

Financing the Expansion of the Children's Health Insurance Program in New Hampshire

**Presentation to the
Children's Health Insurance Commission**
June 13, 2011

Deborah Fournier, Esq., Policy Analyst
Jeff McLynch, Executive Director
New Hampshire Fiscal Policy Institute
603.856.8337
www.nhfpi.org

Financing the Expansion of the Children's Health Insurance Program in New Hampshire

Overview

- ❖ Background on the financing of New Hampshire's existing Medicaid and Children's Health Insurance programs
- ❖ Background on New Hampshire's tax system
- ❖ Review of options for expanding New Hampshire's CHIP program, estimates of related costs, and available federal resources
- ❖ Examination of options for generating additional tax revenue in New Hampshire

Background on Current Medicaid/CHIP Financing

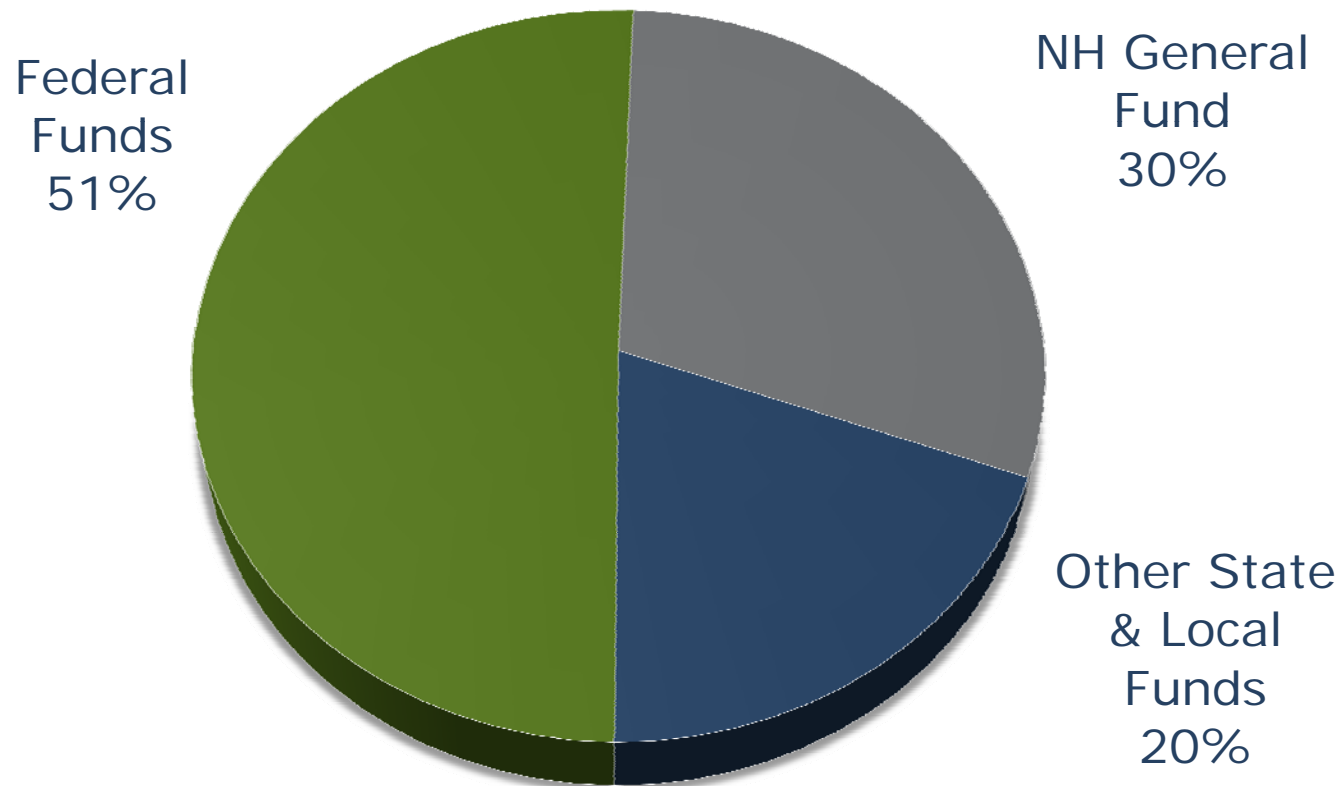
- ❖ Medicaid is a joint federal-state program that offers long-term care to seniors, provides critical services to help residents with disabilities live independently, and enables children to see a doctor when they are sick or injured.
- ❖ Since 1965, the program has functioned as a partnership between federal government and states, guaranteeing not only that anyone eligible for Medicaid receives it, but that federal funds cover a fixed percentage of the actual costs the program incurs.
- ❖ For every (non-federal) dollar New Hampshire contributes toward Medicaid costs, the federal government contributes at least another dollar toward our Medicaid costs.

Background on Current Medicaid/CHIP Financing

- ❖ The fixed percentage, known as the federal medical assistance percentage (FMAP), varies from state to state and is inversely related to the state's per capita income. It currently ranges from 50-76 percent. New Hampshire's base matching rate is 50 percent.
- ❖ Similar to Medicaid, the federal government matches state spending in CHIP; in CHIP however, these funds are capped overall and for each state. This capped funding is distributed among the states in state-specific allotments, determined annually by a formula set in law. Under CHIP, the FMAP currently ranges from 65-83 percent. New Hampshire's CHIP FMAP is 65 percent.
- ❖ New Hampshire's FMAP for CHIP will increase to 88 percent in 2016, pursuant to the ACA.

Medicaid Jointly Financed by New Hampshire & Federal Governments

In FY 2009, total spending on New Hampshire's Medicaid program was approximately \$1.36B.



Background on Current Medicaid/CHIP Financing

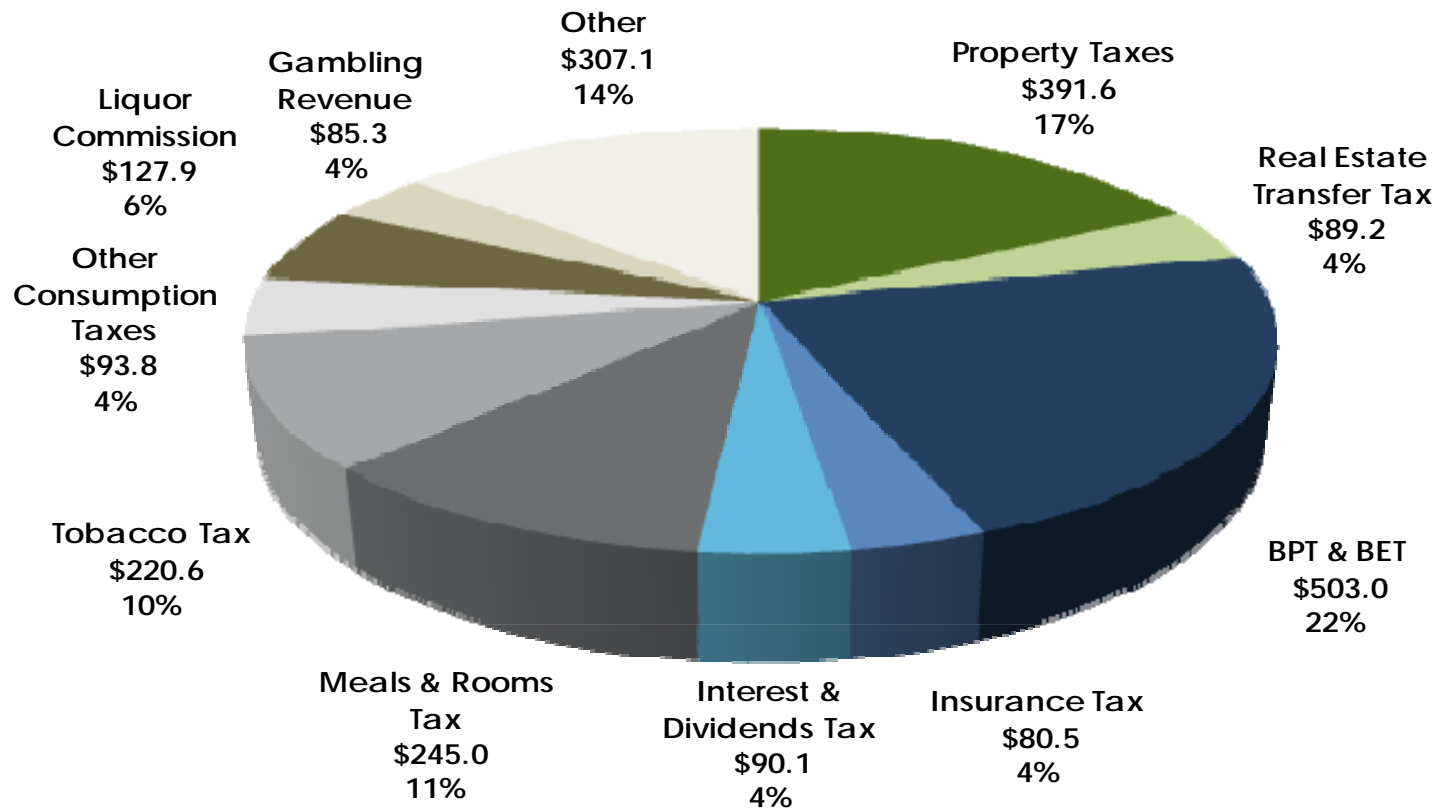
- ❖ CHIPRA - passed in 2009 - reauthorized and fully funds the Children's Health Insurance Program (CHIP) through Federal fiscal year (FFY) 2013 and substantially increased funding for CHIP.
- ❖ CHIPRA allows states seeking to expand coverage and benefits in FY 2010 through FY 2012 to request an increase in the state allotment from DHHS.
- ❖ States seeking an adjustment to their FY 2012 allotment must submit request by August 31, 2011.
- ❖ States can use either CHIP or Medicaid funds to finance coverage for children in a CHIP financed expansion.

Financing the Expansion of the Children's Health Insurance Program in New Hampshire

- ❖ Background on the financing of New Hampshire's existing Medicaid and Children's Health Insurance programs
- ❖ ***Background on New Hampshire's tax system***
- ❖ Review of options for expanding New Hampshire's CHIP program, estimates of related costs, and available federal resources
- ❖ Examination of options for generating additional tax revenue in New Hampshire

How Does New Hampshire Generate Revenue?

Projected FY 2011 General & Education Fund Collections in Millions of Dollars



Source: NH Department of Administrative Services, Monthly Revenue Plan for FY 2011

How Does New Hampshire Generate Revenue?

