

The Impact of Medicaid Expansion on Kansas' State Budget

Introduction

Kansas lawmakers are currently considering legislation that could expand Medicaid to 150,000 nonelderly, low-income Kansans with annual incomes up to 138 percent of the federal poverty level, that is \$17,236 for individuals and \$29,435 for a family of three.¹ Many of these Kansans currently fall into the coverage gap, earning too much income to qualify for KanCare (the state's Medicaid program), and not enough income to receive federal subsidies or cost sharing reductions to purchase commercial insurance in the individual market.²

As lawmakers in Kansas assess the opportunity to expand Medicaid, it is critical to understand the impact of Medicaid expansion on state budgets. The experience in other states that have expanded Medicaid shows that Medicaid expansion at the enhanced federal match can generate state savings across multiple budget areas. In particular, states generate savings by shifting some existing Medicaid enrollees from regular match to enhanced match, by covering hospital costs for people in corrections, by reducing subsidies for uncompensated care at hospitals and other providers, and by increasing tax and assessment revenue. Those savings and new revenues can be substantial, offsetting most or all of the state's share of expansion costs. A full analysis on the budget impact of expanding Medicaid must include an assessment of those offsets.

Families USA collected state fiscal analyses of the net budget impact of Medicaid expansion at 90% federal match several weeks ago.³ We found that analyses in numerous expansion states concludes that most or all of the 10% state share of Medicaid expansion was offset by savings and increased revenue. These analyses were conducted by independent foundations and by both Democratic and Republican administrations: the analyses aggregated in our

report included Colorado, Louisiana, Michigan, Montana, New Hampshire, Ohio and Virginia.

Three Kansas-based organizations have now done similar analyses showing the net budget impact of Medicaid expansion in Kansas. Those analyses were conducted by the Kansas Health Institute⁴ (KHI), The Kansas Division of the Budget⁵, and Dr. John Leatherman of Kansas State University.⁶ This fact sheet compares these three analyses and when appropriate combines their results. The conclusion from reviewing these three analyses is clear: after accounting for offsetting Medicaid and corrections savings and additional revenues, the 10% state share of expansion is either mostly or entirely offset.

- » After accounting for Medicaid savings, corrections savings and tax revenue, the Kansas budget impact of Medicaid expansion is projected to range from a net cost to the state of \$680,000⁷ to a net savings for the state of \$7.14 million⁸ in the second half of Fiscal Year 2020.
- » Under the most likely scenarios, Medicaid expansion will be budget neutral.⁹
- » Medicaid expansion could infuse more than \$500 million in federal funding into Kansas in the second half of Fiscal Year 2020 and over \$1 billion in Fiscal Year 2021.

