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Local Public Revenue & the Low Income Pool

By John Hall, FCFEP Board Member

This is the first in a series of articles about the Florida's budget and unmet needs in health and human services programs.

The health and human services budget category now exceeds the education category in spending and commits over one-fourth of our state's general revenue fund. Health and human services represent over one third or $24.3 billion of the state's $71.9 billion budget. One half of all the funds expended in the health and human services area are federal funds. When general revenue dollars are cut from health and human services programs that generate federal dollars, Floridians actually experience a heightened loss. First, there is the loss of federal dollars in our economy that is greater than the "savings" in state dollars. Secondly, we experience a more damaging impact of reduced critical and vital services for our most vulnerable because for every state dollar cut, the actual reduction is almost three dollars as a total reduction in funds. Furthermore, it should be understood that the health and human services budget and the federal dollars it attracts to help address our needs, use significant dollars generated at the local level by counties and special districts in addition to state general revenue dollars to satisfy the federal matching requirements.

We would like to note, however, that contrary to the perspective of many Floridians, the economic assistance programs account for a relatively small portion of the health and human services budget and continue to decline. In Fiscal Year 1994 -1995, the economic assistance caseload was 234,481 requiring $780.8 million for cash assistance benefits -- $54 per capita or $3,330 per participant. In comparison, the forecast for Fiscal Year 2007 - 2008 involves a caseload of 47,230 requiring $163 million -- $9 per capita or $3,451 per participant or virtually no adjustment for inflation.

In reality, the Medicaid program constitutes the largest single expenditure area in the health and human services budget area and was generally matched about 58% federal and 42% state-local this past fiscal year. Forecasted to require $16 billion (federal and state funds) in the current fiscal year, Medicaid accounts for over two-thirds of the budget requirement in Florida's health and human services category. Forty-five percent of all Medicaid expenditures cover hospitals, nursing homes, Intermediate Care Facilities for the Developmentally Disabled, the Low Income Pool and Disproportionate Share Hospital payments. The high rate of uninsured and underinsured Floridians in Florida, our large elderly population with limited resources, and people with disabilities relying on SSI drive much of the Medicaid program. In fact, the elderly and people with disabilities account for twenty-three percent of the Medicaid caseload but almost seventy percent of the spending.

The Center's research has concluded that the 2007 mandate to local governments to cap and reduce their property taxes, coupled with the passage of Amendment 1, have significant negative implications to the funding of critical public services, especially health and human programs, by local government. This article looks at one important program within the state's Medicaid program, the Low Income Pool.

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It is important to realize that there are at least 3.8 million uninsured people in Florida representing almost a quarter of the state's population. About thirteen percent of Florida's children are uninsured. Lack of health insurance is the most frequently cited barrier to accessing health care. The Medicaid program is a significant safety net for these unfortunate Floridians and the providers that serve them.

Governor Crist is seeking to address this significant problem through his budget recommendations for Fiscal Year 2008 - 2009 which includes dollars for enrolling more children in the Florida KidCare program, as well as dollars to support a three-year pilot program that provides preventive and primary health care services to the uninsured and underinsured through partnerships with hospitals and county health departments in fourteen counties.

However, the Governor's challenge to solving the state's health care problems stemming from a high rate of people who are uninsured or underinsured will be exacerbated due to the consequences of the 2007 legislative mandate to local governments to cap and reduce their property taxes and the recent voter-approved reductions to the local tax base in Amendment 1 which Governor Crist championed. Amendment 1 will undermine the financial viability of local governments to contribute dollars needed to support an important safety net to hospitals throughout the state referred to as the Low Income Pool.

The Low Income Pool (most often referred to as LIP) was established in Fiscal Year 2006 – 2007 to ensure continued governmental support for the provision of health care services including emergency and critical inpatient care to Medicaid, underinsured and uninsured Floridians of our state(1). The low-income pool consists of a capped annual allotment of $1 billion total computable for each year of the five - year demonstration period in the state's 1115 Medicaid waiver or Medicaid Reform initiative. The federal share of financial participation is 56.8% in the current fiscal year. And it should be noted that Congress has steadily increased the state's share of financial participation over the past several years. In 2003, the state share was 41.07% and in 2008 it will be 43.71%, continuing to reflect a substantial return on state dollars from the federal contribution.

Local governments, such as counties, hospital taxing districts and state agencies (e.g. Florida Department of Health), provide funding for the non-federal share of the $1 billion Low Income Pool distributions. As reflected in Table 1 (below), in Fiscal Year 2006 - 2007, twenty-six counties or local hospital districts contributed over $400 million of the non-federal share for the Low Income Pool fund and almost all used Ad Valorem Property Taxes as the source of funds for their contribution. This local funding contribution or "Intergovernmental Transfer" (IGT) accounted for 98% of Florida's required match to generate $587 million in federal dollars. In the current fiscal year, the contribution of local governments and hospital districts was reduced to $372 million or 86% due to revenue shortfalls linked to the mandated 2007 legislative roll-back and our sagging economy, requiring the 2007 Legislature to supplement the fund with additional state dollars (non-recurring dollars) in order to generate the federal matching funds available in the allotment.

