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March 21, 2010

The Honorable Gene Green
Member of Congress
2372 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Green:

Thank you for your inquiry regarding the fiscal impact of the Medicaid provisions in health reform on the State of Texas.

The health reform bill passed by the Senate requires individuals to have health insurance coverage beginning in 2014. It provides for the establishment of State Exchanges to enable people without insurance to purchase coverage without preexisting condition exclusions. To assist low-income families with their premiums, the Senate bill would provide premium assistance credits in the Exchanges for those with incomes above 133% of poverty ($29,300 for a family of four) and Medicaid coverage for those with incomes below.

As you know, Medicaid is a program that is jointly administered and financed by the States and the federal government. To minimize the fiscal impact on the states, the Senate bill provides an enhanced federal matching rate (FMAP) for the costs of expansion populations. Under the improvements made to the Senate bill as part of the reconciliation act, the federal government will pay 100% of the costs of extending Medicaid coverage to newly-eligible individuals and families with incomes below 133% of poverty until 2018 , then slowly reduce its share to 90% by 2020 and thereafter.

The non-partisan Congressional Budget Office (CBO) estimates that, over the period 2014 through 2019, the federal government will spend $434 billion on these Medicaid coverage expansions, while all States combined will spend $20 billion, or about 4% of the total federal and state spending on these expansions. (These estimates include not just the costs of covering newly eligible populations but also the costs of covering currently eligible but unenrolled individuals.)

By way of comparison, under the current Medicaid program, States on average pay 43% of the cost of the program.

Texas and its low-income citizens will benefit enormously from health reform. Currently the Texas Medicaid program covers parents with incomes up to 26% of poverty and does not cover childless adults. These limited eligibility standards are one reason why Texas has an uninsurance rate of 27.7% for people under age 65, the highest in the country. CBO estimates that nationally, the health reform bill will reduce the uninsurance rate among citizens to 5%. There is every reason to believe that low-income Texans will see the same benefit, with the federal government paying all of the costs initially, then 90% of the costs over time.

I understand that the Texas Health and Human Service Commission recently concluded that health reform would cost the State of Texas over $24 billion over the next ten years. This projection is difficult to reconcile with that of CBO, which in its March 18th estimate wrote: "state spending on Medicaid and CHIP in the 2010-2019 period would increase by about $20 billion as a result of the coverage provisions." All of this spending will be in the years 2014 through 2019, after the State Exchanges go up and the Medicaid expansions go into effect. Currently, Texas accounts for roughly 7% of federal Medicaid spending nationally. **If Texas accounts for the same proportion of federal Medicaid spending over this expansion period, its share of the total state cost of $20 billion over the next ten years would be in the neighborhood of $1.4 billion, not $24 billion**. Again, the CBO projections take into account the increased costs to both the federal and state governments resulting from increased enrollment by those currently eligible.

The coverage estimates cited above do not include federal Medicaid payments to disproportionate share hospitals (DSH). The federal DSH allotment to Texas in 2009 was $960 million. The Health and Human Services Commission estimates that over the next ten years Texas could lose $6 billion in federal Medicaid DSH funds. The Senate bill, as improved by reconciliation, will reduce federal Medicaid DSH allotments nationally by $14 billion, and over three quarters of those reductions occur in 2018 and 2019. Texas now receives about 8 percent of all federal Medicaid DSH funds. Assuming the cuts to Texas are proportional, the loss would amount to $1.1 billion, not $6 billion, and most of the cuts would not occur until eight years from now.

The health reform bill represents a historic extension of insurance coverage. Through both Medicaid and the State Exchanges, most of the 5.9 million uninsured Texans will have health insurance, and the extension will be funded almost entirely at federal expense. The flow of federal capital into the State of Texas will not only enable the State to protect its uninsured citizens from preventable illness and disability, but it will also be a boon to the health sector of the State's economy, helping to create and maintain well-paying jobs in hospitals, clinics, pharmacies, and other health providers. Given the State's size, and the size of its uninsured

population, I would not be surprised if Texas were to receive a larger share of the federal investment in health reform than any other State.

I hope that I can count on your support for health reform. If you have any further questions, please don't hesitate to contact me or the Committee staff.

Sincerely,

Henry A. Waxman
Chairman