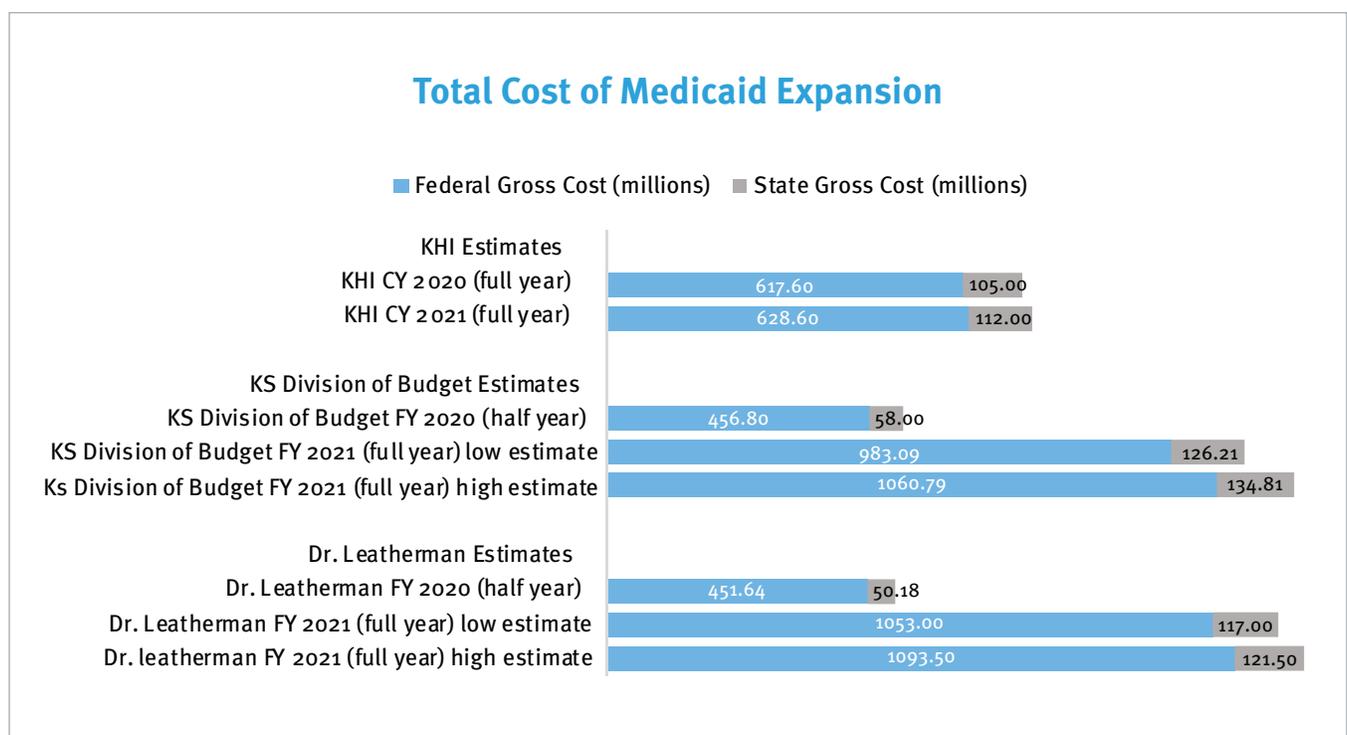
Analysis

The Kansas Division of the Budget developed a fiscal note for Kansas House Bill 2102, which would implement Medicaid expansion on January 1, 2020. The Dr. Leatherman report and KHI also base their projections on a January 1, 2020 start date for Medicaid Expansion. To account for a January 1, 2020 start date, the Kansas Division of the Budget report and the Dr. Leatherman report both provide total cost estimates for the second half of Fiscal Year (FY) 2020, which extends from January 1, 2020 to June 30, 2020 (FY 2020 extends from July 1, 2019 to June 30, 2020). The Kansas Division of the Budget report and the Dr. Leatherman report also provide the total cost estimates for the entirety of FY 2021, which extends from July 1, 2020 to June 30, 2021. KHI provides estimates for all of Calendar Years (CY) 2020 and 2021.

Gross Cost: All Sources and State Funds

These estimates show the total cost of Medicaid expansion will range from \$502¹⁰ to \$515 million¹¹ in the second half of FY 2020 and \$1.11 to \$1.22 billion in FY 2021¹². KHI estimates that expansion would cost \$723 million in CY 2020 and \$741 in CY 2021.

Ninety percent of the cost of Medicaid expansion will be covered by federal funds, with the state responsible for the remaining 10 percent of the total cost of expansion (before accounting for offsets.) After accounting for additional administrative costs and costs to other state agencies, the state gross cost of expansion is projected to be between \$50 and \$58 million in the second half of FY 2020, and between \$117 and \$134 million in FY 2021. KHI estimates that state gross cost would be \$105 million in CY 2020 and \$112 million in CY 2021. These estimates do not account for cost offsets and tax revenue, which are summarized below.