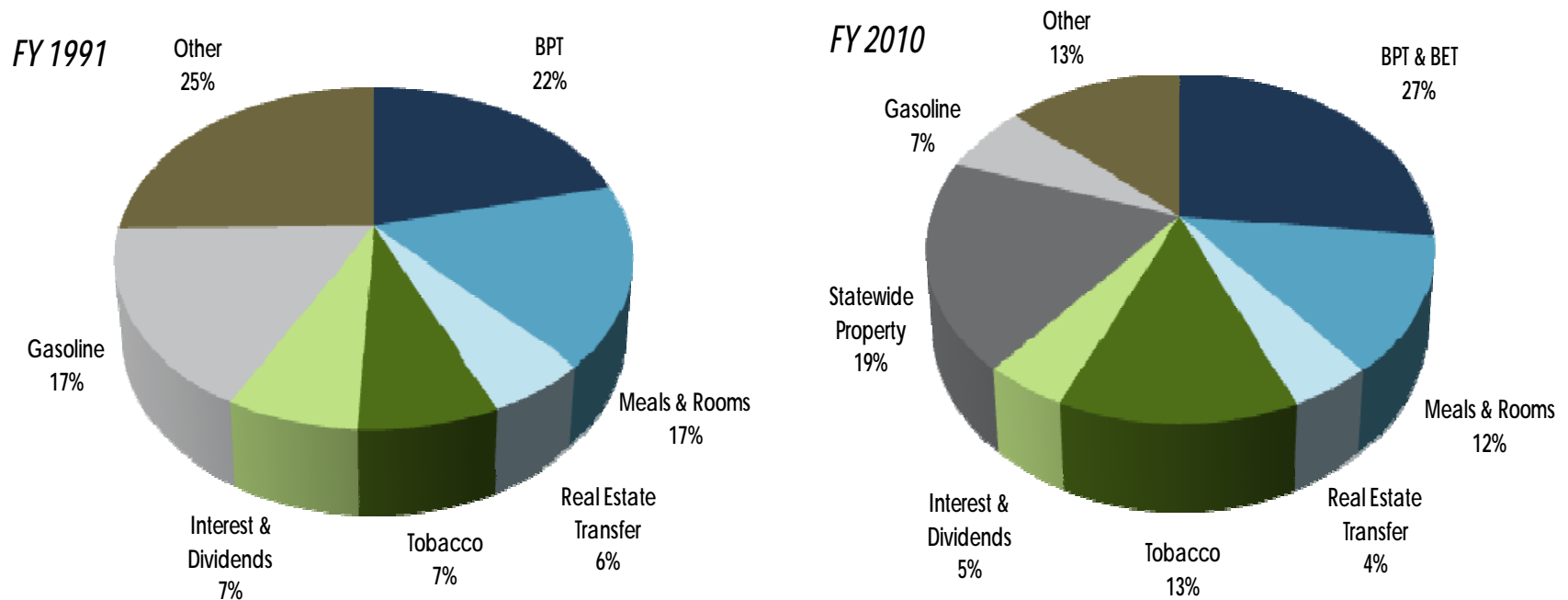
Principal Sources of Tax Revenue, FY 2011

	<u>Projected FY 2011 Revenue</u>	<u>Rate</u>
<i>General & Education Funds</i>		
Business Profits Tax	\$313 M	8.50%
Business Enterprise Tax	\$190 M	0.75%
Meals & Rooms Tax	\$245 M	9.00%
Real Estate Transfer Tax	\$89 M	\$0.75 / \$100 value
Tobacco Tax	\$221 M	\$1.78 / pack
<i>General Fund only</i>		
Interest & Dividends Tax	\$90 M	5.00%
<i>Education Fund only</i>		
State Property Tax	\$363 M	Varies (\$2.19 / \$1000 value)
<i>Highway Fund only</i>		
Motor Fuel	\$127 M	\$0.18 / gallon

Source: Department of Administrative Services; Department of Revenue Administration

Sources of NH Tax Revenue Have Changed in Last Two Decades

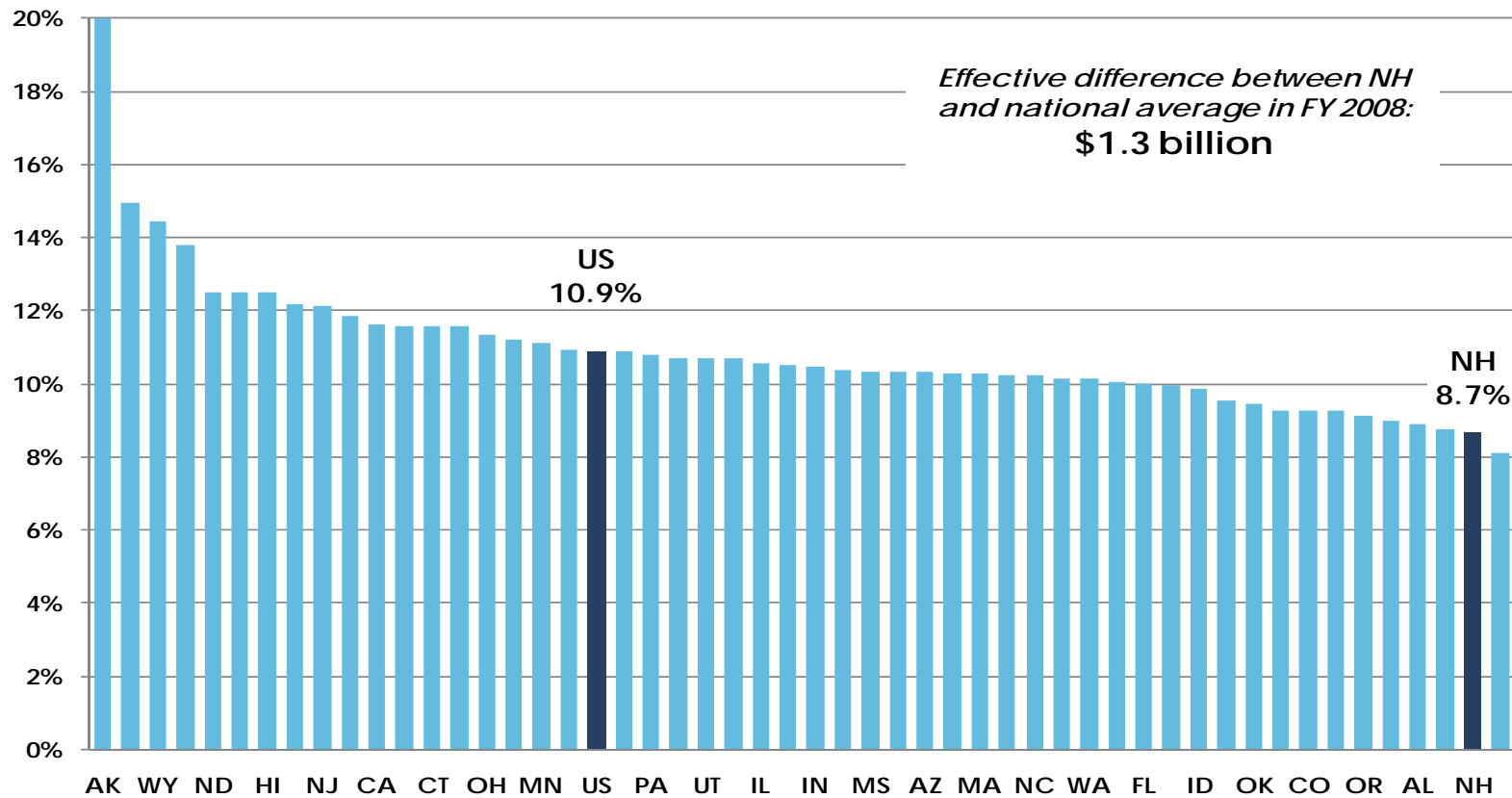
Composition of Total Tax Revenue by Source, FY 1991 & FY 2010



Source: NHFPI calculations based on Comprehensive Annual Financial Report data

Taxes in NH Very Low Relative to Aggregate Ability to Pay ...

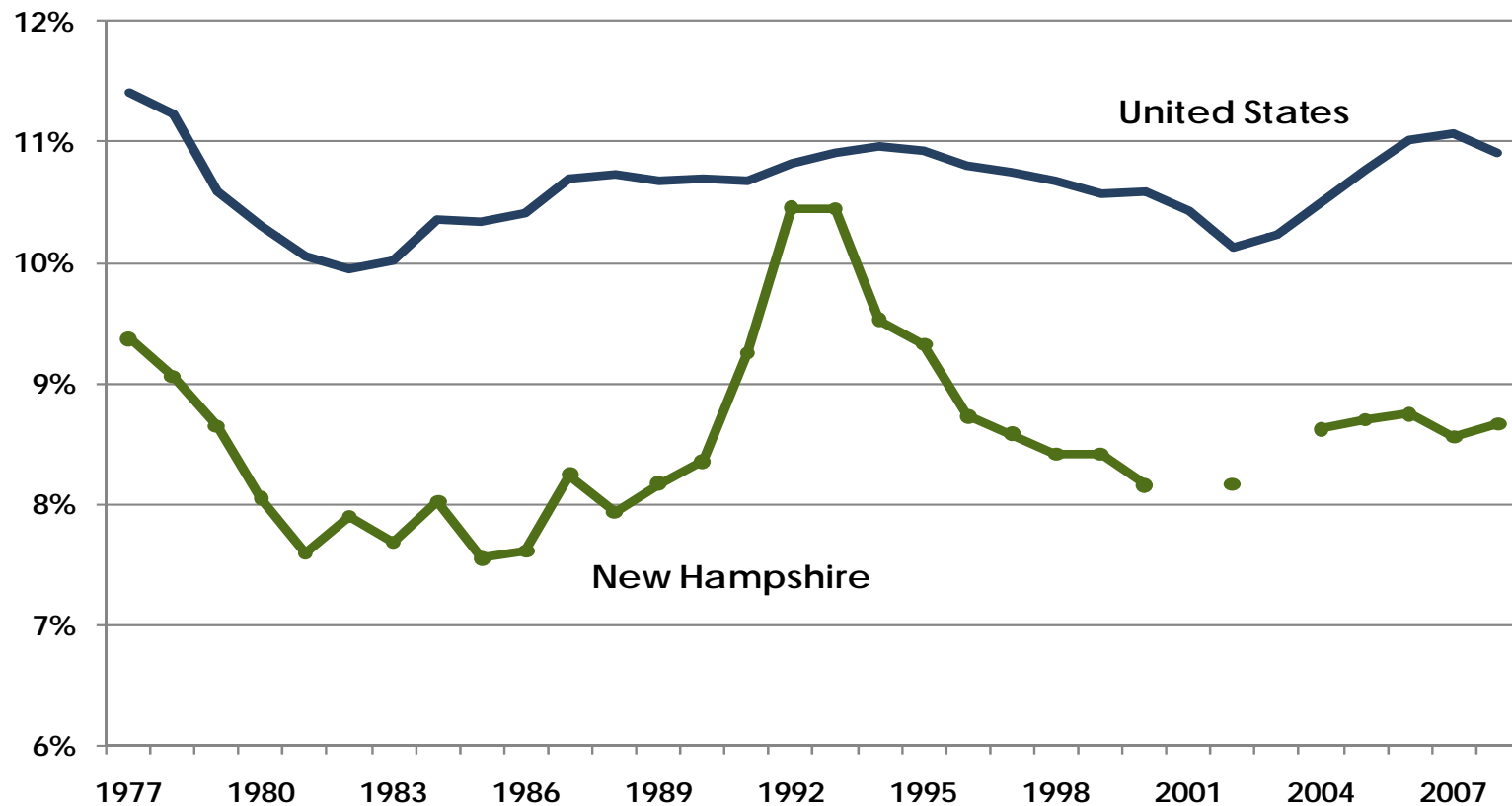
Total State and Local Taxes as a Share of Personal Income, FY 2008



