from optional Medicaid expansion.

Assumptions Comparison for Impacts to the State - Optional Medicaid Expansion				
Issue	**FY 2014**		**FY 2021**	
	LFA	**PCG**	**LFA**	**PCG**
Newly eligible clients	131,500	9,700	160,100	113,100
Monthly cost per newly eligible client with child	$ 314	$ 174	$ 381	$ 203
Monthly cost per newly eligible client without child	$ 314	$ 221	$ 381	$ 277
State match rate for services	0%	0%	10%	10%
Enrollment take up rate	81%	60%	81%	60%

Below is a list of each assumption and an explanation of the differences (if any) between PCG and the Fiscal Analyst:

1. Newly eligible clients – PCG has a phased-in take up rate starting in 2014. This gradual phase-in of enrollment ends by 2016. The Fiscal Analyst assumed that due to the online health insurance exchange, the majority of clients would sign up by January 2014. PCG midpoint/average enrollment projections in FY 2017 is 96,700, which is 66% of the Fiscal Analyst's projection of 145,800. The primary reason for the difference is the enrollment take up rate, which is discussed below. Additionally, both PCG and the Fiscal Analyst trended forward from FY 2012 a base pool of uninsured adults with incomes under 138% of the Federal Poverty Limit. PCG had 150,000 uninsured and the Fiscal Analyst, using Health's estimates, had 141,000.
2. Monthly cost per newly eligible client with child (total fund cost) – Both PCG and the Fiscal Analyst developed a per client cost by dividing total Medicaid costs by enrollee type and then trended that

forward into the future. PCG used as its base 2008 through 2011. The Fiscal Analyst used FY 2012 data. Additionally, PCG assumed that newly eligible clients would be 20% less expensive than existing clients.

3. Monthly cost per newly eligible client without child (total fund cost) – The Fiscal Analyst explanation is the same as above, there was no different per client cost for adults without children. PCG calculated a different cost for adults without children using the methodology discussed above.
4. State match rate for services – In FY 2014 the federal government covers 100% of the Medicaid service costs, but by FY 2021 the State will pay 10% of the costs.
5. Enrollment take up rate – PCG reviewed a variety of studies for different states estimating take up rates under the optional Medicaid expansion. The average low vs high participation rate was 49% and 71% respectively. The average take up rate is 60%. The Fiscal Analyst used an estimated historical participation rate by the Department of Health as the basis for the take up rate by clients under the optional Medicaid expansion.

Local Government and Business Impact Differences Fiscal Analyst vs PCG

Below is a table showing the differences in local government and business impacts from optional Medicaid expansion as estimated by PCG and the Fiscal Analyst. The reasons for the most of the differences have already been discussed in the sections above. For the difference in the county percentage of the State, the Fiscal Analyst used the distribution provided by the counties.

Assumptions Comparison for Local Government and Businesses - Optional Medicaid Expansion				
Issue	FY 2014		FY 2021	
	LFA	PCG	LFA	PCG
Counties - Substance Abuse & Mental Health	($2,000,100)	$ (3,036,300)	(2,837,800)	$ 4,633,500
County % of State Match	23%	42%	23%	42%
County Jail Inmate Inpatient Services	$ (12,500)	$ (444,200)	$ (25,000)	$ (1,049,500)
Additional Revenue for businesses	$ 248,000,000	$ 217,558,400	$ 732,400,000	$ 316,211,700

$7.4 Million Indirect Revenue Impacts In PCG Report (Not Part of Fiscal Note Analysis by Fiscal Analyst)

Indirect Impacts by PCG	2014	2016	2023
State Tax Revenue	$ (4,115,600)	$ (8,609,100)	$ (11,345,300)
Local Tax Revenue	$ (3,268,300)	$ (6,838,800)	$ (9,015,800)

The table above details the $7.4 million total in 2014 in indirect revenue impacts to the State and local government analyzed by PCG for the optional Medicaid expansion. The fiscal note process excludes indirect impacts and so the Fiscal Analyst did not look at any of these items. Below is a discussion of each item:

1. State Tax Revenue – PCG estimates an increase in tax revenue to the State of $4.1 million in 2014 and $8.6 million in 2016. In 2023 the estimated increase is $11.3 million.
2. Local Tax Revenue - PCG estimates an increase in tax revenue to local governments of $3.3 million in 2014 and $6.8 million in 2016. In 2023 the estimated increase is $9.0 million.