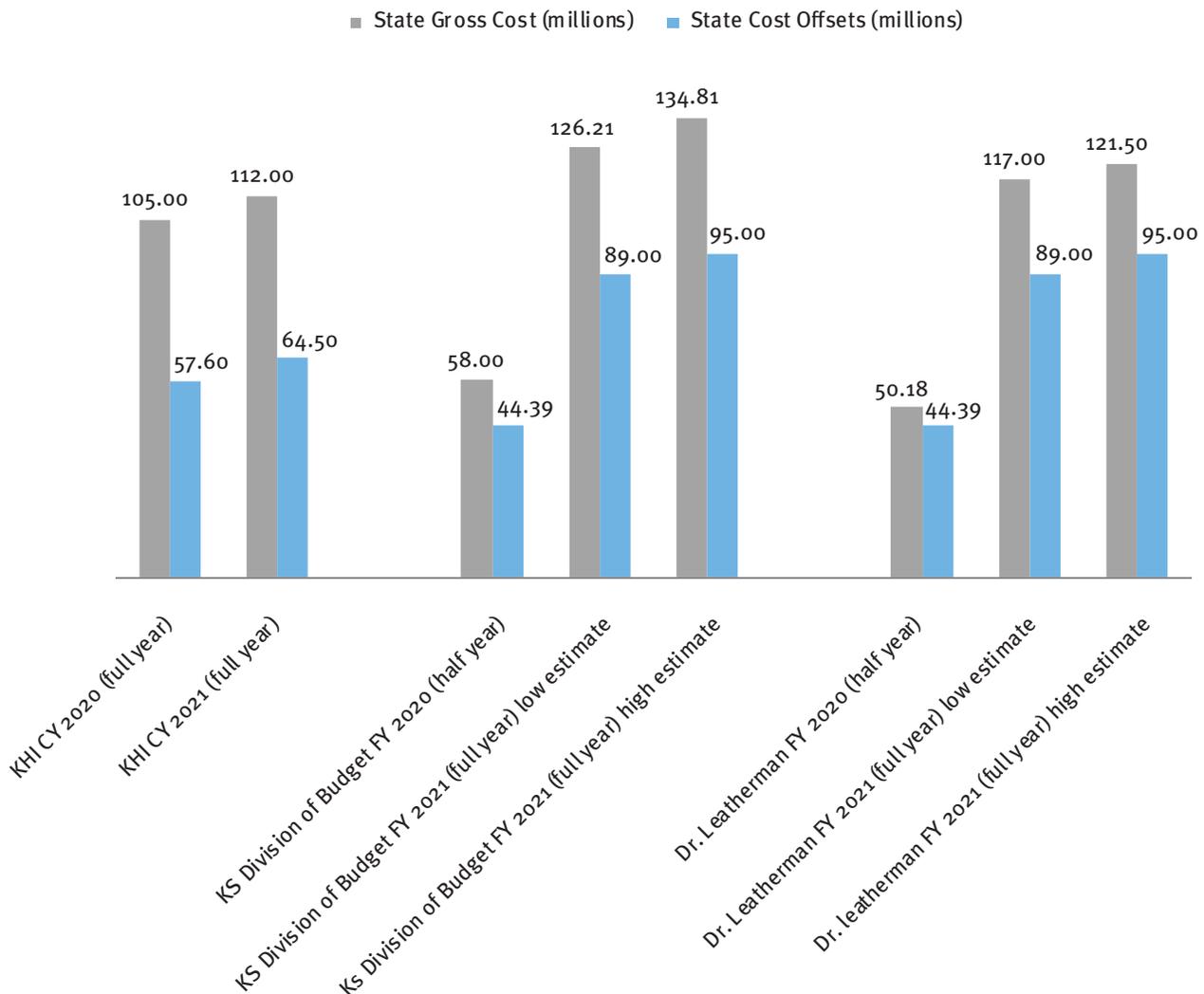
Offsetting Medicaid Savings and Medicaid-Related Revenues

According to the Kansas Division of the Budget report, Medicaid expansion would result in savings for the Department of Corrections, along with increased revenue from drug rebates and privilege fees, and additional health care cost savings that would offset state costs by \$44 million in the second half of FY 2020 and between \$89 and \$95 million in FY 2021.

