

REQUEST FOR INFORMATION

To: Representative Britt Raybould
From: Jared Tatro, Principal Budget & Policy Analyst. Legislative Services Office, Budget & Policy Analysis Division
Date: August 21, 2019
Re: Alternative Dedicated Funding Options for Medicaid Expansion

On June 17, 2019, during the Equitable Assessment of Costs Related to Medicaid Expansion Interim Committee meeting, you requested information to identify alternative funding sources that could be used to fund Medicaid Expansion. This was clarified to include the following categories:

- Existing funds that could be appropriated in a budget bill
- Redirect currently established funding sources
- New funding options (might require legislation)

Idaho currently uses over 500 funds to manage the nearly \$8 billion in annual appropriations, of which 485 are coded as dedicated (non-General Fund and non-federal funds).¹ The majority of these dedicated funds are established and used for specified purposes, most identified in Idaho Code. For a complete listing of funds and their sources and uses – refer to the Fiscal Source Book, as published annually by Legislative Services Office, Budget and Policy Analysis Division.² At the end of this document are endnotes with additional details on each option including the source for information, Idaho Code or IDAPA reference, and current uses (when applicable) of various fund source options.

Existing Funds That Could be Appropriated Through JFAC:

The Legislature has the authority to use state funds at its discretion regardless of how the funds are intended to be used in Idaho Code.³ JFAC has the authority to include “notwithstanding” language in any appropriation bill or directly appropriate funds for a specified purpose. Cash balances can be transferred on a onetime basis to cover the costs of expansion, but at the cost of making cuts to other programs.

For the first six months of expansion, the Legislature chose to use the Millennium Income Fund for a portion of the state’s share of expansion.⁴ This fund is sustainable, and its distribution will increase by about \$1 million each year.⁵ Currently about \$8 million is appropriated to various state agencies to defend and increase the value of the Millennium Funds and for tobacco/substance use treatment and prevention programs.⁶ These appropriated funds could be redirected for expansion, but at the risk of losing prevention programs.

Of the 484 other dedicated funds managed by the state, an analysis of each fund would be necessary to determine if 1) funds are unobligated and available for use, 2) if the fund source is sustainable, and 3) what impacts there would be on those agencies and/or programs currently using those funds.

Redirect of Currently Established Funding Sources:

Some of the dedicated revenue sources could be amended in Idaho Code and then used to pay for Medicaid expansion. Several options listed below have complex distribution formulas and will need to be carefully evaluated to determine the full impact of change. Potential options and (when applicable) revenue generated in 2018/2019:

- Cigarette Tax revenue distribution, \$34.6 million in 2019;⁷
- Tobacco Products Tax revenue distribution, \$15.7 million in 2019;⁸
- Beer Tax revenue distributions, \$4.2 million in 2019;⁹

- Wine Tax revenue distributions, \$6.0 million in 2019;¹⁰
- Liquor Surcharge, \$78.5 million in 2018;¹¹
- Charity levy (county indigent), \$20 million in 2018;¹²
 - Can be collected (using current process) and paid to the state
 - Can be eliminated/modified and provide property tax relief
- Catastrophic Health Care Cost Program – Suspend/Eliminate program and allow the General Fund to be used for expansion; or
- Modify how the hospitals are reimbursed. Currently hospitals are reimbursed based on their allowable costs.¹³ This could be changed to a lowered percentage of their allowable costs or to reinstate a cap (or ceiling) on the amount of increase allowed from year to year in the budget request. The state could also change the payment methodology to an episodic basis (similar to other provider types) or implement a diagnostic related group payment methodology.¹⁴

New Funding Options:

There are options to establish new funding sources to cover the costs of the state's share of Medicaid expansion. Some of these options are consistent with how other states have addressed this issue.

- Tax increase with earmarked distributions
 - Sales tax, \$1.9 billion collected in 2019¹⁵
 - Sin taxes (beer, wine, liquor, lottery, cigarette, & tobacco: see prior section for \$)¹⁶
- Establish a tax for Vape and E-cig products
- Increase the hospital assessment to the maximum allowed (see H298 & H299, 2019), could generate another \$18-\$20 million in assessments if increased to the maximum allowed¹⁷
- Remove the tax exemptions for hospitals
 - Sales, estimated exemption is \$37.7 million in FY 2021 for all hospitals and \$24.5 million for non-critical access hospitals¹⁸
 - Property¹⁹
- Remove other tax exemptions (sales or property) to increase funds available to the state.²⁰
- Establish a dedicated stabilization fund for Medicaid (traditional Medicaid and Expansion). The fund could be similar to the Public Education Stabilization Fund (PESF). Basically, when Medicaid is short on their state-share appropriation they would be allowed to withdraw from the stabilization fund. Conversely, when Medicaid has excess General Fund appropriation at the end of the fiscal year, those funds would be deposited directly into the stabilization fund instead of the General Fund.
- Modify the distribution of premium taxes to include expansion. In 2013, the Department of Health and Welfare proposed and the Legislature approved S1014 with the intent of eliminating the 80/20 split within the Health Insurance Access Card. However, inadvertently, the legislation placed a sunset on all distributions above \$45 million, not just the Health Insurance Access Card.²¹ In FY 2019, \$90.2 million was distributed.

