

Why Federal Investments Matter: Stability from Congress to State Capitols
Testimony to the U.S. House of Representatives Budget Committee
January 15, 2020

Thank you Chairman Yarmuth, Ranking Member Womack, and Members of the Committee. It is an honor to be invited to discuss how Federal investments affect the State of Maine.

The year 2020 is Maine's Bicentennial so we are celebrating statehood and what makes us special. Maine is the most rural state east of the Mississippi, with tremendous natural resources in our forests, lakes, rivers, and coast line. By most counts, we are the oldest state in the nation – a point of pride as we tap into our older residents' experience and talent.

Maine's economy has strengths. In 2019, [the number of unemployed people in Maine](#) decreased by 5,000 people or about 20 percent. Maine's unemployment rate has been below 4 percent for 47 consecutive months. We increased the minimum wage to \$12 on January 1, 2020.

And Governor Mills budget responsibly invests in health care, education, economic development, clean energy, and saving for a rainy day. She increased the Budget Stabilization Fund to [\\$236.9 million](#), which represents 6.6 percent of total General Fund revenues for state fiscal years 2020 and 2021. She paid off debts of the previous Administration, including the balance of an [\\$84 million disallowance](#) in Medicaid.

That said, Maine faces economic challenges: specifically, fewer workers, slow GDP growth, and a relatively high poverty rate. As such, the Governor [launched](#) a ten-year Strategic Statewide Economic Development Plan in December. We aim to attract 75,000 people to Maine's talent pool, increase the value of products sold per worker by 10 percent, and grow average wages by 10 percent. We are hard at work on State actions to put us on this trajectory.

But we cannot do it alone. Federal grants represented [34 percent](#) of the Maine State budget in fiscal year 2017, above the national average. In this biennial budget, Federal funds represent 58 percent of the Maine Department of Health and Human Services' \$9.6 billion budget.

As you are aware, Congress has not significantly changed Federal funding for discretionary health and human services programs in recent years – with one major exception. Grant funding for opioid and substance use disorders has increased. We are hopeful that this funding will be allocated based on up-to-date information on this rapidly changing crisis – Maine has been [disadvantaged](#) in the past due to data lags.

We also receive Federal funding for entitlement programs like SNAP and Medicaid. The vast majority of Federal funding to DHHS is for Medicaid, called MaineCare. Governor Mills' first executive order was to implement a ballot initiative to expand Medicaid under the option available under the Affordable Care Act. The MaineCare expansion has cumulatively covered over 57,000 people in Maine, with [43,289](#) covered on January 2. Over 16,000 mental health treatments, over 3,100 cancer screening. The expansion has been a critical tool in addressing the State's opioid crisis. About one in ten expansion enrollees received treatment for opioid use disorders.

Because of its implications for Maine and other states, I'd like to focus on the triple threat to Federal funding to states via Medicaid.

The first threat is Congressional proposals to cap or “block grant” Federal Medicaid spending. In 2017, the House of Representatives passed legislation – embraced by the Trump Administration through its 2020 budget proposal – that would fundamentally change how the Federal government contributes toward Medicaid. It would shift from a paying a percent of costs to a pre-set dollar limit. This would leave states largely if not fully at financial risk of unexpectedly high costs due to events such as recessions, natural disasters, disease outbreaks, and expensive medical breakthroughs.

Maine would be particularly vulnerable to unaffordable cost-shifts under a Medicaid block grant due to its high percentage of older and low-income residents. Additionally, it is not clear whether the proposal would account for the cost of the recent Medicaid expansion. As a title of an Urban Institute analysis of this proposal declared, “The uncertainties and complexities for states are enormous.”

The second threat is through executive actions that undermine state funding for Medicaid. This fall, the Centers for Medicare and Medicaid Services (CMS) published the Medicaid Financial Accountability Regulation (MFAR) for public input. It is wide ranging in scope, changing long-standing policies on taxes, intergovernmental transfers, provider donations, and other sources of state funding for the program. Experts agree that every state would be affected. CMS has told Maine that one type of tax, our service tax whose revenue totals \$58 million annually, would have to be repealed, replaced, and returned to providers who paid it back to 2016 – which even in a good economy would be prohibitively expensive. MFAR puts even more funding at stake for Maine.

CMS goes beyond questioning specific sources of state funding. It proposes to give itself the power to make subjective determinations on what does and does not constitute permissible state sources of Medicaid financing. CMS would be allowed to strike down a state financing source based on a vague test – effectively, CMS will know a problem when it sees it. In so doing, this proposed rule substantially shifts the balance of powers decisively away from states.

The third threat is through the courts. Republican-led states backed by the Trump Administration seek to accomplish through the judicial system what they failed to achieve in Congress: striking down the Affordable Care Act. A petition is before the Supreme Court to take up the case of *Texas versus the United States*. Plaintiffs claim that the individual mandate, without the tax which was repealed in 2017, is unconstitutional and, without a severability clause, the whole law should be struck down. The Trump Justice Department is not defending current law.

Should the plaintiffs prevail, the uninsured rate in Maine would increase by an estimated 64.8 percent or 83,000 people – largely due to the loss of Medicaid coverage. Maine would lose an estimated \$495 million each year in federal Marketplace and Medicaid funding. Uncompensated care costs in Maine, which fell by \$44 million through 2015 – even before the Medicaid expansion – would increase significantly, straining our hospitals particularly in the rural parts of

Maine. Two rural hospitals are already in bankruptcy. One of our insurers is a COOP created by the ACA: its existence would be jeopardized by an ACA injunction.

Governor Mills signed into law LD 1 which codifies the Affordable Care Act consumer protections. It would protect up to [230,000 people](#) in Maine who have a pre-existing condition under a narrow ruling in this case. However, another [360,000 people](#) with pre-existing conditions would be at risk for being charged unaffordable premiums or denied coverage altogether under a full injunction of the ACA. Maine nor any other state could reverse this damage.

Opportunities to strengthen Federal-state are also under discussion. At your fall hearing on a similar topic, you heard testimony on ideas such as creating Federal funding formulas that would help, not hurt, states as they strive to deliver services efficiently and effectively. Setting the Federal matching rate for Medicaid to increase with a [state's unemployment rate](#) would sustain local economies and revenues during economic downturns. Evidence is clear that the Medicaid matching rate increase in 2010 helped – and should be made permanent, automatic, and ready-to-go policy.

And the [House-passed bill](#) to improve the Affordable Care Act would provide \$200 million to support State-based Marketplaces. Governor Mills and the leaders of the Maine House and Senate recently [introduced](#) legislation toward this goal. This would strengthen state resiliency.

In closing, the Federal-state partnership is fundamental to how we provide services in Maine and nationwide. But it indeed needs to remain that: mutual rather than an imbalanced and uncertain relationship.