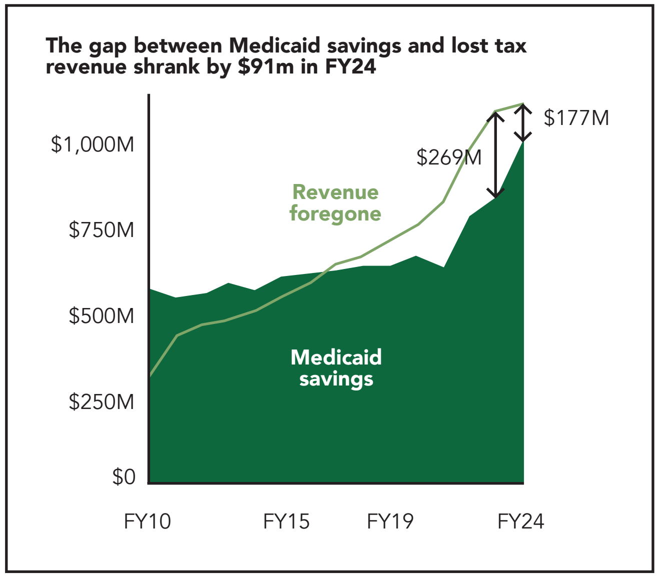
Medicaid Hold Harmless Payments
May 2024
NCACC Advocacy Brief

Overview

Each March, the state pays Medicaid Hold Harmless payments to eligible counties as a result of the 2007 "Medicaid Swap" of county sales tax revenue for Medicaid costs. In FY 2023, counties received $269 million, but payments are projected to drop to $177 million for FY 2024.

This $91 million reduction is a natural outcome of slowing sales tax growth and sharply rising Medicaid costs, and counties know to be cautious when budgeting this revenue due to its volatility. Nonetheless, many counties were surprised by this significant revenue reduction so late in the fiscal year. The North Carolina Association of County Commissioners recommends a statutory change to improve local revenue forecasting and respectfully requests one-time appropriations to counties with reduced payments in FY 2024.



"Medicaid Swap" Explainer

Until 2007, counties paid 15% of the state's share of Medicaid costs. For many counties, Medicaid was the 2nd single largest expense, with its rapidly rising costs threatening county financial stability. Under the historic "Medicaid Swap," the state assumed these costs in exchange for counties giving up their authority to levy a ½ cent sales tax under G. S. 105, Article 44. The ½ ¢ was instead added to the state's sales tax rate to provide the state with additional revenue.

This Swap, championed by NCACC and enacted in S.L. 2007-323, Sec. 31.16.1, shifted the burden of Medicaid costs from counties to the state, providing significant financial relief to counties. To offset any revenue losses for those counties who would lose more tax revenue than they would save on Medicaid expenses, the legislation created "Medicaid Hold Harmless payments" under G.S. 105-523:

- If a county's savings from Medicaid expenses are **less than the lost tax revenue**, the state pays the difference as a Medicaid Hold Harmless payment.
- If a county's savings from Medicaid expenses **exceed the lost tax revenue**, no payment is made.

Since FY 2020, increased state Medicaid spending has increased counties' Medicaid savings under the Swap by increasing the 15% of Medicaid costs that counties would have paid without this legislation in place. Meanwhile, in FY 2024, sales tax growth slowed significantly. The combination of these trends has driven Medicaid Hold Harmless payments down in FY 2024 by $91 million.

Proposed Statutory Change

To prevent last minute surprises and to help counties better anticipate lower-than-expected Medicaid Hold Harmless payments, NCACC recommends a statutory change to provide counties with earlier revenue projections. Currently, G.S. 105-523(d) requires the Department of Revenue to estimate the payments each March, with three months remaining in the fiscal year. Providing an additional initial estimate in January, ahead of the formal estimate and payment in March, would help counties better prepare their budgets and continue to manage delivery of essential services to their residents.

To learn more about NCACC's advocacy goals visit www.ncacc.org/countyadvocacyhub.
If you have questions, email Director of Government Relations Amber Harris at amber.harris@ncacc.org.