

Kentucky, Facing Real Challenges

- Kentucky's Medicaid budget is facing a \$200-300 million shortfall over the next two years and that shortfall will nearly double when Kentucky's federal Medicaid match will increase from today's 6% to 10% in 2020, according to the administration.
- The Governor of Kentucky has the complete executive authority to end part or all of the expanded Medicaid coverage for the 435,000 current citizens.
- The Kentucky General Assembly has the complete authority to consider conservative and comprehensive healthcare state tax reform and create a funding plan for retaining expanded Medicaid that is simpler, easier and fairer.
- Kentucky can lead the nation by enacting conservative healthcare tax reform that lowers the current high tax rate and broadens the current narrow base. This reform will guarantee a more secure state funding source for Medicaid and make financially solvent the Medicaid expansion for 435,000 citizens of the Commonwealth.
- We understand that there are no easy choices to make when it comes to changing tax policy, but conservative tax reform has always erred on the side of "broader bases and lower rates" which are best for everyone.

Expanded Coverage at a Crossroads

- No elected official in Kentucky – of either party – is responsible for today's Medicaid budget shortfall.
- There have been recent frank and serious conversations about ending some or all Medicaid expansion benefits as the Commonwealth faces a shortfall of \$200-\$300 million.
- Kentucky's Medicaid expansion was enacted by Executive Order under the previous Governor and can be rescinded by Executive Order in the same manner - if it cannot be funded.
- As the Commonwealth pursues an "all of the above" strategy to balance the Medicaid budget, Balanced Health Kentucky, Inc. believes there is a simpler, easier and fairer way to protect Kentucky's expanded Medicaid population through the implementation of comprehensive conservative tax reform, which would apply only to Kentucky's healthcare economy.

Conservative Healthcare Tax Reform – Broader Base, Lower Rates, Fairer for All

- Federal law recognizes 18 healthcare categories of providers that make up Kentucky's healthcare economy. Each of these categories can participate in paying into the state's Medicaid program. These state dollars are then used to draw down 2.5 times that amount of money in federal funds for Medicaid.
- In Kentucky, only five of the 18 categories of our healthcare economy pay state provider taxes to fund Medicaid. Of those five categories, hospitals provide 61% of all state Medicaid tax revenues. The next category provides 27% with the last three categories providing 6%, 3%, and 3%. 15 categories provide 0%.

- While each healthcare category is vital to ensuring the overall health of Kentucky's families, over the past three decades there has never been a comprehensive review of Kentucky's healthcare tax system to ensure the financial sustainability of Medicaid.
- Through decades of competition, national health policy change and industry growth, a great disparity has grown in how these different healthcare categories are taxed. This has created in Kentucky a narrow base of categories that are paying a high rate of taxation, while a super majority of categories are paying no provider taxes.
- Kentucky's narrow provider tax base, which places the burden of taxes on a quarter of the healthcare categories (5) while exempting a super majority of the other healthcare categories (13), is the opposite of conservative tax policy.
- Hospitals have paid the state provider tax for every year since 1994 and are the only healthcare category that has paid into the state Medicaid fund every year and continue to be the super majority funding source at 61% of all state revenues.
- The hospitals sought and the General Assembly capped our tax level in 2006 as hospital could no longer carry the burden for every other healthcare category. This cap is vital to protecting hospitals, many of which cannot continue with this high tax burden under Kentucky's narrow tax base.

Expanded Medicaid Coverage – Everyone is impacted

- Kentucky's expanded Medicaid program provides coverage for approximately 435,000 individuals with income up to 138 percent of the federal poverty line.
- While the Commonwealth faces serious and historical health challenges, maintaining expanded Medicaid coverage is essential to providing care.
- For context, the 435,000 citizens covered under Medicaid expansion make up 11 percent of Kentucky's population. Put another way, if the population of Kentuckians receiving health benefits under Medicaid expansion all resided in the same city, they would be the second largest city in Kentucky, surpassing Lexington by 200,000 people.
- Kentuckians receiving benefits under Medicaid expansion are diverse in demographics and geography and come from each corner of the Commonwealth.
- Kentucky has six Congressional Districts and each district has an average of 80,000 citizens on Medicaid expansion.
- Kentucky has 38 KY State Senate districts and each district has an average of 13,000 citizens on Medicaid expansion.
- Kentucky has 100 State House districts and each district has an average of 5,000 citizens on Medicaid expansion.
- Today the benefits those 435,000 Kentuckians rely on are in real danger of being taken away, not piece by piece, but completely, because of a lack of adequate funding.



- The health coverage these Kentuckians rely on does not have to be in jeopardy - by looking clearly and objectively, Kentucky can find a better way.
- Kentucky has a unique opportunity to preserve these vital health benefits and serve as a model for the rest of the nation by adopting conservative, broad-based, and comprehensive healthcare tax reform to fund expanded Medicaid.
- Kentucky's Health Economy
- Kentucky's healthcare economy represents 8.2% of the Commonwealth's economy and 14.6% of its workforce.
- Ending Medicaid expansion would pose a direct and unprecedented threat to the Commonwealth's healthcare delivery system and local employers while jeopardizing the long term growth and stability of Kentucky's healthcare economy.

About Balanced Health Kentucky Tool Kit for the General Assembly

- Balanced Health Kentucky is a non-profit, non-partisan, organization created by a diverse group of hospital leaders to support comprehensive state healthcare tax reform to fund Medicaid expansion in Kentucky.
- Working with industry professionals, legal experts and the Kentucky General Assembly's former chief economist, Balanced Health Kentucky is offering to lawmakers a complete legal review and an interactive and flexible budgetary toolkit to empower the General Assembly to craft conservative and comprehensive tax reform to fund Medicaid expansion.
- Balanced Health Kentucky does not take a position as to which of the 18 categories to include or at what rate any category should be taxed; only that the 18 categories are available for review by the General Assembly. We do believe that the base should be as broad as possible with a rate as low as possible in order that one category is not overburdened and to meet the fiscal challenges facing Kentucky.
- In considering comprehensive healthcare tax reform, members of the General Assembly, their staff and the community at large, are being presented a legal and budgetary toolkit developed by Balanced Health Kentucky, Inc., using state data, current tax revenues and federal legal requirements, to create and new comprehensive tax framework to fully fund Kentucky's Medicaid system.
- In enacting any reform, the Kentucky General Assembly has the complete authority to determine how much of the healthcare economy to include and at what rate of taxation is needed for the Medicaid budget. Balanced Health Kentucky, Inc. seeks to be part of a conversation about conservative comprehensive tax reform to ensure funding for expanded Medicaid coverage for Kentucky.

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