

How Did Minnesota Use Its Federal Fiscal Relief?

In May 2003, Congress passed and President Bush signed the Jobs and Growth Tax Relief Reconciliation Act of 2003, also called the stimulus bill.¹ While the legislation mainly focused on federal tax provisions, it also includes approximately \$20 billion in federal fiscal relief to state governments. The fiscal relief comes in two forms:

- \$10 billion to be distributed to states by temporarily raising the federal government's share of Medicaid costs from April 1, 2003 through June 30, 2004.
- \$10 billion in grants to states for broader budgetary relief (\$5 billion each in federal fiscal years 2003 and 2004).

Minnesota is estimated to receive \$189 million for state-level expenditures in the 2004-05 biennium from the increased federal Medicaid match² and \$167 million in the general grants area.³ The federal stimulus legislation passed while Minnesota policymakers were finalizing budget deals in the 2003 special legislative session. Contingency language was built into the Health and Human Services and Tax omnibus bills outlining how the new federal funds would be used in the event Minnesota received them. Some specific choices were made about the potential use of the federal fiscal relief as part of those negotiations. In other cases, flexibility was written in to legislation so that other decisions could be made later as the criteria regarding use of the anticipated federal funds was better understood.

The state will use the federal funds in three ways. The additional Medicaid funds are used for Medicaid and related purposes, while the federal grants money will be used for other items in the state budget, which frees up general fund resources that can offset revenue lost from the tax portions of the stimulus bill and build up the state's Budget Reserve. Neither the federal fiscal relief nor the impact of the tax portions of the stimulus bill are reflected in end-of-session summaries or the state's fund balance. The new federal revenue and its accompanying obligations will be recognized for the first time in the November 2003 Forecast.

Medicaid

Medicaid is the primary source of health care for low-income families with children, low-income seniors, and disabled persons. It is funded jointly by states and the federal government. The Federal Medical Assistance Percentage (FMAP) rate describes what share of Medicaid expenditures the federal government covers, with poorer states receiving a higher match. In Minnesota, federal Medicaid dollars largely are used for the Medical Assistance program (MA), although they fund some MinnesotaCare costs as well.

The \$189 million Minnesota is estimated to receive for state-level expenditures from the increased FMAP is used for three types of policy changes: to increase the benefit cap for the MinnesotaCare limited service program, to avoid three payment shifts, and to postpone four MA eligibility changes. These are described in more detail below.

¹ For more on the federal legislation, see Minnesota Budget Project, *The 2003 Jobs and Growth Package: What Does it All Mean?*, www.mncn.org/bp/jobsngrowth.htm.

² An additional \$8 million will go to counties and school districts.

³ Center on Budget and Policy Priorities.

During the final negotiations on the Health and Human Services (HHS) omnibus bill, policymakers decided to use some of the additional federal Medicaid dollars to increase the benefit cap for persons in the new MinnesotaCare limited services program from \$2,000 to \$5,000 through FY 2007. The estimated cost from FY 2004 to FY 2007 of this provision is \$93.4 million.

Three payment shifts that are part of the HHS bill were “bought back” using \$65.7 million of the additional federal funds in FY 2004-05. The payment shifts that are part of the HHS bill but will no longer occur are in:

- MA and General Assistance Medical Care (GAMC) fee-for-service payments,
- County social services payments, and
- Minnesota Family Investment Program (MFIP) consolidated support services county payments.

While the additional Medicaid matching funds came with relatively few additional strings attached, one important requirement to access the additional dollars is that Medical Assistance eligibility cannot become more restrictive between September 2, 2003 and June 30, 2004. Language was included in the HHS omnibus bill to allow for speeding up or delaying eligibility changes as needed to fit these federal requirements. The Minnesota Department of Human Services has determined that four delays are needed in eligibility changes that are part of the HHS omnibus bill, because they constitute restrictions in eligibility but it was not feasible to implement the changes before September 2003. The estimated cost of these changes is \$2.6 million. The eligibility changes that are delayed are:

- Reduction in the MA eligibility ceiling for pregnant women from 275% of federal poverty guidelines to 200% – delayed from February 2004 to July 2004.⁴
- Reduction of the MA eligibility ceiling for children from 170% of federal poverty guidelines to 150% – delayed from October 2003 to July 2004.
- Disqualification of persons on the Medical Assistance for Employed Persons with Disabilities (MA-EPD) program who do not have earned income above \$65 a month – delayed from November 2003 to July 2004.
- Disqualification of persons on MA-EPD who do not have documentation of tax withholding on their earned income – delayed from November 2003 to July 2004.