Conclusion:

There are numerous options to consider for redirecting or generating new money to cover the state's share of costs for Medicaid expansion. There are, however, obstacles, real or perceived, to actually implementing any of the potential options outlined in this document and as a result this document is intended to provide you options for consideration. Further analysis may be needed to determine the fiscal impact of each option listed in this document.

Endnotes:

¹ Number of funds identified in the State Controllers accounting system and the Legislative Services Office, Budget and Policy Analysis budget database as of August 1, 2019. The activity of funds will vary by agency and year. Some funds may be listed as active but have not had activity in recent years.

² Legislative Services Office, Budget and Policy Division produces the Fiscal Source Book annually and can be found on the legislatures website: <https://legislature.idaho.gov/iso/bpa/pubs/fsb/>

³ Chapter 35, Title 67, Idaho Code

⁴ S1171, 2019 session (Session Law Chapter 325)

⁵ Based on an ANALYSIS DONE BY LSO and the estimated distributions from the MSA to Idaho. This can be seen in the Legislative Budget Book under the Millennium Fund Program: <https://legislature.idaho.gov/iso/bpa/pubs/lbb/>. The analysis was conducted using information from the Attorney General's Office and the Office of the State Treasurer.

⁶ The appropriations from the Millennium Fund can be found in the various appropriation bills, the Legislative Fiscal Report, and in a presentation made by Jared Tatro (LSO) to the Legislative Interim Committee on Equitable Assessment of Costs Related to Medicaid Expansion on August 9, 2019: https://legislature.idaho.gov/wp-content/uploads/sessioninfo/2019/interim/190809_eame_04_MedicaidExpan-MillenniumFunds_Tatro.pdf

⁷ Cigarette Tax: Idaho's cigarette tax rate is 57 cents per pack of 20 cigarettes. Each year the net amount collected is distributed as follows. The Public School Income Fund and Department of Juvenile Corrections each receive \$3,315,000. The Permanent Building Fund receives \$5,000,000. The Central Tumor Registry Fund receives \$120,000. The Cancer Control Fund receives \$300,000. The General Fund receives an amount needed to fund the School Bond Levy Equalization Program. All remaining revenues are distributed as follows. The first \$4,700,000 is deposited in the Grant Anticipation Revenue Vehicle (GARVEE) Debt Service Fund. The next \$5,000,000 is dedicated to the Secondary Aquifer Planning, Management, and Implementation Fund. All remaining revenue is deposited into the Transportation Expansion and Congestion Mitigation Fund. Idaho Code: Title 63, Chapter 25. Source: Division of Financial Management General Fund Revenue Book.

⁸ Tobacco Products Tax: Idaho levies a 35% tax on the wholesale price of tobacco products, except cigarettes. This amount, net of refunds, is remitted to the General Fund. An additional 5% of the wholesale price is also collected. Half of this additional amount is earmarked for the Public School Income Fund, with \$200,000 appropriated to Idaho State Police and \$80,000 to the Commission on Hispanic Affairs. The other half of the 5% collected is distributed to the Department of Juvenile Corrections for county juvenile probation services. Idaho Code: Title 63, Chapter 25. Source: Division of Financial Management General Fund Revenue Book.

⁹ Beer Tax: A tax of \$4.65 per 31-gallon barrel, or its equivalent, is levied on beer sold in Idaho. Beer containing more than 4% alcohol by weight is taxed as wine. Of the total beer tax, 20% is distributed to the Substance Abuse Treatment Fund, 33% to the Permanent Building Fund, and the remaining 47% goes to the General Fund. Idaho Code: Title 23, Chapter 10. Source: Division of Financial Management General Fund Revenue Book.

¹⁰ Wine Tax: A tax of 45 cents per gallon is levied on wine (and beer containing more than 4% alcohol by weight) sold in Idaho. Of the total wine tax, 12% is distributed to the Substance Abuse Treatment Fund, 5% to the Idaho Grape Growers and Wine Producers Commission Fund, and the remaining 83% goes to the General Fund. Historical rates of the tax and its distribution are listed in the table below. Idaho Code: Title 23, Chapter 13. Source: Division of Financial Management General Fund Revenue Book.