$66.8 Million in Additional Indirect Impacts In PCG Report (Not Part of Fiscal Note Analysis by Fiscal Analyst)

Additional Indirect Impacts by PCG	2014-2016 Average	2023
Uncompensated Care Savings (hospitals)	$ (60,581,000)	$ (90,370,900)
County Public Assistance	$ (6,240,300)	$ 2,403,900

The table above details the $66.8 million total in 2014 -2016 in indirect impacts to local government and businesses analyzed by PCG for the optional Medicaid expansion. The fiscal note process excludes indirect impacts and so the Fiscal Analyst did not look at any of these items. Below is a discussion of each item:

1. Uncompensated Care Savings (hospitals) – PCG estimates a reduction in uncompensated care provided by hospitals of an average of $60.6 million from 2014 to 2016. In FY 2021 the reduction will be about $90.4 million.
2. County Public Assistance – PCG estimated the net impact to counties from providing substance abuse and mental services as well as Medicaid help in paying for some jail inmate inpatient services. The savings are an average of $6.2 million for 2014 – 2016. In 2023 there is a cost to the counties of $2.4 million.

Additional Resources

- Fiscal Note to HB 153 *Medicaid Amendments* (proposed optional expansion for Medicaid in Utah) - http://le.utah.gov/lfa/fnotes/2013/HB0153.fn.pdf
- State of Utah Medicaid Expansion Assessment by Public Consulting Group http://health.utah.gov/documents/PCGUtahMedicaidExpansionAnalysis6_17_13_FINAL.pdf
- Fiscal Notes, Dynamic Fiscal Notes, and Cost/Benefit Analyses, Presentation to Executive Appropriations Committee on June 18, 2013 - http://le.utah.gov/interim/2013/pdf/00002273.pdf

APPENDIX - MANDATORY MEDICAID EXPANSION IMPACT, $53.3M FISCAL ANALYST VS $26.8M PCG BY FY 2021

Here is how the mandatory Medicaid expansion fiscal estimates compare: (1) average annual costs of $37.9 million General Fund from 2014 to 2016 and costs of $53.3 million General Fund in FY 2021 from the Fiscal Analyst vs (2) average annual costs of $13.0 million General Fund from 2014 to 2016 and costs of $26.8 million General Fund in FY 2021 from the Public Consulting Group (PCG) report.

The chart below shows the fiscal estimates by the Fiscal Analyst and PCG for the mandatory Medicaid expansion. The $24.8 million in differences in estimates for 2014 to 2016 come from lower PCG estimates of $23.9 million for services and $0.9 million for administration. The $26.5 million in differences in estimates for FY 2021 all come from lower PCG estimates as administration cost estimates are essentially the same.

Medicaid Mandatory Expansion	CY 2014-2016 Annual Average		FY 2021	
General Fund Impacts	**LFA**	**PCG**	**LFA**	**PCG**
Service	$ 35,800,000	$ 11,847,000	$ 51,186,100	$ 24,730,200
Administrative	$ 2,076,700	$ 1,180,500	$ 2,076,700	$ 2,037,200
Total*	$ 37,876,700	$ 13,027,500	$ 53,262,800	$ 26,767,400
PCG vs LFA	-66%	$ (24,849,200)	-50%	$ (26,495,400)
***The PCG total number for 2014-2016 ties to the number on page 10 of the PCG report.**				

The comparison of the Fiscal Analyst and PCG analysis of mandatory Medicaid expansion is in four sections: (1) service impacts, (2) administrative impacts, (3) general assumptions, and (4) indirect impacts. Below is a more detailed discussion of each section:

Service Impacts

For the overall impacts to the State from 2014 to 2016 from the mandatory Medicaid expansion, the Fiscal Analyst estimates an increase of 10% in costs vs FY 2012 while PCG estimates a 3% increase. The PCG estimate is $23.9 million lower than the Fiscal Analyst's estimate.