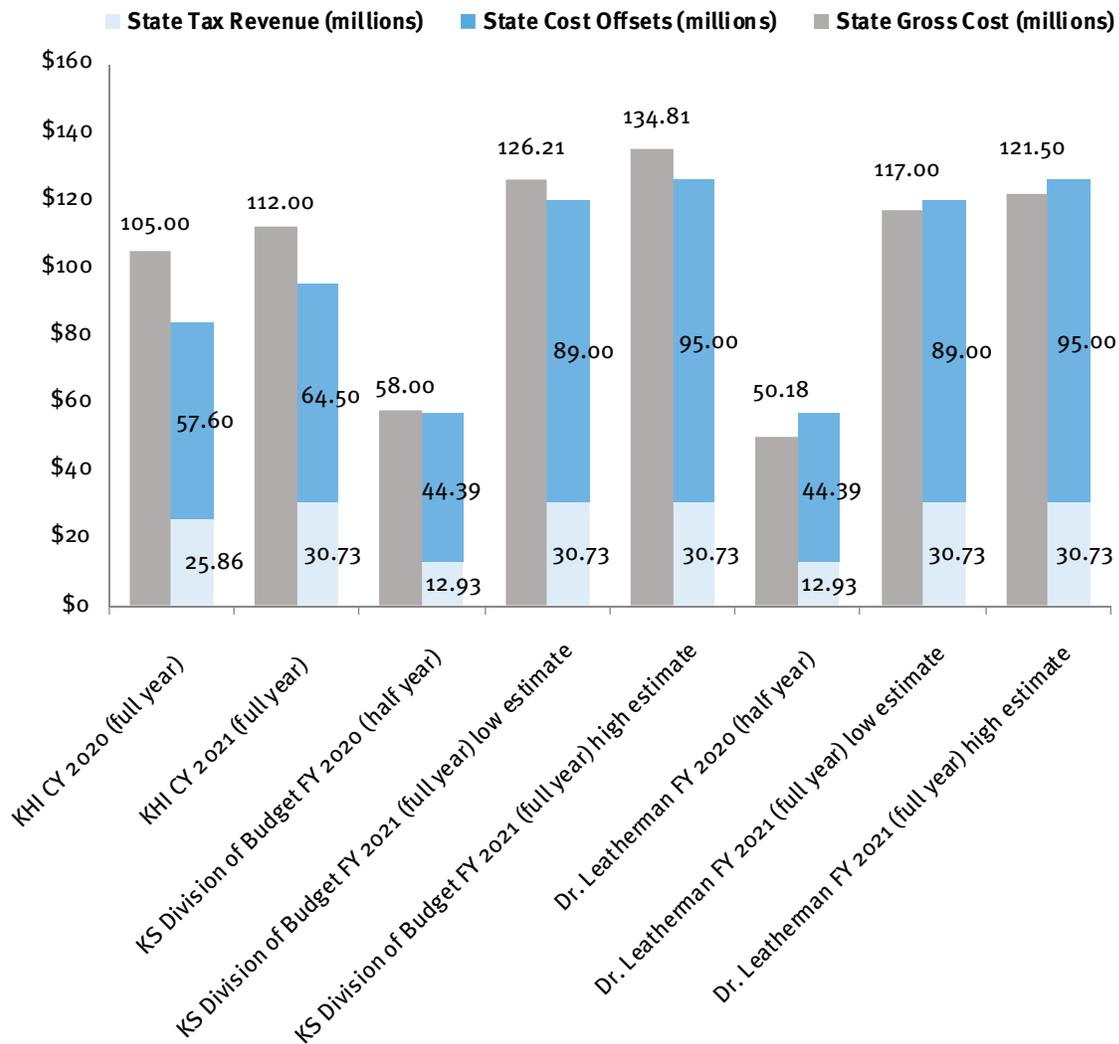
These offsets would decrease net state costs to between \$6 and \$14 million in second half of FY 2020 and between \$26 and \$40 million in FY 2021.¹³

KHI projects that revenues and offsets would reduce the state cost by \$58 million in CY 2020 and \$65 million in CY 2021. These revenues and offsets would decrease the state costs to \$47.4 million in CY 2020 and \$47.5 million in CY 2021.

Gross State Cost Compared to State Cost Offsets



Gross State Cost of Medicaid Expansion Compared to Cost Offsets and Tax Revenue



Increased Tax Revenue from Infusion of Billions in Federal Funds

On top of savings related to Medicaid, the Dr. Leatherman report projects that broader increases to state tax revenue from additional economic activity in the health care sector can offset state costs by an additional \$12.9 million in the second half of FY 2020 and \$30.7 million in FY 2021.¹ The additional tax revenue would reduce state net cost to between \$0 and \$22 million.