Source: NHFPI calculations based on US Census Bureau, US Bureau of Economic Analysis data

... and Have Been For Some Time

Total State and Local Taxes as a Share of Personal Income, NH and US, FY 77-08

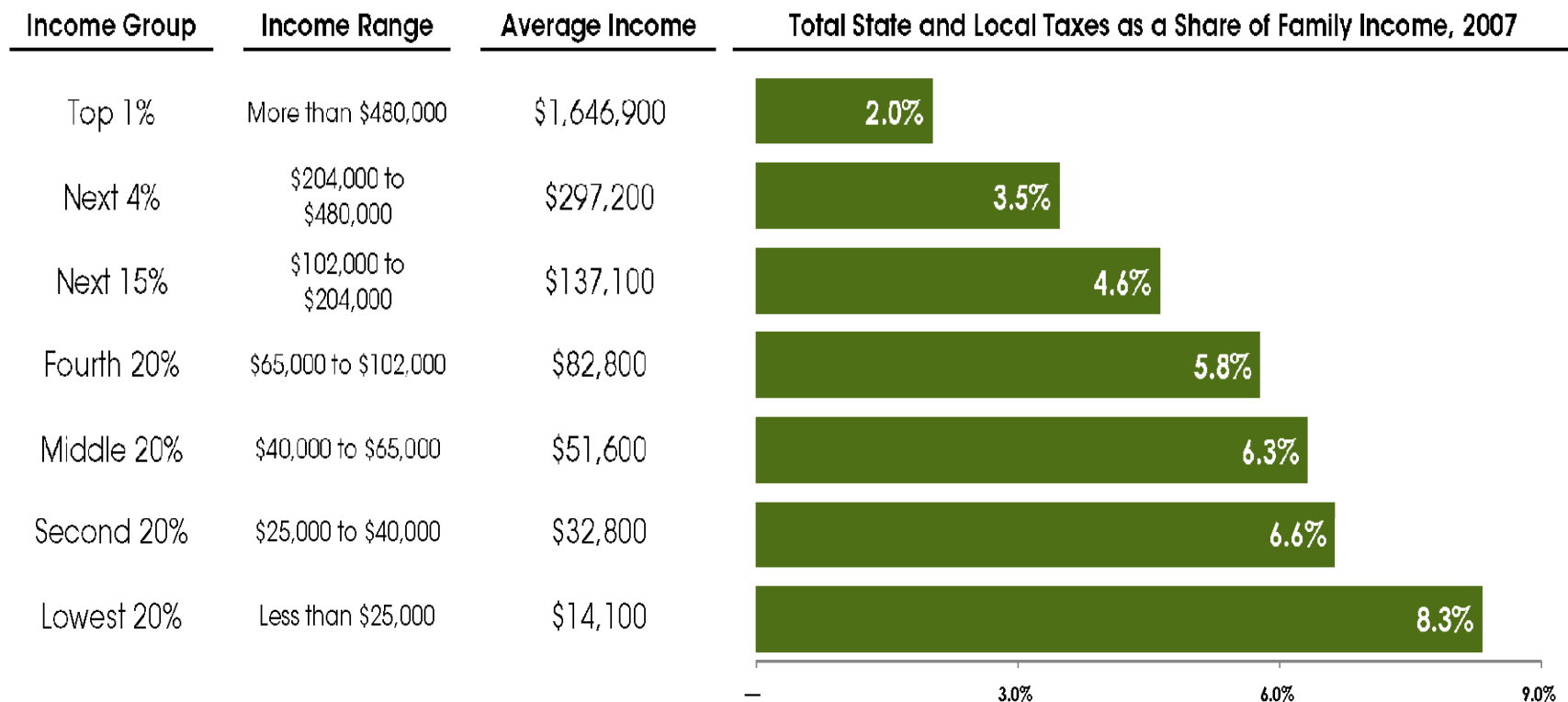


Source: NHFPI calculations based on US Census Bureau, US Bureau of Economic Analysis data

New Hampshire's Tax System is Regressive

Low-income Granite Staters have an effective tax rate that is four times that of the most well-off.

