

Fiscal Fact

Trend #9: State Abuse of Medicaid Matching Funds

Top 10 State Tax Trends in Recession and Recovery, 2008 to 2012

By

Joseph Henchman

When states set aside money to be spent on Medicaid, the federal-state program providing health care to low-income Americans, they receive matching funds from the federal government. These matching funds are made available according to a formula known as the Federal Medical Assistance Percentages (FMAP), based on the state's level of poverty and unemployment.¹ For example, in Fiscal Year 2012, Mississippi has the highest FMAP (74.18 percent), meaning that for every \$1.00 Mississippi spends on Medicaid, the federal government kicks in \$2.87. Fourteen states tie for the lowest FMAP (50 percent), which means that for every \$1.00 they spend on Medicaid, the federal government kicks in another \$1.00. (See Table for complete list.)

Table: Federal Medicaid Matching Fund Rates and States with Health Provider Taxes

State	Federal Medicaid Matching Fund Rate, FY 2012	Federal Contribution for Every Spent State Medicaid Dollar	Rank	Increased Health Provider Tax in 2009 or 2010
Alabama	68.62%	\$2.19	9	X
Alaska	50.00%	\$1.00	37	
Arizona	67.30%	\$2.06	10	
Arkansas	70.71%	\$2.41	5	
California	50.00%	\$1.00	37	
Colorado	50.00%	\$1.00	37	X
Connecticut	50.00%	\$1.00	37	
Delaware	54.17%	\$1.18	34	
Florida	56.04%	\$1.27	31	X
Georgia	66.16%	\$1.96	13	X
Hawaii	50.48%	\$1.02	36	
Idaho	70.23%	\$2.36	7	X
Illinois	50.00%	\$1.00	37	
Indiana	66.96%	\$2.03	11	X

¹ See Department of Health & Human Services, *Federal Financial Participation in State Assistance Expenditures; Federal Matching Shares for Medicaid, the Children's Health Insurance Program, and Aid to Needy Aged, Blind, or Disabled Persons for FY 2012*, 75 Fed. Reg. 217 (Nov. 10, 2010), <http://aspe.hhs.gov/health/fmap12.shtml>.

Iowa	60.71%	\$1.55	23	X
Kansas	56.91%	\$1.32	28	X
Kentucky	71.18%	\$2.47	3	
Louisiana	61.09%	\$1.57	22	
Maine	63.27%	\$1.72	20	X
Maryland	50.00%	\$1.00	37	
Massachusetts	50.00%	\$1.00	37	
Michigan	66.14%	\$1.95	14	
Minnesota	50.00%	\$1.00	37	
Mississippi	74.18%	\$2.87	1	X
Missouri	63.45%	\$1.74	19	
Montana	66.11%	\$1.95	15	
Nebraska	56.64%	\$1.31	29	
Nevada	56.20%	\$1.28	30	
New Hampshire	50.00%	\$1.00	37	
New Jersey	50.00%	\$1.00	37	X
New Mexico	69.36%	\$2.26	8	
New York	50.00%	\$1.00	37	X
North Carolina	65.28%	\$1.88	16	
North Dakota	55.40%	\$1.24	32	
Ohio	64.15%	\$1.79	17	X
Oklahoma	63.88%	\$1.77	18	
Oregon	62.91%	\$1.70	21	X
Pennsylvania	55.07%	\$1.23	33	X
Rhode Island	52.12%	\$1.09	35	X
South Carolina	70.24%	\$2.36	6	
South Dakota	59.13%	\$1.45	25	
Tennessee	66.36%	\$1.97	12	X
Texas	58.22%	\$1.39	26	
Utah	70.99%	\$2.45	4	X
Vermont	57.58%	\$1.36	27	
Virginia	50.00%	\$1.00	37	
Washington	50.00%	\$1.00	37	X
West Virginia	72.62%	\$2.65	2	
Wisconsin	60.53%	\$1.53	24	X
Wyoming	50.00%	\$1.00	37	
District of Columbia	70.00%	\$2.33	(8)	

Source: U.S. Department of Health & Human Services; National Conference of State Legislatures.