Service Ongoing General/Education Fund Service Impacts - CY 2014-2016 Annual Average					
Program	**FY 2012 Base**	**LFA**	**%**	**PCG**	**%**
Medicaid in Department of Health	$ 338,433,100	$ 31,200,000	9%	$ 10,967,100	3%
Children's Health Insurance Program	$ 4,956,900	$ 4,600,000	93%	$ 879,900	18%
Total	**$ 343,390,000**	**$ 35,800,000**	**10%**	**$ 11,847,000**	**3%**

For the overall impacts to the State for FY 2021 from the mandatory Medicaid expansion, the Fiscal Analyst estimates an increase of 15% in costs vs FY 2012 while PCG estimates a 7% increase. The PCG estimate is $26.5 million lower than the Fiscal Analyst's estimate.

Service Ongoing General/Education Fund Service Impacts - FY 2021					
Program	**FY 2012 Base**	**LFA**	**%**	**PCG**	**%**
Medicaid in Department of Health	$ 338,433,100	$ 44,609,100	13%	$ 23,500,000	7%
Children's Health Insurance Program	$ 4,956,900	$ 6,577,000	133%	$ 1,230,200	25%
Total	**$ 343,390,000**	**$ 51,186,100**	**15%**	**$ 24,730,200**	**7%**

Administrative Impacts of $1.2 Million by PCG vs $2.1 Million by Fiscal Analyst for 2014-2016, Same in FY 2021

The Legislature will have provided the Department of Workforce Services an average of $2.1 million from 2014 to 2016 to implement the mandatory Medicaid expansion. No other state agency requested money to implement the mandatory changes associated with federal health care reform. The explanation for the PCG estimate of $1.2 million for administrative costs is the same as the explanation provided above regarding its per client calculation of administrative costs. PCG administrative costs for FY 2021 are $2.0 million.

Administrative General Fund Impacts - CY 2014-2016 Annual Average					
State Agency	**FY 2012 Base**	**LFA**	**%**	**PCG**	**%**
Workforce Services	$ 18,557,500	$ 2,076,700	11%	$ 950,200	5%
Health	$ 3,791,100	$ -	0%	$ 129,100	3%
Inspector General	$ 994,900	$ -	0%	$ -	0%
Human Services	$ 8,085,600	$ -	0%	$ 101,200	1%
Total*	**$ 31,429,100**	**$ 2,076,700**	**7%**	**$ 1,180,500**	**4%**
***The PCG total number ties to the number on page 10 of the PCG report.**					

Administrative General Fund Impacts - FY 2021					
State Agency	**FY 2012 Base**	**LFA**	**%**	**PCG**	**%**
Workforce Services	$ 18,557,500	$ 2,076,700	11%	$ 1,639,800	9%
Health	$ 3,791,100	$ -	0%	$ 222,800	6%
Inspector General	$ 994,900	$ -	0%	$ -	0%
Human Services	$ 8,085,600	$ -	0%	$ 174,600	2%
Total*	**$ 31,429,100**	**$ 2,076,700**	**7%**	**$ 2,037,200**	**6%**

General Assumptions

The explanations for the differences in general assumptions are similar to those discussed in the report. The Fiscal Analyst did a rough estimate of FY 2021 costs just for this report using the same growth factors used in its estimates of optional Medicaid expansion. In the Consensus estimates for FY 2014, there is an additional cost estimate for the 90 day pay-back period which is above and beyond the cost per child. A Medicaid client can have medical bills covered up to 90 days prior to the date of application for Medicaid.

Mandatory Expansion - Assumptions Comparison				
Issue	**FY 2014**		**FY 2021**	
	Consensus	**PCG**	**LFA**	**PCG**
Newly eligible clients	38,100	3,869	46,400	52,412
CHIP-Medicaid shift	25,500	7,881	31,000	37,623
Monthly state cost per child	$ 62	$ 30	$ 80	$ 35
State match rate for services	29.8%	28.8%	29.8%	28.8%

For additional information on the costs and assumptions behind the consensus estimates for FY 2014 for Medicaid mandatory expansion, please see the Issue Brief *Medicaid Consensus Forecasting* (http://le.utah.gov/interim/2013/pdf/00000453.pdf).

Indirect Revenue Impacts of $3.9 Million in 2023

The table below includes the indirect impacts estimate by PCG only. PCG estimates an increase in tax revenue to both the State and local governments from the mandatory Medicaid expansion.

Indirect Impacts by PCG	2014	2016	2023
State Tax Revenue	$ (802,500)	$ (1,364,700)	$ (2,183,600)
Local Tax Revenue	$ (633,400)	$ (1,076,800)	$ (1,726,100)