Total State and Local Taxes in New Hampshire, Non-Elderly Taxpayers

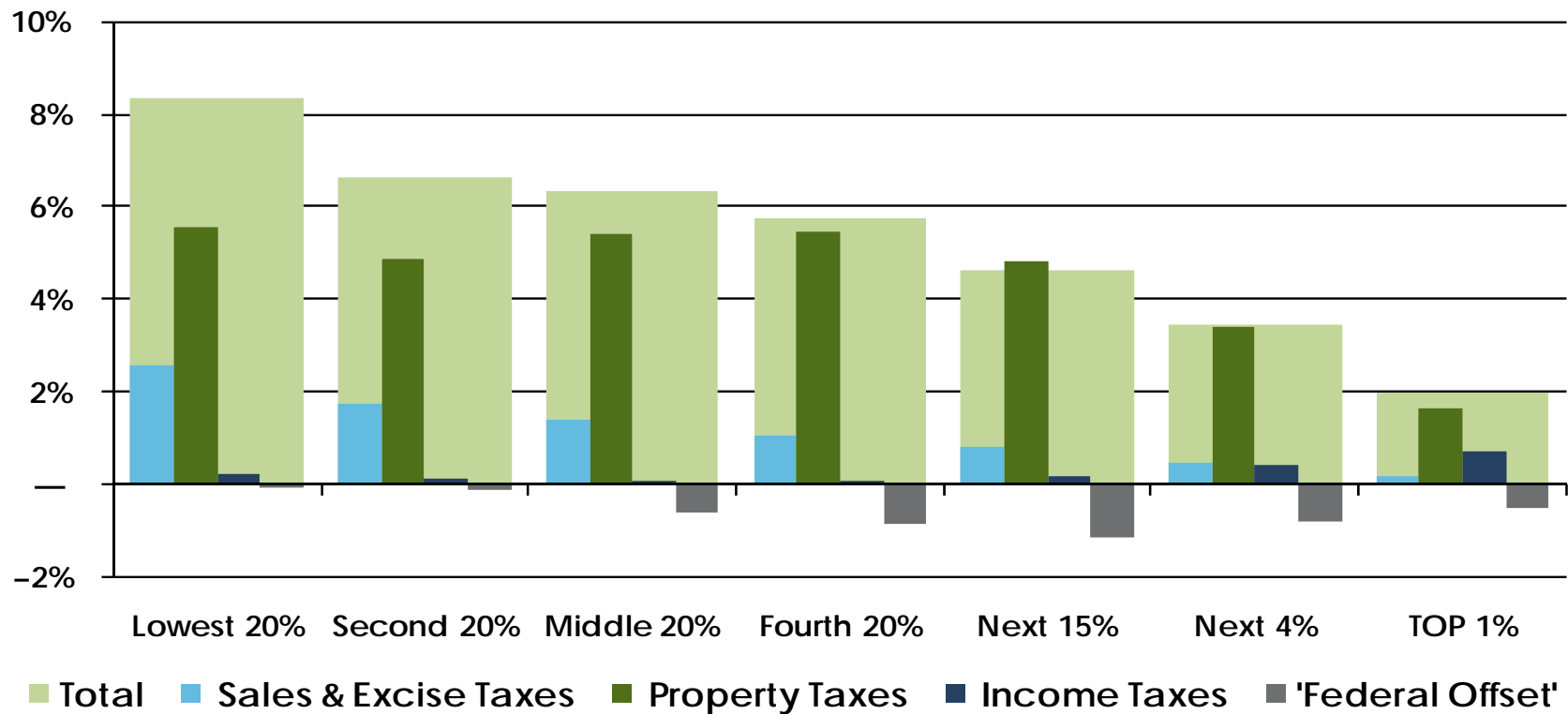


Source: Institute on Taxation and Economic Policy

New Hampshire's Tax System is Regressive

Incidence Driven by Composition of Tax System & Structure of Specific Taxes

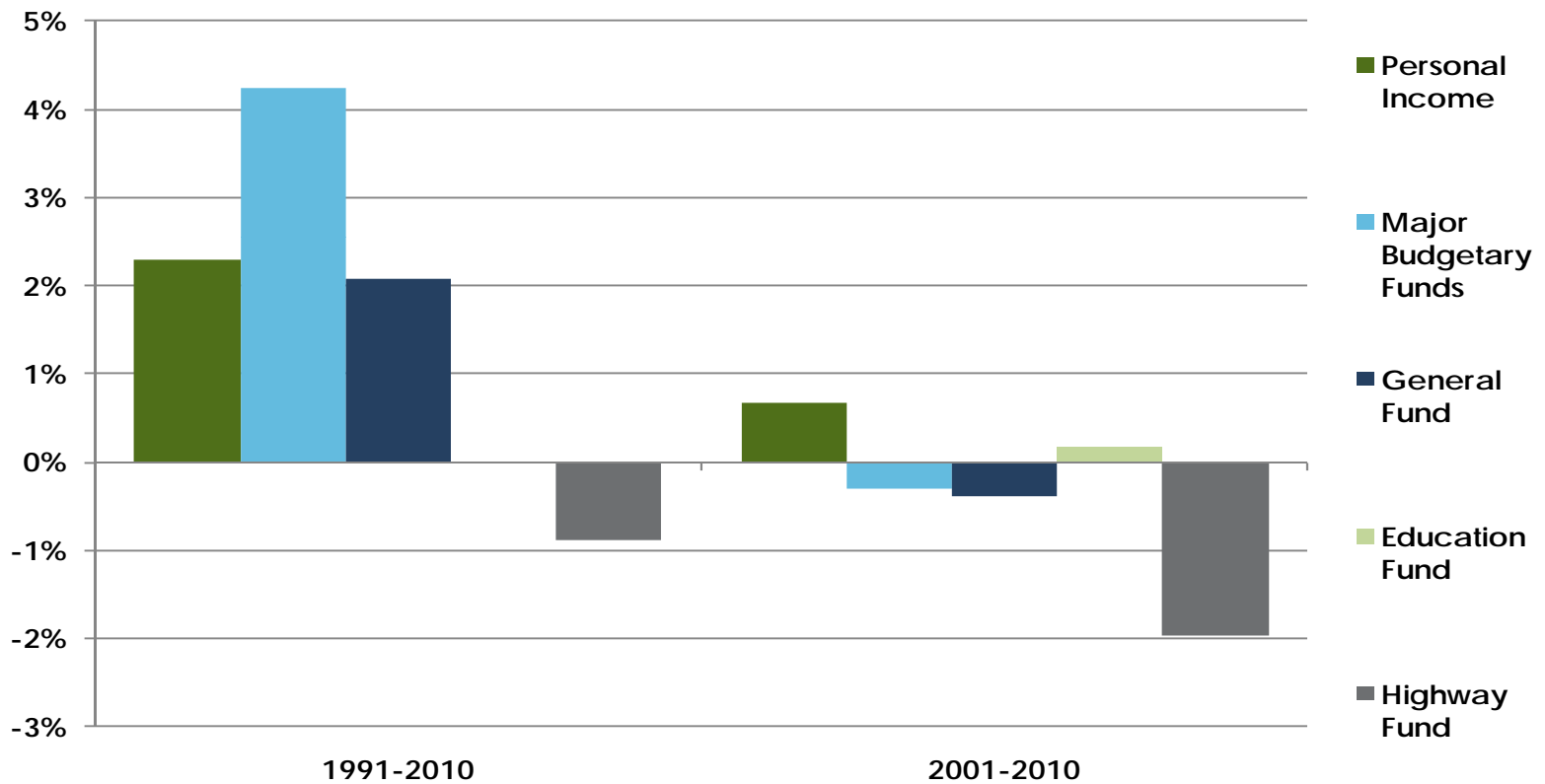
State and Local Taxes as a Share of Family Income among Non-Elderly Taxpayers, 2007



Source: Institute on Taxation and Economic Policy

NH Tax Revenue Struggles to Keep Pace with Economic Growth

Real Average Annual Growth Rates, FY 1991 - FY 2010 and FY 2001 - FY 2010



Source: NHFPI calculations based on NH DAS, US BLS, and US BEA data

Financing the Expansion of the Children's Health Insurance Program in New Hampshire

- ❖ Background on the financing of New Hampshire's existing Medicaid and Children's Health Insurance programs
- ❖ Background on New Hampshire's tax system
- ❖ ***Review of options for expanding New Hampshire's CHIP program, estimates of related costs, and available federal resources***
- ❖ Examination of options for generating additional tax revenue in New Hampshire

CHIPRA Coverage Options

- ❖ Pregnant women's income expansion up to 300 percent federal poverty limit
 - Assumes 300 pregnant women eligible each year;
 - \$1.8 million total annual cost
- ❖ Immigrant pregnant women and/ or prenatal only coverage expansion (elimination of 5 year waiting period)
 - No modeling on likely number of pregnant women or cost estimate available
- ❖ Immigrant child's expansion (elimination of 5 year waiting period)
 - assumes 780 children are eligible;
 - assumes total cost of \$2.1 million
- ❖ Dental wrap coverage - cost estimate unavailable
- ❖ Total annual cost for new coverage options is at least \$3.9 million; assuming 35 percent state match cost to New Hampshire is \$1.3 million per year.

CHIPRA Outreach & Enrollment (O&E) Grants

- ❖ CHIPRA provided a total of \$100 million devoted to outreach and enrollment activities, with \$80 million to be provided in grants to States and other local entities.
- ❖ O&E grants serve largely to increase the number of eligible children enrolled in Medicaid and CHIP and improve retention of children already enrolled in these programs.
- ❖ In September 2009 CMS awarded \$40 million in O&E grant funds to 68 grantees across 42 States. In March 2011 CMS again offered \$40 million in O&E grant funds to be made available for a two year period from August 2011-July 2013. Awards range from \$200,000 to \$2.5 million. Grant cycle closed on April 18, 2011.

CHIPRA Outreach & Enrollment (O&E) Grants

- ❖ The Affordable Care Act further extended the CHIP program - and the maintenance of effort requirement - through 2019 and authorized funding through 2015.
- ❖ The Affordable Care Act also appropriated an additional \$40 million in CHIPRA outreach and enrollment funding, which is available through FFY 2015. Timing and focus of this final funding solicitation is unknown.

Performance Bonus (PB)

- ❖ CHIPRA performance bonuses are offered to states that:
 - Adopt at least 5 of the 8 listed program features, like express lane eligibility;
 - Document significant increases in Medicaid enrollment among children over the course of the year;
- ❖ Performance bonuses still available;
- ❖ PB Deadline 1 – Oct 1, 2011 - any authorizing legislation required must be passed. PB Deadline 2 – April 1, 2012 - 5 of 8 features must be in place.
- ❖ New Hampshire DHHS anticipates \$1.3 million in performance bonus for the FY12-13 biennium.

Other Funding Mechanisms: 90/10 Match for IT investments

- ❖ CMS issued a final rule in April 2011 to allow an enhanced FMAP of 90/10 for new Medicaid claims systems as well as for the design, development, installation or enhancement of eligibility determination systems - largely to help states prepare for implementation of the Affordable Care Act.
- ❖ This rule appears to include both front and back end eligibility and enrollment systems such as online applications or building in “plugs” to an existing system to verify information by connecting with a federal source.
- ❖ To the extent the state is already investing in any improvements to IT, such an enhanced match could free up other non-federal dollars.

Other Funding Mechanisms: 75/25 Match for Translation/Interpretation (T/I) Services

- ❖ Section 201(b) of CHIPRA provides increased administrative funding for translation or interpretation services provided under CHIP and Medicaid, in connection with enrollment, retention and use of services by children of families for whom English is not their primary language.
- ❖ Includes individuals whose primary language is ASL or Braille.
- ❖ Increased match for Medicaid is 75 percent of allowable expenditures. For CHIP it is 75 percent or state's enhanced FMAP plus 5 percent, whichever is higher.

Other Funding Mechanisms: 75/25 Match for Translation/Interpretation (T/I) Services

- ❖ Increased match only available for eligible expenditures claimed as administration. Under CHIP, expenditures that qualify for increased match are subject to 10 percent cap on administrative expenditures.
- ❖ If T/I services are provided by a contracted managed care entity, and funded through a capitated payment from the state, related costs in that rate are not eligible for the increased match. States may carve out T/I services from the capitation rate and contract separately for such services as an administrative activity.
- ❖ To the extent the state is already investing such services, an enhanced match could free up other non-federal dollars.

Financing the Expansion of the Children's Health Insurance Program in New Hampshire

- ❖ Background on the financing of New Hampshire's existing Medicaid and Children's Health Insurance programs
- ❖ Background on New Hampshire's tax system
- ❖ Review of options for expanding New Hampshire's CHIP program, estimates of related costs, and available federal resources
- ❖ ***Examination of options for generating additional tax revenue in New Hampshire***

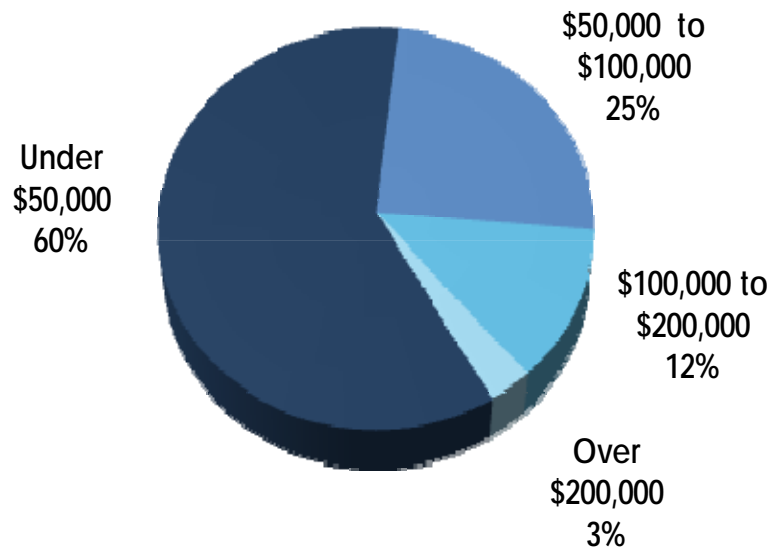
NH Has Multiple Options for Financing CHIP Expansion

❖ **Modify Existing Taxes**

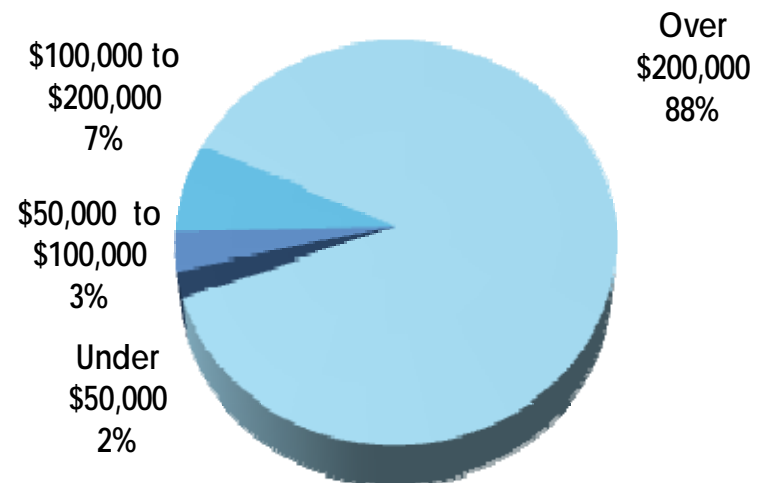
- Expand the Interest & Dividends Tax to include capital gains
POTENTIAL IMPACT: \$88 million annually
- Adjust excise tax rates (e.g. beer and/or cigarettes)
POTENTIAL IMPACT: \$4 to \$28 million annually
- Evaluate and reform or repeal business tax incentives
POTENTIAL IMPACT: \$36,000 to \$6 million annually
- Convert electricity consumption tax into electricity production tax
POTENTIAL IMPACT: \$5.6 million annually
- Strengthen meals & rooms tax to prevent revenue losses due to internet sales
POTENTIAL IMPACT: \$1 million annually

