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Fitch: Medicaid Enhanced Funding Extension Benefits State Budgets

Fitch Ratings-New York-01 February 2021: The recently announced extension of the emergency enhancement of the federal medical assistance percentage through 2021 by the US Department of Health and Human Services will provide a budgetary boost to state governments, the District of Columbia and US territories, says Fitch Ratings. Fitch estimates the federal medical assistance percentage (FMAP) enhancement provided approximately $34 billion in direct federal aid through the end of 2020, with a similar level anticipated for 2021.

Providing timely and direct fiscal aid to states limits their need to immediately pass on budget pressures to entities reliant on state funding, including school districts, public higher education institutions and healthcare providers. The FMAP enhancement is a part of the massive fiscal and economic stimulus which has been instrumental in supporting the economic recovery and better than expected state tax revenue performance since the coronavirus pandemic's onset in spring 2020. Overall state revenues remain below the prior-year and pre-pandemic expectations.

FMAP is the percentage of a state's Medicaid spending matched by the federal government and is generally tied to each state's wealth levels. A federal statute sets a FMAP floor of 50%, which applies to states with the highest per-capita income, and a ceiling of 83%. In April 2020, the Families First Coronavirus Response Act (FFCRA) added 6.2 percentage points (pp) to every state's FMAP percentage, providing an immediate flow of billions of dollars in direct federal aid.

FFCRA linked the enhanced FMAP to declaration of a temporary public health emergency (PHE) by the Department of Health and Human Services (HHS) Secretary, including any extensions. Importantly, the FMAP enhancement only affects states' spending on those previously eligible for Medicaid, and does not apply to Medicaid expansion spending under the Affordable Care Act, which the federal government matches at 90% for all states. Medicaid enrollment for legacy categories is between 3x and 4x larger than expansion enrollment.

On Jan. 22, 2021, HHS notified governors that the new administration anticipated the PHE would remain in place through all of 2021 and that HHS would provide states with at least 60 days' notice of termination. The prior administration made 90-day PHE extension decisions only within days or weeks of past expirations. Many states conservatively assumed limited or no extension of the PHE and enhanced FMAP in their fiscal-2021 enacted budgets. The current administration's notification provides more budget certainty for states as they evaluate their current budgets and begin their fiscal 2022 budget processes.

The relative significance of the FMAP enhancement depends on each state's total budget size and actual Medicaid spending. HHS's Centers for Medicare and Medicaid Services (CMS) released data providing a state-by-state breakout of the more than $16 billion provided nationally through the 6.2pp FMAP enhancement between Jan. 1, 2020 and June 30. In July, the Kaiser Family Foundation (KFF) estimated the extra FMAP amount at $18 billion if the PHE extended through the end of 2020 and an additional $28 billion through September 2021. For calendar-year 2020, 12 states, including

Missouri, Wisconsin, New York and Pennsylvania, had Fitch-estimated enhanced FMAP receipts, combining the CMS data and KFF estimates, totaling more than 2% of fiscal 2019 total governmental funds revenues. At the other end of the distribution, Alaska, Wyoming, North Dakota and Hawaii all received less than 1%.

Enhanced FMAP funding comes with several key statutory restrictions, including restrictions on removing Medicaid enrollees that might otherwise become ineligible for the program, which offset some of the positive budget implications for states. Fitch still considers the net benefits to be meaningful for most, if not all states. This was the case during the last two recessions, when the federal government also implemented FMAP enhancements.

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