¹¹ Liquor Tax: A portion of the net income of the State Liquor Division flows to the General Fund. Two percent of net income is dedicated to the Drug Court, Mental Health Court, and Family Court Services Fund. Half of the amount remaining is distributed to cities and counties. The other half is distributed as follows: the Substance Abuse Treatment Fund receives \$2.08 million; the Community College Fund receives \$0.8 million; the Public School Income Fund receives \$1.2 million; the Cooperative Welfare Fund receives \$0.65 million; the Drug Court, Mental Health Court and Family Court Services Fund receives \$0.68 million; the Drug and Mental Health Court Supervision Fund receives \$0.44 million; and the General Fund receives the remainder. Idaho Code: Title 23, Chapters 2 and 4. Source: Division of Financial Management General Fund Revenue Book.

¹² Section 31-863, Idaho Code.

¹³ IDAPA 16.03.09.400.10. Types of hospitals are defined in this rule and additional information can be found in the Hospital Assessment Act in Sections 56-1404 and 56-1408, Idaho Code.

¹⁴ Diagnosis Related Group (DRG): A diagnosis-related group (DRG) is a patient classification system that standardizes prospective payment to hospitals and encourages cost containment initiatives. In general, a DRG payment covers all charges associated with an inpatient stay from the time of admission to discharge. Source: HMSA Provider Resource Center: https://hmsa.com/portal/provider/zav_pel.fh.DIA.650.htm; similar definitions can be found with CMS.

¹⁵ Idaho's sales tax rate is 6% and applies to the sale, rental, or lease of tangible personal property and some services. In addition to Idaho-based sellers, retailers without a physical presence in the state are required to collect and remit sales taxes on Idaho transactions once their remote sales top \$10,000 during a twelve-month period. Sales tax receipts are distributed in the following

manner. Revenue sharing receives 11.5% of the gross sales tax collections less refunds and multistate compact revenues. The Transportation Expansion and Congestion Mitigation Fund is allocated 1.0% of the amount remaining after the revenue sharing distribution. The Permanent Building Fund receives \$5,000,000. The Water Pollution Control Fund gets \$4,800,000. Another \$8,487,103 funds the Agricultural Equipment Property Tax Exemption and approximately \$18.8 million is currently dedicated to Personal Property Tax Relief. Other distributions are made to fund the Demonstration Pilot Project and Election Consolidation. All remaining revenue accrues to the General Fund. Sales tax funds must be allocated to the Idaho Housing and Finance Association if, within 60 days of the close of the fiscal year, the Chairman of the Housing and Finance Association Board of Commissioners certifies to the State Tax Commission that a deficiency exists in the agency's Capital Reserve Fund. No such certification has ever been made, nor is one anticipated for the current fiscal year. Beginning in 1996, this provision is limited to no more than \$89 million. Also, it only applies to bonds issued prior to 1996, effectively repealing this provision for bonds issued on or after January 1, 1996. Idaho Code: Title 63, Chapter 36. Source: Division of Financial Management General Fund Revenue Book.

¹⁶ See Endnotes 7-11.

¹⁷ H298 proposed to amend existing law to create the Medicaid Expansion Dedicated Fund; and to revise provisions regarding the sales tax exemption for certain hospitals and the remittance of use tax by certain hospitals:

<https://legislature.idaho.gov/sessioninfo/2019/legislation/H0298/> and H299 proposed to amend existing law to revise provisions regarding the Idaho hospital assessment, to provide for purposes and limitations; and to establish the Medicaid Expansion Dedicated Fund: <https://legislature.idaho.gov/sessioninfo/2019/legislation/H0299/>

¹⁸ Section 63-3622O(1)(a). Hospital Purchases. Exempts all purchases by nonprofit hospitals that are licensed by the state for the care of ill persons. Excludes from exemption nursing homes or similar institutions. (originally enacted in 1967 as 63-3622(s), Idaho Code.

¹⁹ Section 63-602D. Property Exempt From Taxation – Certain Hospitals:

<https://legislature.idaho.gov/statutesrules/idstat/Title63/T63CH6/SECT63-602D/>

²⁰ This could include any exemption currently provided from sales or property taxes. See Title 63, Chapter 6 for [Property] Exemptions from Taxation. <https://legislature.idaho.gov/statutesrules/idstat/title63/t63ch6/>. See Chapter 36, Title 63, Idaho Code for exemptions from Sales Taxes: <https://legislature.idaho.gov/statutesrules/idstat/Title63/T63CH36/>

²¹ S1014, 2013: Amends existing law to remove the requirement that a specific percentage of funds be allocated to specific programs. <https://legislature.idaho.gov/sessioninfo/2013/legislation/S1014/>