



Suggested Methodology for Calculating Medicaid Hold Harmless

The landmark 2007 legislation granting a phase-in of county Medicaid relief required counties to cede the Article 44 1/2 percent sales tax to the state, changed the distribution method of Article 42 from a per capita to a point of delivery basis (non-food portion only), and guaranteed that cities would not incur any revenue losses from the relief swap. Payment to the cities is deducted automatically by the Department of Revenue from the county's monthly sales tax distribution payment. The 2010-11 fiscal year marks the first year of full and complete implementation of the relief swap.

To ensure that all counties would benefit from the relief swap, the General Assembly enacted a county hold harmless provision, guaranteeing each county a net benefit of at least \$500,000 in perpetuity. Given all of these changes, counties have asked for guidance in calculating the benefits and costs of the Medicaid relief swap, including projections for any state hold harmless payment. This memo offers up a suggested methodology for those calculations.

Please note that the report has been reformatted, not only to speed future processing and dissemination but also to improve comprehension and clarity. The county and its city data are aligned separately in columnar format, to mirror the data sources underlying the estimates. The first column clearly demonstrates the loss of the Article 44 1/2 cent sales tax, combining the effects of losing 1/4 cent per capita and 1/4 cent point of delivery. The second column shows the impact, either positive or negative, of converting the 1/2 cent Article 42 from a per capita distribution to point of delivery. The Medicaid savings portrayal is similar to that shown in previous reports.

The report and its underlying data sources easily permit a county to change the statewide assumptions to more closely reflect local economic conditions, such as lowering the sales tax projections, increasing the Medicaid projections, or adjusting its portion of the sales tax to reflect local tax and population changes. As a caveat, the estimated sales tax losses, Article 42 adjustments, and Medicaid savings are just that—estimates. While we have worked with the School of Government and the General Assembly's fiscal research division to develop a reasonable and workable methodology, we cannot guarantee that unknown local, regional or national economic conditions will not significantly change the underlying assumptions. That's why we encourage you to conduct your own sensitivity analysis by adjusting upwards or downwards revenue and Medicaid savings assumptions. We also invite you to review the methodology and suggest to us any changes to improve its clarity and accuracy.

Data Sources

1. County and city sales tax data

- a. DoR's most recent [Statistical Abstract](#), **Table 57** *Article 39 First One-Cent (1¢) Local Government Sales and Use Tax Allocations and Distributable Shares by County for Fiscal Year (use most recent fiscal year)*.

We considered using DoR's *Certification of Amounts Disbursed During the Twelve-Month Period Ending June 30, 2009*, since DoR uses its monthly distributions of sales taxes, months ending May-April, as the basis for the annual Medicaid hold harmless report. We rejected this as a reliable data source, given the double counting of Article 46 contaminating Article 39, and the resulting payback in 2009 and 2010. We may consider its use in future years.

- b. DoR's most recent *Statistical Abstract*, **Table 58A** *Article 40 First One-Half Cent (1/2¢) Local Government Sales and Use Tax Allocations and Distributable Shares by County (use most recent fiscal year)*
- c. County portion of Art. 39 and Art. 40 from DoR's most recent [Local Sales Distribution Report Month Ending](#) (use most recent report in fiscal year of sales tax data)

2. County Medicaid spending—[*DoR's Medicaid Hold Harmless Report*](#) - use most recent report

Methodology via Spreadsheet

Sales Tax Tab

1. Article 39 – Copy all data from DoR table. Exclude collection costs from non-food portion of Article 39 by applying percentage of non-food distribution to total distribution. Apply inflation adjustment factor to non-food distribution—we rely on Fiscal Research’s estimate for what a ½ cent sales tax (non-food) would generate. Divide sum in half. Strip out county portion of countywide sales taxes from distribution report and apply county portion to 50% of non-food distribution exclusive of collection costs and deduct county amount from total for city portion.
2. Article 40 - Copy Article 40 data from DoR table. Exclude collection costs and per capita adjustment from non-food portion of Article 40 by applying percentage of non-food distribution to total distribution. Apply inflation adjustment factor to non-food distribution. Apply county portion of countywide sales taxes to result and deduct result from total non-food distribution for city portion.

Medicaid Tab

1. Copy county Medicaid savings from March hold harmless report.
2. Adjust current year estimate to projected increases/decreases in Medicaid.
3. Medicaid data are automatically linked to hold harmless tab.

Hold Harmless Tab

Sales Tax Losses

1. All sales tax data are linked to hold harmless tab.
 - a. County only data sum ¼ of Art. 39 & ½ of Art. 40 county non-food amounts exclusive of collection costs to show loss of Article 44 (1/4 cent point of delivery and ¼ cent per capita).
 - b. City only data sum ¼ of Art. 39 & ½ of Art. 40 city non-food amounts exclusive of collection costs to show loss of Article 44.
2. The spreadsheet deducts 50% of adjusted Article 39 from Article 40 to show the impact of changing Article 42 to a point of delivery basis (either positive or negative). As a reminder, the food portion once attributable to Article 42 continues to be distributed on a per capita basis, and is excluded from the Medicaid hold harmless calculation.
3. The spreadsheet sums the Article 44 revenue loss with either the loss or gain of Article 42’s distribution change and compares the results against Medicaid savings. It then tests whether the net benefit change is greater than \$500,000. If not, the spreadsheet returns a state hold harmless payment that provides the net benefit of \$500,000.
 - a. As noted earlier, the above figures are estimates only—each year, the N.C. Department of Revenue calculates the actual sales tax losses and Medicaid savings through the first 6-8 months of the fiscal year, and generates a hold harmless report in March to show each county’s benefits and costs to be reimbursed. Based on the guaranteed net benefit of \$500,000, the state submits a payment for 90 percent of the amount needed to generate the \$500,000 to those counties whose Medicaid savings do not offset revenue losses. Based on the actual performance for the remaining months, DoR calculates the final “trued up” hold harmless report in August.