# Bond Case Briefs

*Municipal Finance Law Since 1971*

---

## Fitch Rtgs: Medicaid Changes Will Affect States, NFP Healthcare Providers

Fitch Ratings-New York-06 February 2020: Recent regulatory actions from the US federal Centers for Medicare and Medicaid Services (CMS) could have fiscal and credit repercussions for state governments and those reliant on state funding, particularly not-for-profit (NFP) healthcare providers, Fitch Ratings says. The proposals illustrate the Trump administration's efforts to make notable changes to Medicaid, even without legislative approval given the divided control of Congress. Collectively, Medicaid's expenditures account for approximately 20% of states' non-federal funds spending, according to the National Association of State Budget Officers. Medicaid covers nearly 1 in 5 Americans, though commercial payers are more significant in terms of patient net revenues for providers.

CMS recently issued two regulatory notices opening the door to potentially significant changes to Medicaid. The Healthy Adult Opportunity initiative (HAO) allows states to transition to block grants or per capita cap grants for certain beneficiaries, effective immediately. The Medicaid Fiscal Accountability Regulation (MFAR), which is in the midst of the rulemaking process and at least several months from implementation, could upend how states finance their Medicaid costs.

HAO is optional for states and provides guidance on applying for Section 1115 Waivers to extend coverage to adults under 65 not otherwise eligible for Medicaid, with a per capita or block grant cap on federal contributions. Under current law, the federal government matches state Medicaid spending at varying percentages on an open-ended basis. An HAO per capita or block grant shifts cost risk to states. In return, states receive flexibility including cost-sharing requirements with beneficiaries, work requirements or limiting prescription drug coverage.

Capping federal Medicaid contributions, even for a subset of beneficiaries, poses risks to state budgets and those entities reliant on state funding, including local governments and providers. States would need to find revenue or cost savings, either in Medicaid or elsewhere, to offset reduced federal contributions. Since CMS notes the flexibility available under HAO is already available via separate waivers, the fiscal benefits to states are unclear.

Fitch considers CMS's proposed MFAR as potentially more disruptive than HAO to credit quality. MFAR affects how states finance their share of the Medicaid program. Various state organizations including the National Governors Association and the National Association of Medicaid Directors have suggested MFAR represents a material change to current CMS policy, creating uncertainty for states and providers.

Among other changes, MFAR revises standards for approving healthcare-related taxes in ways that could limit states' ability to use this important Medicaid funding source. The Medicaid and CHIP Payment Access Commission (MACPAC) reports 49 states and the District of Columbia use such taxes, and the General Accounting Office reported in 2014 that provider taxes made up at least 10% of states' Medicaid contributions. MACPAC reports states spent $230 billion on Medicaid in federal fiscal year 2018.

The American Hospital Association, in an analysis conducted with Mannatt Health, estimated MFAR could reduce total Medicaid spending nationally by $37 billion and $44 billion annually, or 5.8% to 7.6%, and by $23 billion to $30 billion for hospitals alone. States and, to some extent providers, would respond to MFAR's implementation with measures to mitigate the negative fiscal implications. For both HAO and MFAR, Fitch anticipates states' credit quality would be less directly affected, given their broad ability to manage spending and revenues, although short transition times could complicate budget effects. Credit quality for those providers reliant on state funding could be more at risk, as they have relatively less fiscal flexibility. This is particularly true for NFP healthcare providers that have higher Medicaid exposure.

Contact:

Eric Kim
Senior Director, U.S. Public Finance
+1 212 908-0241
Hearst Tower
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Kevin Holloran
Senior Director, U.S. Public Finance
+1 512 813 5700
Fitch Ratings, Inc.
111 Congress Avenue, Suite 2010
Austin, TX 78701

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com