



United States  
General Accounting Office  
Washington, D.C. 20548

Health, Education, and  
Human Services Division

B-272252

June 10, 1996

The Honorable Michael Bilirakis  
House of Representatives

Dear Mr. Bilirakis:

This letter responds to your request for comments on an analysis entitled, "Florida's Fair Share." That analysis questions the appropriateness of the Medicaid funding formula now contained in H.R. 3507, noting that Florida's projected allocations for fiscal years 1996 through 2002 are less than those projected for Pennsylvania and Ohio, even though Florida has more people and a larger proportion of elderly individuals than either state.<sup>1</sup>

Our review of the formula in H.R. 3507 indicates that in each year the new formula would cause the distribution of federal Medicaid funding to become progressively more closely aligned with states' poverty populations and to reflect the proportions of the populations who are elderly.

Under current law, federal funding of state Medicaid programs is not based on the size of state populations. Rather, the program is an open-ended matching program that provides more generous matching rates for low-income states. Consequently, the more a state spends on benefits for eligible recipients and the lower its per capita income, the more it receives in federal dollars. For example, Florida spends less than Pennsylvania and receives less in matching federal funds (see table 1). In contrast, Ohio spends less yet receives more in federal matching because its lower per capita income results in a higher federal matching percentage (61 percent compared with Florida's 56 percent).

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<sup>1</sup>The analysis also points out that on a proportionate basis, North Carolina also receives more. That is, Florida has twice the population of North Carolina but would not receive twice the funding under the proposal.

Table 1: State Medicaid Spending and Matching Federal Funds for Fiscal Year 1995

Millions of Dollars

| State          | State spending | Federal matching percentages | Federal matching funds |
|----------------|----------------|------------------------------|------------------------|
| Florida        | \$2.6          | 56                           | \$3.4                  |
| Pennsylvania   | 3.4            | 54                           | 4.0                    |
| Ohio           | 2.4            | 61                           | 3.8                    |
| North Carolina | 1.4            | 64                           | 2.5                    |

The formula described in H.R. 3507 would change this by establishing a target for federal funding in proportion to the number of poor in each state. The target is also adjusted for the proportion of Medicaid beneficiaries who are elderly or disabled to reflect their higher cost of care compared with children and non-elderly adults. Each state's federal allocation is allowed to increase depending on the differences between current federal funding and the target. This will allow federal funding to grow more rapidly in states like Florida where funding is low compared with the size of the population. Similarly, in states like Pennsylvania and Ohio, where funding is comparatively high, federal funding would grow at slower rates. Eventually, each state's share of funding more would more closely reflect its number of poor as the effect of differing growth rates becomes more influential.

Table 2 shows what each state's share of federal funding was in fiscal year 1995 and how the differences in growth rates will affect the share of federal funding in fiscal year 2002.

Table 2: State Shares of Federal Funding

| State          | Funding share (FY 1995) | Average annual growth rate (1996-2002) | Funding share (FY 2002) |
|----------------|-------------------------|--|-------------------------|
| Florida        | 3.9%                    | 7.5%                                   | 4.4%                    |
| Pennsylvania   | 4.6                     | 4.8                                    | 4.5                     |
| Ohio           | 4.3                     | 5.1                                    | 4.2                     |
| North Carolina | 2.8                     | 5.1                                    | 2.7                     |

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Thus, by giving states like Florida higher growth rates, the formula described in H.R. 3507 will enable them to receive federal funding in future years in proportion to the poverty population as the cumulative effects of higher growth rates take on increasing importance. Florida is not receiving federal funding in proportion to its poverty population under current law because Florida chooses to spend less for Medicaid than either Pennsylvania or Ohio. As a result, Florida receives less in federal matching funds.

If you have any questions regarding this letter or if we can be of further assistance, please call Jerry Fastrup, Assistant Director, at (202) 512-7211 or me at (202) 512-4561.

Sincerely yours,

A handwritten signature in black ink, reading "William J. Scanlon". The signature is written in a cursive style with a large, stylized "S" at the end.

William J. Scanlon  
Director, Health Systems Issues

(118138)



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