It was originally estimated that the combination of these Medicaid changes would spend all but \$20 million of the additional federal Medicaid dollars. It is unclear whether any federal Medicaid funds will be available for other purposes when cost and revenue estimates are updated and included in the November 2003 Forecast.

Offsetting Lost Tax Revenue and Building the Budget Reserve

Most state governments largely follow federal tax definitions in calculating their state taxes. This is called “federal conformity,” and it reduces complexity for taxpayers. Due to federal conformity, tax provisions in the Jobs and Growth package are expected to cost state governments about \$3 billion in lost tax revenues over the next 2-year budget cycle.⁵ Revenue losses stem from three components of the Jobs and Growth plan:

- Expansion and extension of “bonus depreciation” for businesses;
- Expansion of the amount that small businesses can deduct from their tax bills for equipment purchases (known as “Section 179”); and

⁴ See Appendix on page 3 for a table of federal poverty guidelines.

⁵ Center on Budget and Policy Priorities, *Federal Tax Changes Likely to Cost States Billions of Dollars in Coming Years*, www.cbpp.org/6-3-03sfp.htm.

- Increasing the standard deduction for married couples.

Minnesota chose to conform to two of these measures — the section 179 expensing and standard deduction increase — but did not fully conform to bonus depreciation changes, the most expensive provision. (This continues Minnesota’s decision not to conform to a similar costly bonus depreciation provision in the previous federal stimulus bill.) Conforming means a loss of tax revenue to Minnesota of \$103 million in the 2004-05 biennium.⁶ This lost tax revenue is equivalent to 29% of the total federal fiscal relief received by Minnesota through both the increased Medicaid match and grants to states.

The federal grant money cannot be directly used to pay for tax conformity. However, it will be used to fund other spending items in the state budget in accordance with the federal legislation, which says that these grants can be used to provide essential government services or to cover the costs of complying with unfunded federal mandates. Having the additional federal money available frees up general fund resources that can be used to fill in the budget hole created by the lost tax revenue.

The remaining \$64 million of general fund money that is freed up by use of the federal grants has not been dedicated to a specific purpose.

Appendix: 2003 Federal Poverty Guidelines

Family Size	100%	150%	170%	200%	275%
1	\$8,980	\$13,470	\$15,266	\$17,960	\$24,695
2	\$12,120	\$18,180	\$20,604	\$24,240	\$33,330
3	\$15,260	\$22,890	\$25,942	\$30,520	\$41,965
4	\$18,400	\$27,600	\$31,280	\$36,800	\$50,600
5	\$21,540	\$32,310	\$36,618	\$43,080	\$59,235
6	\$24,680	\$37,020	\$41,956	\$49,360	\$67,870
7	\$27,820	\$41,730	\$47,294	\$55,640	\$76,505
8	\$30,960	\$46,440	\$52,632	\$61,920	\$85,140

November Forecast Update

The Department of Finance’s November 2003 Forecast provides a few updates to the estimated revenue and spending figures in this document.⁷ The state’s share of revenue from the increased federal Medicaid match is reduced from \$189 million to \$175 million. In addition, the cost of the \$5,000 benefit cap for persons in the MinnesotaCare limited services program is increased from \$93 million to \$122 million. The combination of these two changes means that the spending items described in this document are projected to exceed the revenue from the increased Medicaid match by \$14.6 million dollars. The forecast anticipates that state general fund resources will pay for the additional \$14.6 million in spending.

⁶ Minnesota House of Representatives Fiscal Analysis Department, *Summary of the Fiscal Actions of the 2003 Legislature*, www.house.mn/fiscal/files/o3budsum.pdf.

⁷ See pages 49-50, Minnesota Department of Finance, *November 2003 Forecast*, www.finance.state.mn.us/ffeu/forecasts/2003nov/2003nov.pdf.