Capital Gains Income Concentrated Among the Very Wealthiest Granite Staters

Composition of Federal Tax Returns Among
NH Residents
by range of Federal AGI, 2008



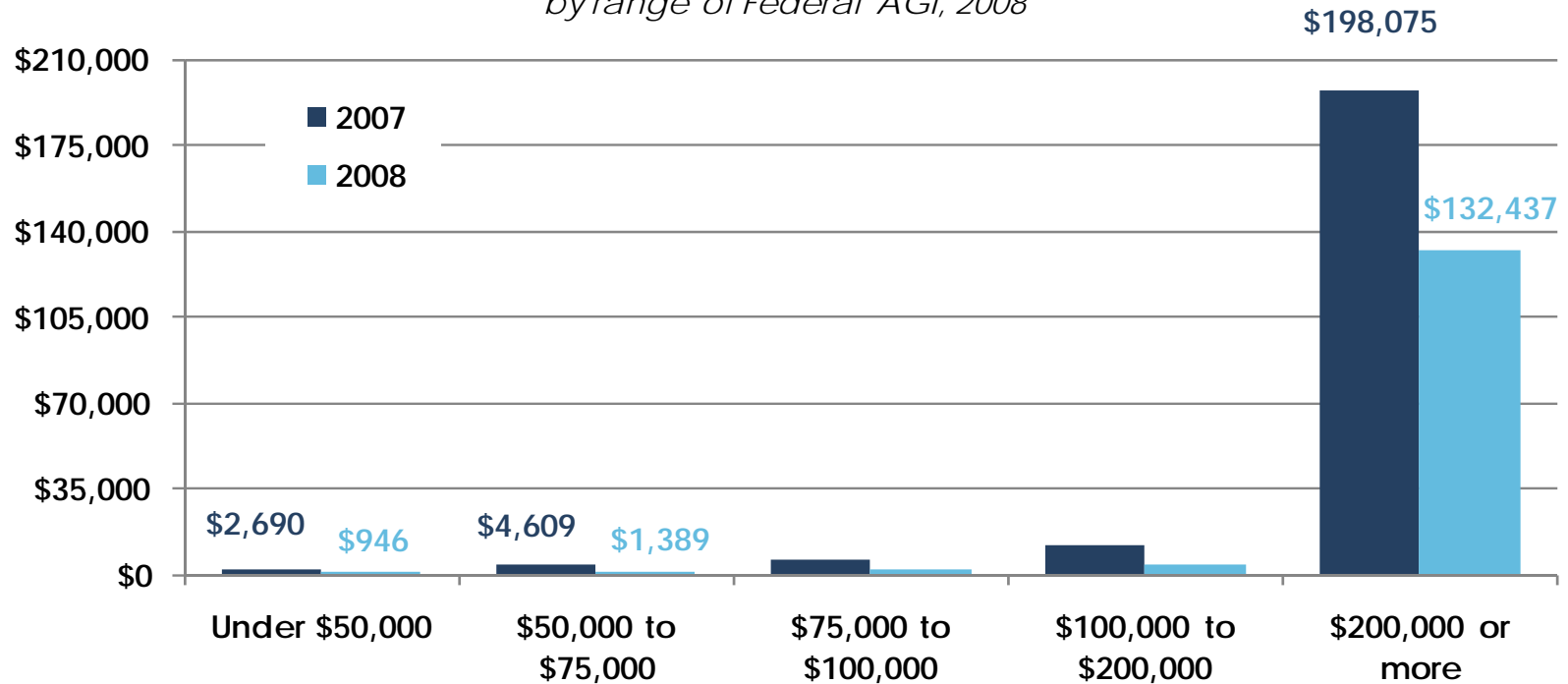
Composition of Total Capital Gains Income
Among NH Residents
by range of Federal AGI, 2008



Source: IRS Statistics of Income, 2008

A Capital Gains Tax Would Fall Almost Exclusively on the Very Wealthiest Granite Staters

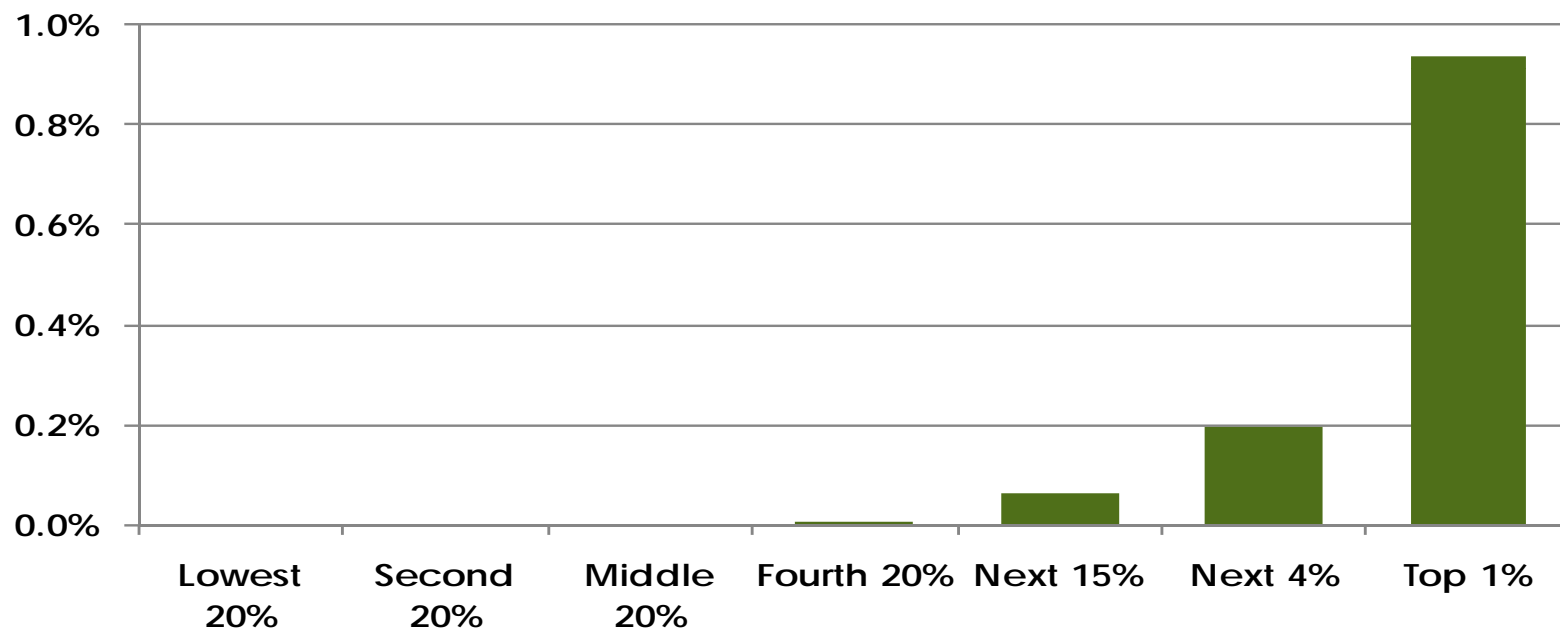
**Average Amount of Capital Gains Income
Among NH Residents with Such Income**
by range of Federal AGI, 2008



Source: IRS Statistics of Income, 2008

A Capital Gains Tax Would Fall Almost Exclusively on the Very Wealthiest Granite Staters

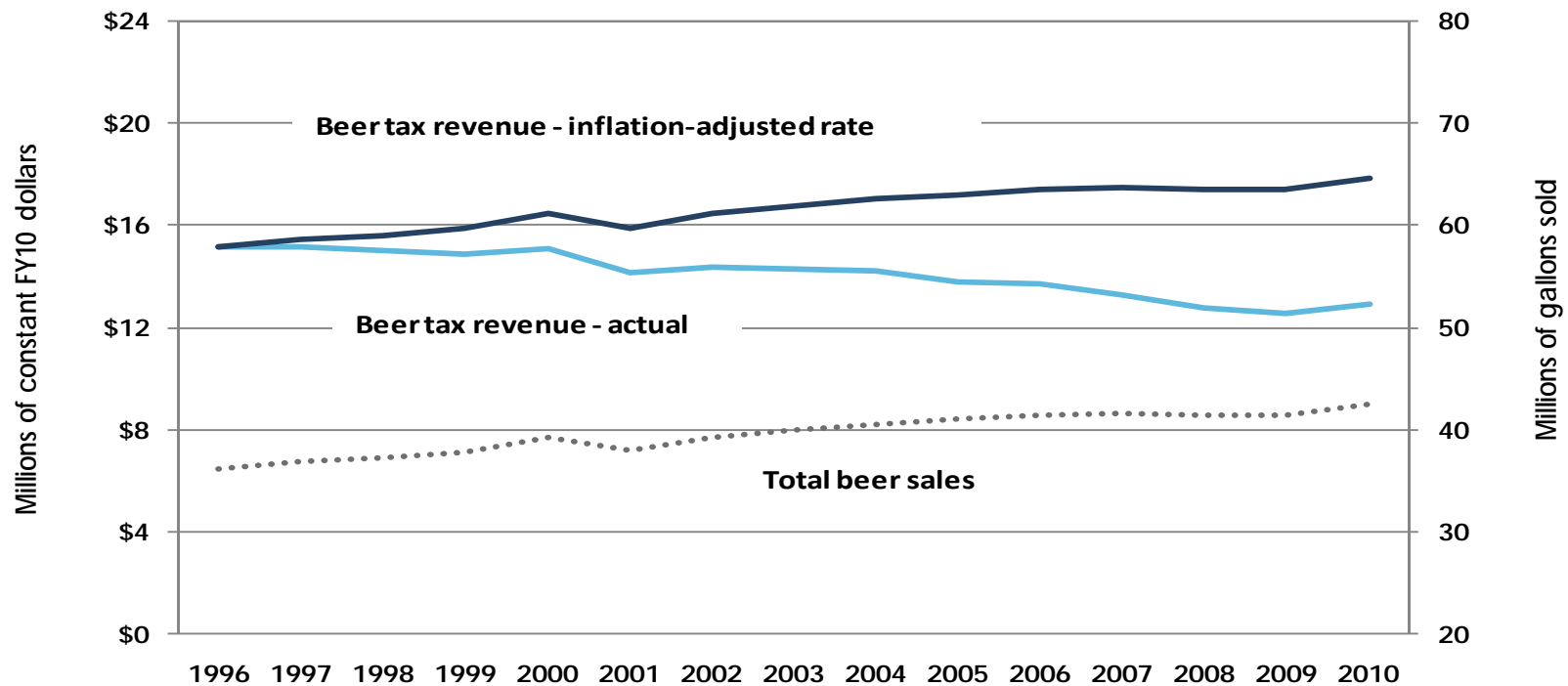
Impact of Proposed Capital Gains Tax (HB2, 2009)
Tax Change as a Share of Income by Income Group, 2011