Because Medicaid's federal matching is open-ended, states can abuse it to bridge budget gaps. In 2004, the U.S. government's General Accounting Office (GAO, now the Government Accountability Office) warned that the design of Medicaid matching funds enabled states to funnel Medicaid money into state general coffers. During the recent downturn, many states did exactly that.² They do so by taxing health care

² See Justin Higginbottom, *State Hospital and Medical Provider Taxes: Not What the Doctor Should Order*, TAX FOUNDATION FISCAL FACT NO. 203 (Dec. 9, 2009), <http://www.taxfoundation.org/news/show/25599.html>.

providers, using the collected revenue to qualify for federal matching funds, and then using the federal dollars to compensate Medicaid providers.

These hospital taxes or doctors' taxes exist in 46 states and the District of Columbia.³ During the recent economic downturn, 20 states increased health provider taxes to take advantage of federal matching funds, particularly because the 2009 stimulus bill temporarily made FMAP federal matching fund rates more generous. (In 2009, FMAP matching fund rates ranged from 56.2 percent to 83.6 percent.) States' use of the matching funds to backfill general state spending led to a sharp jump in federal Medicaid expenditures, from \$201 billion in 2008 to \$250 billion in 2009.⁴ As states receive more federal funds for Medicaid, the federal government must tax or borrow to pay for this spending increase.

As one example of a flurry of new state medical taxes, in 2009, Wisconsin Governor Jim Doyle (D) pushed through a 20 percent increase in the state's health provider tax. The tax increase led to an increase of federal matching funds received by the state from \$635 million to \$796 million, with an estimated \$292 million of the money being diverted for non-Medicaid uses.⁵ Health care providers that benefit from increased Medicaid reimbursements often support these taxes if the returns exceed the tax payments.⁶ The actual purpose of these taxes is to obtain additional federal funds.

Those states that were most likely to abuse Medicaid matching funds are those states that have been most irresponsible with managing their state budget. Their use of Medicaid funds to backfill other state programs is at odds with the purpose of the Medicaid program, but the open-ended nature of federal matching encourages this practice. While using health provider taxes and abusing Medicaid matching funds can temporarily patch a state budget, these solutions rely on the continued dysfunction of the Medicaid matching fund system.

©2012 Tax Foundation
National Press Building
529 14th Street, N.W., Suite 420
Washington, DC 20045

202.464.6200
www.TaxFoundation.org

About the Tax Foundation

The Tax Foundation is a 501(c)(3) non-partisan, non-profit research institution founded in 1937 to educate the public on tax policy. Based in Washington, D.C., our economic and policy analysis is guided by the principles of sound tax policy: simplicity, neutrality, transparency, and stability.

³ National Conference of State Legislatures, *Health Care Providers and Industry Taxes/Fees* (Feb. 2012), <http://www.ncsl.org/issues-research/health/health-provider-and-industry-state-taxes-and-fees.aspx>.

⁴ U.S. OFFICE OF MANAGEMENT & BUDGET, THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2013: HISTORICAL TABLES (2012), <http://www.whitehouse.gov/omb/budget/Historical>.

⁵ See Brien Farley, *Wisconsin Seeks More Medicaid Money to Heal Sick State Budget*, HEARTLAND BUDGET & TAX NEWS (Nov. 3, 2009), <http://news.heartland.org/newspaper-article/2009/11/03/wisconsin-seeks-more-medicaid-money-heal-sick-state-budget>.

⁶ In one state, a hospital association opposed the hospital assessment, concluding that the state planned to siphon so much money that they would not be fully reimbursed from higher Medicaid payments. See Ohio Hospital Association, *New State Hospital Tax: Extra Burden in a Failing Economy* (Nov. 2009), <http://ohanet.org/SiteObjects/57AEE3CFB2585F16682EF98E1BBE3B48/State%20Budget%20Survey%20Report.pdf>.