Combining projections of increased tax revenue from the Dr. Leatherman report and the Medicaid expansion net cost projections from the Kansas Division of the Budget shows that Medicaid expansion could result in a net savings for the state of \$7.1 million in the second half of FY 2020, and a savings of between \$2.7 and \$4.2 million in FY 2021. This potential for net state savings should not be surprising and is consistent with fiscal analyses in Virginia, Michigan, Louisiana and Montana.

¹Families USA assumed the tax revenue from the Fiscal Year in the Dr. Leatherman report would also be applicable to the calendar year as a general means for comparison.

Endnotes

¹ Incomes for individuals and a family of three were calculated using the 2019 federal poverty guidelines released by the Office of the Assistance Secretary for Planning and Evaluation at the U.S. Department of Health and Human Services on February 1, 2019. Available at: <https://aspe.hhs.gov/poverty-guidelines>.

² <http://www.expandkancare.com/wp-content/uploads/2019/01/Expand-KanCare-Just-the-Facts.pdf>.

³ https://familiesusa.org/sites/default/files/product_documents/MCD_Expansion-and-State-Budgets_Fact%20Sheet.pdf.

⁴ Kansas Health Institute, “Medicaid Expansion in Kansas: Updated Estimates of Enrollment and Costs,” available online at: https://www.khi.org/assets/uploads/news/14898/web_medicaid_expansion_updated_estimates.pdf.

⁵ Kansas Division of the Budget, “Fiscal Note for HB 2102 by House Committee on Appropriations,” available online at: http://www.kslegislature.org/li/b2019_20/measures/documents/fisc_note_hb2102_00_0000.pdf.

⁶ Dr. John Leatherman, “Preliminary Estimates of the State and Local Tax Revenue Generated by the Expansion of Medicaid Expenditures,” available online at: <https://www.kha-net.org/criticalissues/kancareexpansion/>.

⁷ Based on state gross cost and cost offset estimates from KS Division of the Budget, plus tax revenue estimates from The Dr. Leatherman report. The KS Division of the Budget’s estimate does not account for state tax revenue, so the additional tax revenue offsets from the Dr. Leatherman report were added.

⁸ Based on state gross cost and tax revenue estimates from the Dr. Leatherman report, plus additional cost offset estimates from KS Division of the Budget. The Dr. Leatherman report estimate does not account for offsets from savings for the Department of Corrections, increased revenue from drug rebates and privilege fees, so the additional offsets from the KS Division of the Budget were added.

⁹ In FY 2021, the Kansas budget impact of Medicaid expansion is projected to range from a net state cost of \$9 million to a net state savings of \$4.2 million. These estimates are based on state gross cost and cost offset estimates from the KS Division of the Budget, plus tax revenue estimates from the Dr. Leatherman report; and state gross cost and cost offset estimates from the Dr. Leatherman report, plus additional cost offset estimates from KS Division of the Budget.

¹⁰ According to Dr. Leatherman report estimate.

¹¹ According to KS Division of the Budget estimate.

¹² KS Division of the Budget projects that total cost of Medicaid Expansion in FY 2021 would range from \$1.11 to \$1.2 billion. The Dr. Leatherman report projects that total cost of Medicaid Expansion in FY 2021 would range from \$1.17 to \$1.22 billion.

¹³ Note: The Dr. Leatherman report does not account for offsets from savings for the Department of Corrections, and increased revenue from drug rebates and privilege fees. The estimated state cost offsets from the KS Division of the Budget were compared to the Dr. Leatherman report’s estimates of gross state cost.

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This publication was written by:

Eliot Fishman, Senior Director of Health Policy

Sophia Tripoli, Director of Health Care Innovations

Emmett Ruff, Policy Analyst

The following Families USA staff contributed to this publication (in alphabetical order):

Kimberly Alleyne, Senior Director of Communications

Nichole Edralin, Senior Designer

FAMILIESUSA
THE VOICE FOR HEALTH CARE CONSUMERS

1225 New York Avenue NW, Suite 800

Washington, DC 20005

202-628-3030

info@familiesusa.org

FamiliesUSA.org

facebook / FamiliesUSA

twitter / @FamiliesUSA