Source: Institute on Taxation and Economic Policy

Without Regular Changes, Excise Taxes Fail to Keep Pace with Inflation

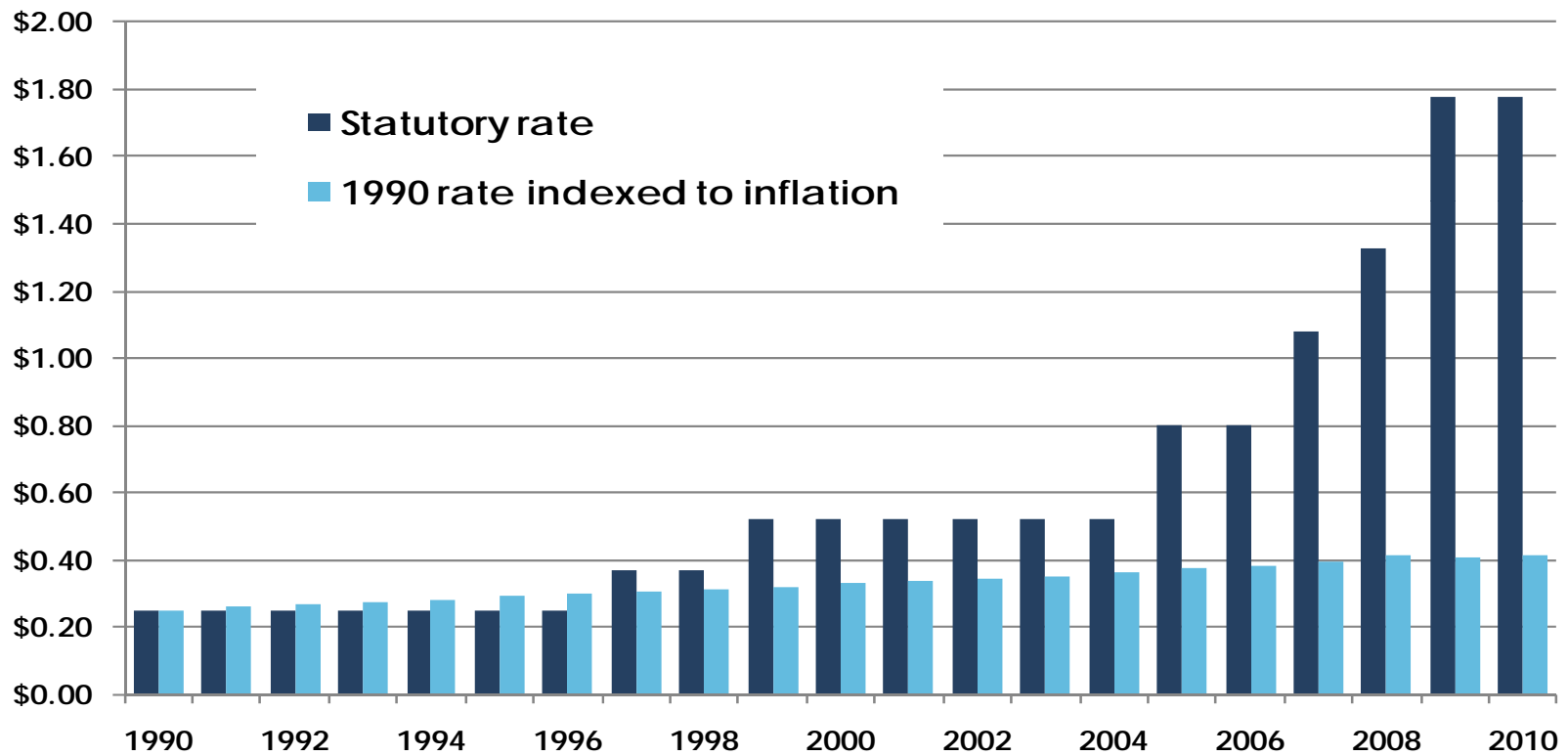
NH Beer Sales and Revenue Collections, FY 1996 – FY 2010



Source: NHFPI calculations based on NH Liquor Commission data

An Exception to Every Rule: New Hampshire's Cigarette Tax

NH Cigarette Tax Rate (per pack), 1990-2010



Source: NHFPI calculations based on OLBA data

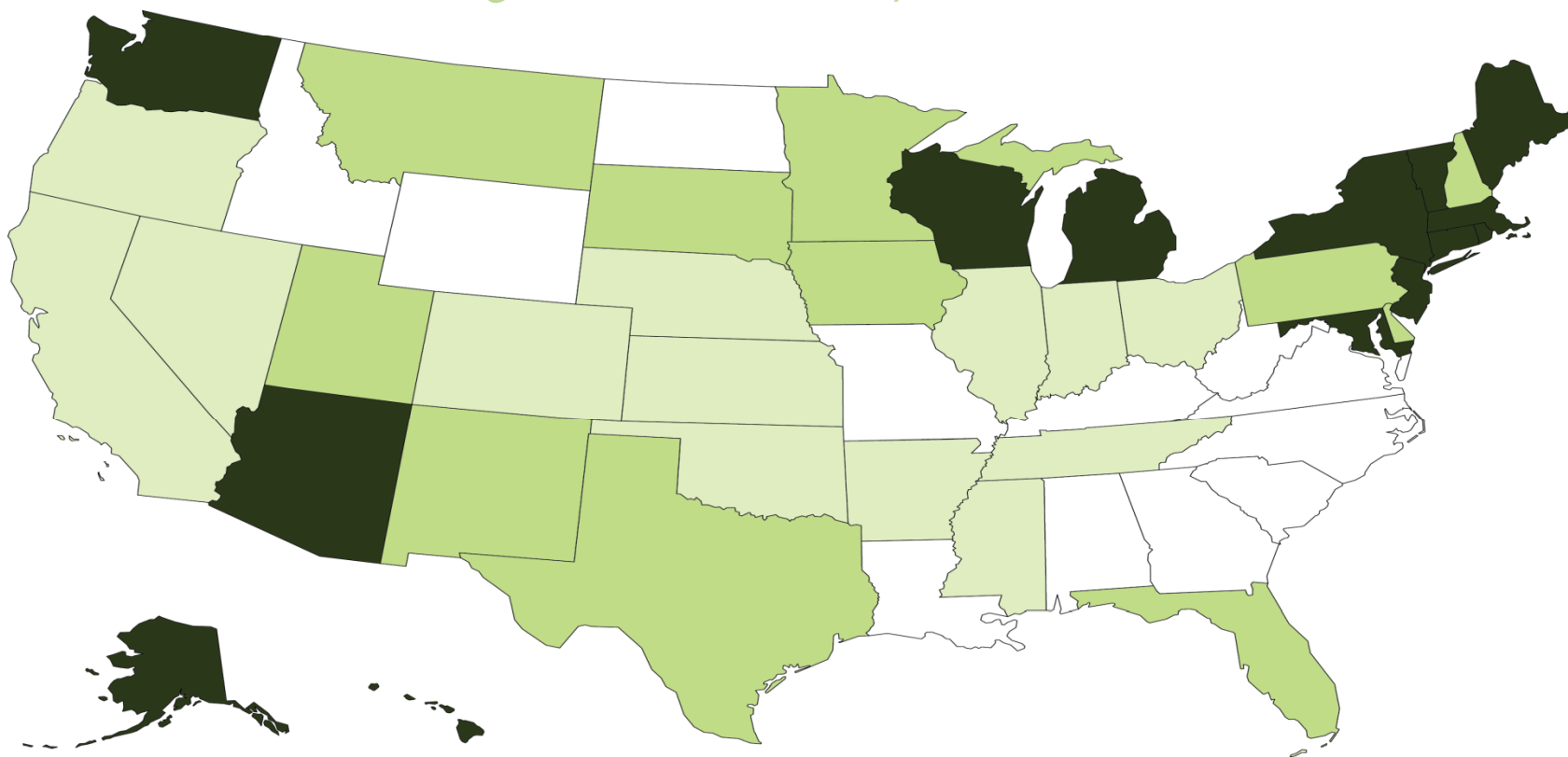
Adjusting NH Excise Tax Rates Could Also Generate Additional Revenue

	BEER TAX	CIGARETTE TAX
Current Rate	30 cents / gallon	\$1.78 / pack
Year of Last Permanent Increase	1983	2009
Rate if Indexed to Inflation Since Last Increase	67 cents / gallon	\$1.82 / pack
Projected FY 11 Revenue (FY11)	\$12.8 million	\$220.6 million
Revenue if Rate Indexed to Inflation Since Last Increase (estimated)	\$28.6 million	\$225.6 million
Difference (estimated)	\$15.8 million	\$5.0 million
Revenue if Rate Increased 10 Cents	\$17.1 million	\$233.0 million
Difference (estimated)	\$4.3 million	\$12.4 million

Source: NHFPI calculations based on DAS, RTB data

New Hampshire Cigarette Tax Rate is the Lowest in New England

Cigarette Tax Rates by State, 2010



■ Over \$2/pack ■ \$1.25 to \$2.00 □ \$0.60 to \$1.25 □ Less than \$0.60

Source: Campaign for Tobacco Free Kids

Business Tax Expenditures Cost NH Several Million Dollars Per Year

“The legislature expends funds in two ways: (1) via actual appropriations ... and (2) by foregoing the collection of taxes that it has the statutory authority to collect. Tax expenditures have been characterized by the New Hampshire Supreme Court as ‘all exemptions from taxation are practically equivalent to a direct appropriation’”