Funding for Low Income Pool (LIP) / Table 1

	FY 2005-2006	Local % of Total State Share	FY 2006-2007	Local % of Total State Share	FY 2007-2008	Local % of Total State Share
General Revenue	$40,910,851		$7,559,310		$58,808,117	
Local State Share	$525,442,980	92.78%	$404,840,690	98.17%	$372,891,883	86.38%
Total State Share	$566,353,831		$412,400,000		$431,700,000	
Federal Share	$811,300,832		$587,600,000		$568,300,000	
Totals	**$1,377,654,663**		**$1,000,000,000**		**$1,000,000,000**	

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Of course, the use of non-recurring dollars means the LIP program will face a shortfall in state funding in fiscal year 2008 - 2009. The impact of Amendment 1 will further diminish the amount of local level contribution, and thus, add significantly to the burden the state must undertake with its funds or risk jeopardizing the full utilization of this safety net to critical and essential health care services in the next fiscal year and others to follow.

The Governor's recommended budget for fiscal year 2008 - 2009 reflects the difficulty the Legislature will encounter in any effort to replace local government contributions to the Low Income Pool. The Governor resorted to "raiding" trust funds and reserves at a significant level for a budget totaling less than the current year's appropriation. For instance, the Governor's recommended budget for LIP relies upon $28.5 million in non-recurring Tobacco Settlement Trust funds to generate federal match. But then, in proviso language for the LIP line item, his recommendations actually seek to establish with these Tobacco Trust dollars and the resulting federal match, a $64 million pilot program to reduce unnecessary hospital admissions (by establishing better access to primary care through local public health centers), thereby reducing the dollars available to the LIP program below the $1 billion cap.

As illustrated below in the published Minutes from the LIP Council from their September 11th and November 28, 2007 meetings indicate an awareness and concern of this issue by the very group established to advise the state on the program.

> *If the super exemption option on the ballot for the January 29, 2008 vote passes, Chairman Belcher believes there is a good possibility that we may lose IGT for SFY 2008-09. Also, there are some unintended consequences in regard to the property tax issues. These consequences are the effect the property tax issue will have on local cities and counties and their ability to maintain their level of social services. The trickle down effect of the property tax issue at the state level could potentially cause the local governments to reduce their delivery of these social services.*[(2)]
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> *Chairman Belcher discussed the General Revenue projections are forecasting an overall decrease over the next five years and combined with a decrease in IGT collections and the Governor's determination that the Florida schools will be held harmless in the property tax reductions; the anticipated budget shortfalls are a long term problem that the LIP Council will need to continue to be mindful of as they move forward.*[(3)]

A recent report from the Office of Economic and Demographic Research of the Legislature examined the impact of the Legislative mandate and passage of Amendment 1 and clearly validates the judgment of the LIP Council Chair. The report states:

> *"Full portability, if implemented with the 2008 roll, would reduce the ad valorem tax base by $13.6 billion in the first year. This reduction in taxable value would grow to $65.0 billion in the fifth year. At the 2005 average weighted millage of 19.6 mills, these tax base reductions would amount to reduced revenues ranging from $267 million in 2008 to $1.3 billion in 2012, if millage rates were held constant."*[(4)]

At the same time, the Florida Taxation and Budget Reform Commission (TBRC) is actively entertaining proposals that it may place before the voters that will further erode the capability of local governments and special districts to generate sufficient revenue to contribute at necessary levels to the Low Income Pool and still address other demands for critical and essential local health, educational and social services. Proposals that seek to place further limits on spending at all levels of government adjusted only for inflation and population changes beyond the base in previous years will greatly constrain the ability of local governmental entities to contribute to the Low Income Pool notwithstanding similar implications to other vital governmental functions and safety net programs.

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The Florida Center for Fiscal & Economic Policy will continue to monitor this situation and provide periodic updates and calls for action.

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1. A similar program existed in FY 2005 – 2006 and was called the Hospital Inpatient Upper Limit program. The program was not subject to a $1 billion cap, but was subjected to an annual calculated limit which was the difference between what Medicare would have paid for Medicaid patients and what Medicaid did pay.

2. Minutes from LIP Council Meeting held September 11, 2007.

3. Minutes from LIP Council Meeting held November 28, 2007

4. Florida's Property Tax Study Interim Report, EDR, February 15, 2008.