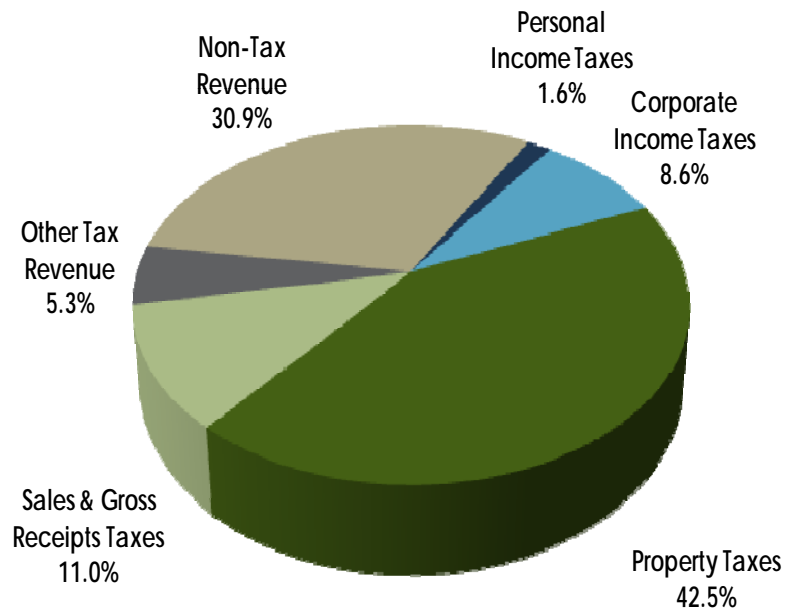
	<u>Estd. 2010 Loss</u>
Community Development Finance Authority Investment Tax Credit	\$3.3 million
Research and Development Tax Credit	\$970,000
Economic Revitalization Zone Tax Credit	\$184,000
Coos County Job Creation Tax Credit	\$36,000

Source: Department of Revenue Administration 2010 Tax Expenditure Report

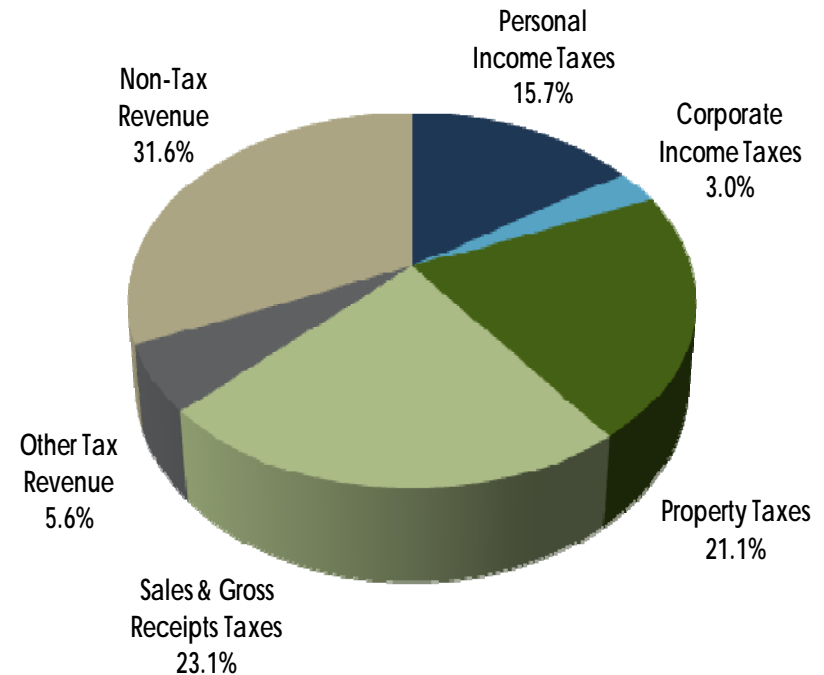
New Hampshire Does Depend on Business Taxes More than Most States...

Composition of Total State & Local Own Source Revenue, FY 2008

New Hampshire



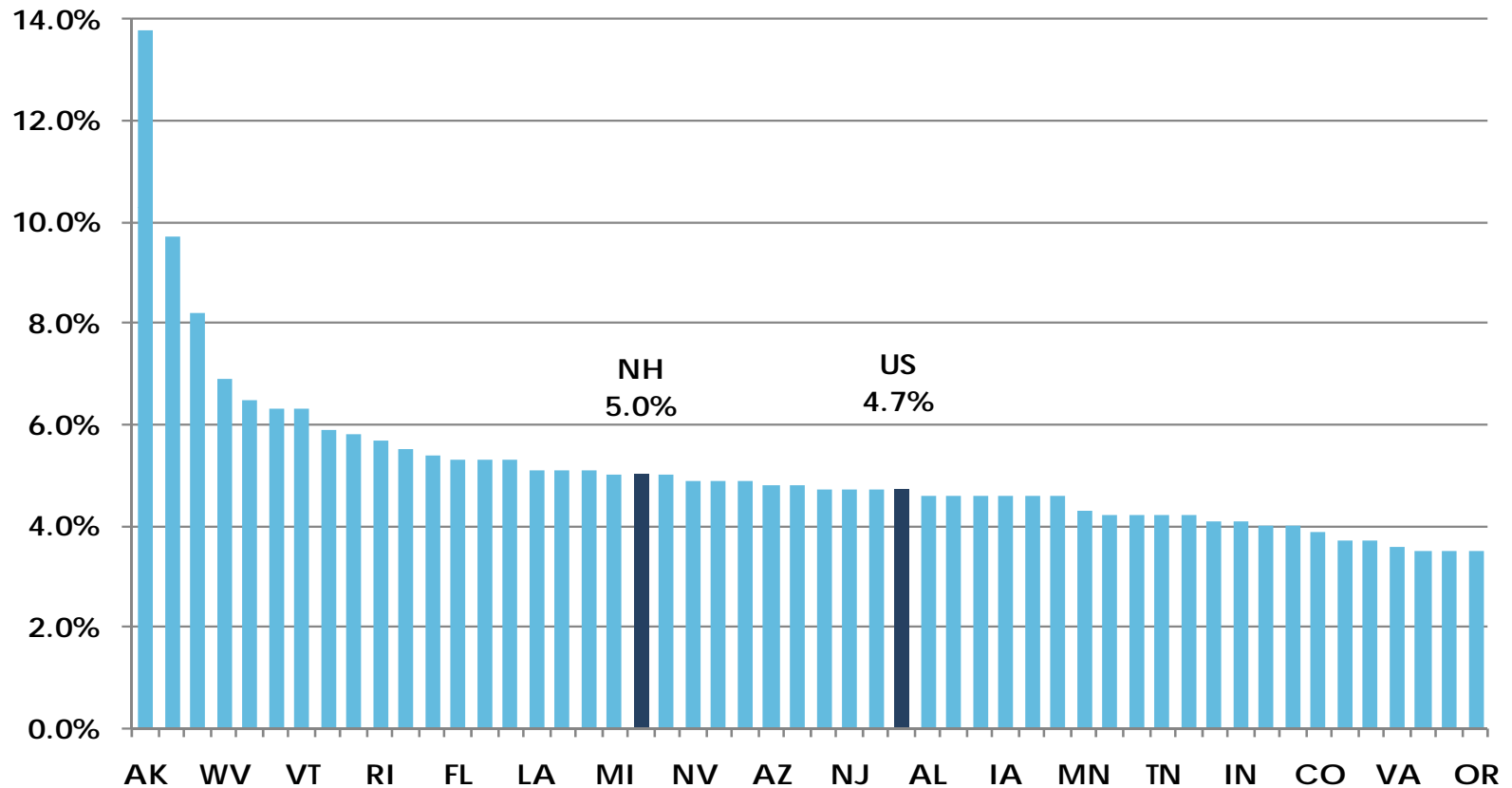
United States



Source: US Census Bureau

...Yet, NH Business Taxes in the Middle of the Pack Nationally

*Total State & Local Taxes Paid by Business
as a Share of Private Sector Gross State Product, FY 2009*



Source: Council on State Taxation

Taxation Has Comparatively Small Impact on Business Decision Making



...differences in tax burdens across states are so modest that they are unlikely to outweigh the differences across states in the other costs of conducting business [such as] the cost and quality of labor, the proximity to markets for output (particularly for service industries), the access to raw materials and supplies that firms need, the access to quality transportation

networks and infrastructure (e.g., roads, highways, airports, railroad systems, and sewer systems), quality-of-life factors (e.g., good schools, quality institutes of higher education, health services, recreational facilities, low crime, affordable housing, and good weather), and utility costs.

- Lynch, *Rethinking Growth Strategies*, 2004



NH Meals & Room Tax Potentially Vulnerable to Revenue Losses

	Room Booked Directly via Hotel	Room Booked via an Internet Reseller
Price Paid by Reseller to Hotel	n/a	\$75.00
Price paid by Guest	\$100.00	\$90.00
NH Meals & Room Tax Rate	9%	9%
NH Meals & Room Tax Due	\$9.00	\$8.10
NH Meals & Room Remitted	\$9.00	\$6.75
Revenue Loss	\$0.00	(\$1.35)

NH Has Multiple Options for Financing CHIP Expansion (cont.)

❖ Reinstating Prior Taxes

- Bring back some form of an Estate Tax

POTENTIAL IMPACT: \$16 to 25 million annually

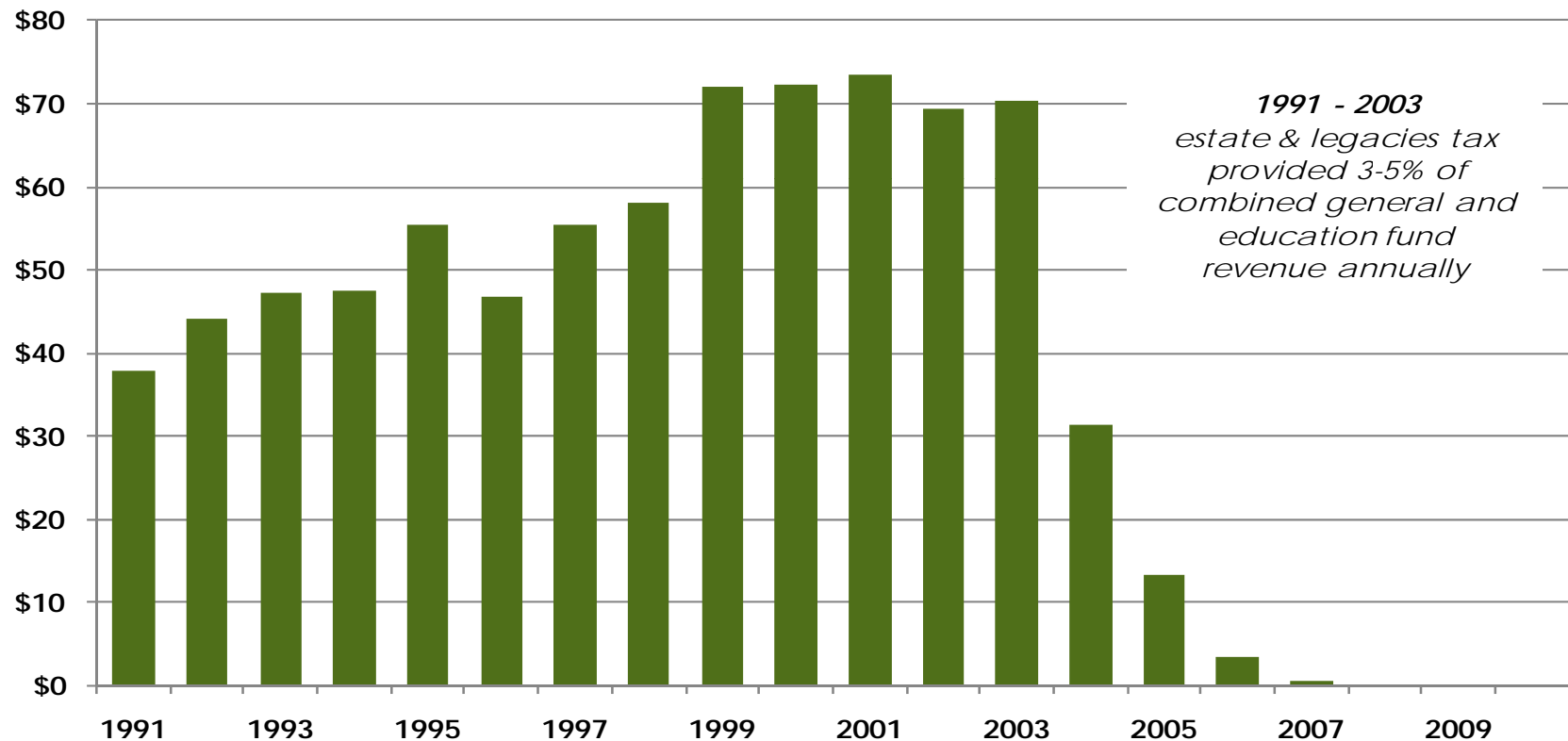
❖ Consider New Sources of Tax Revenue

- Impose a tax on sugar sweetened beverages

POTENTIAL IMPACT: \$7.2 million annually

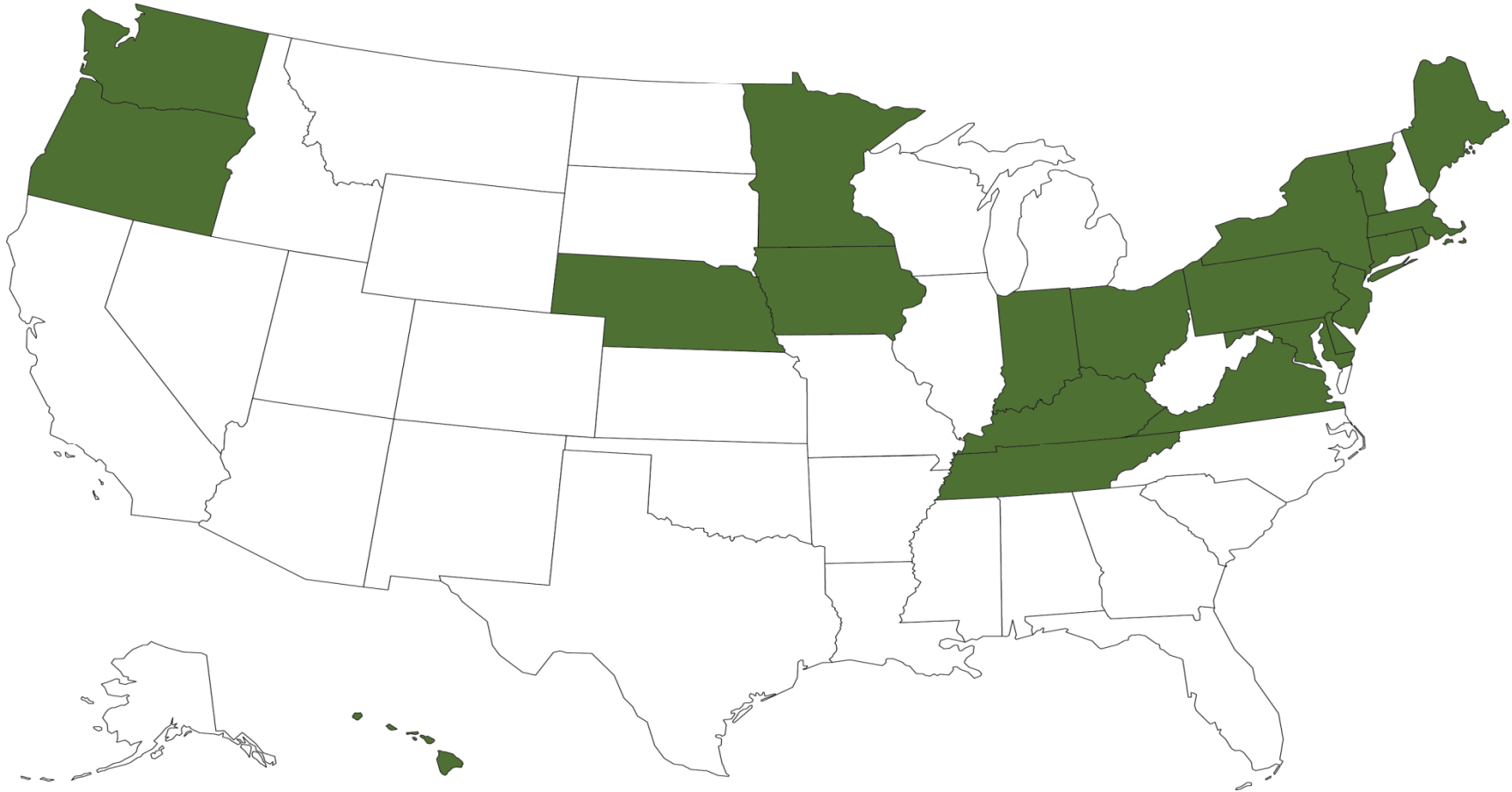
Estate & Legacy Taxation Formerly a Significant Source of Revenue for New Hampshire

Estate & legacy collections in millions of constant FY10 dollars, FY 1991-2010



Source: NHFPI calculations based on Department of Administrative Services, Bureau of Labor Statistics data

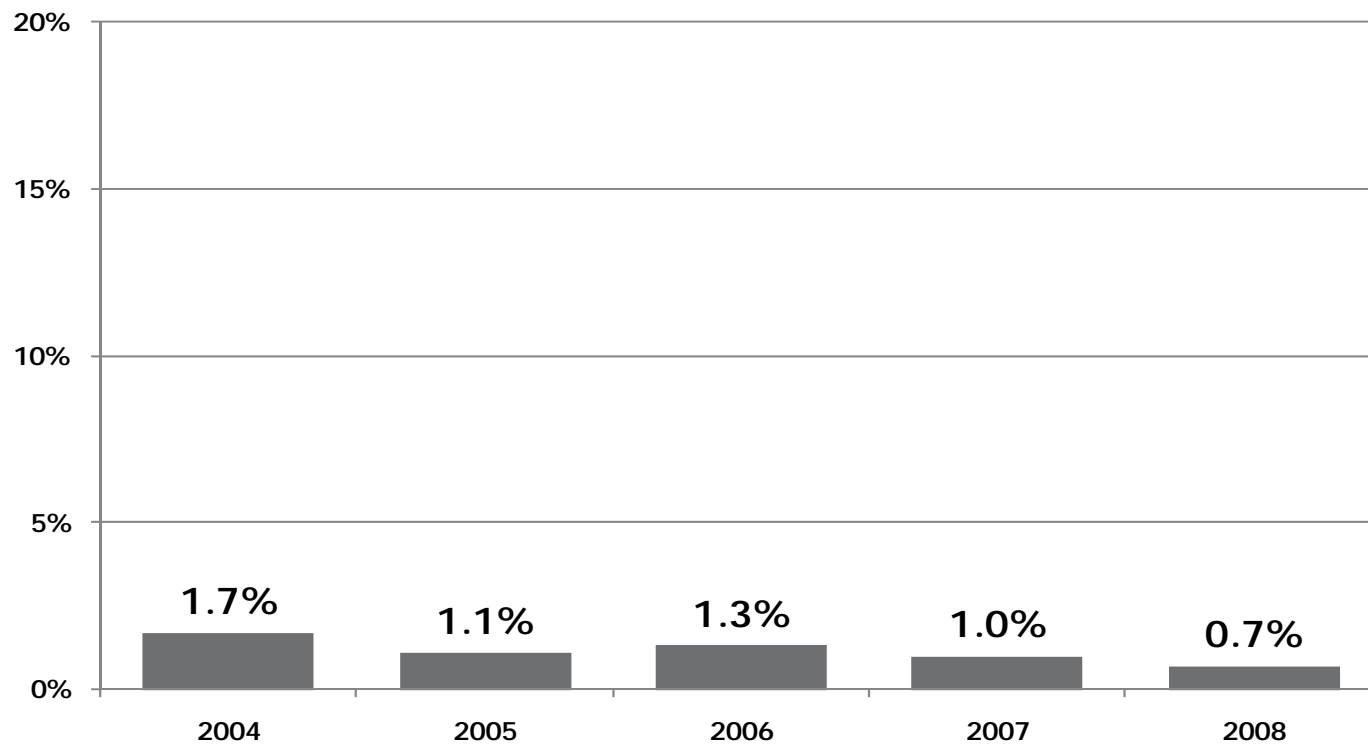
Many States Continue to Use Taxes on Inherited Wealth



Source: Center on Budget & Policy Priorities, 2010

Reinstating an Estate Tax Would Affect Very Few Granite Staters

Percent of Deaths in New Hampshire Resulting in a Federal Estate Tax Liability, 2004-2008



Source: Citizens for Tax Justice, 2009

One Possible Source of New Revenue: A Sugar-Sweetened Beverage Tax

- ❖ Tax could be imposed on a per-ounce basis on 'sugar-sweetened beverages' such as soda, flavored water, or sport drinks.

Yale's Rudd Center for Food Policy & Obesity estimates a tax of 0.1 cents per ounce would have generated roughly \$7.2 million in NH in 2011

- ❖ Proponents of such a tax note linkages between sugar-sweetened beverages and childhood obesity and argue that it would help to reduce consumption of such beverages.
- ❖ Like all excise taxes, a sugar-sweetened beverage tax would fall most heavily on low-income residents and would require regular adjustments to maintain its real value over time.



economic opportunity, prosperity, and security for all New Hampshire residents

11 Depot Street – 2nd Floor
Concord, NH 03301
603.856.8337
www.nhfpi.org