



Federal Reimbursement Allowance Critical to Solvency of Missouri's Entire State Budget

Medicaid provider taxes (commonly referred to as the Federal Reimbursement Allowance, or FRA) are a critical funding stream supporting the entire state budget. While dollars raised through the FRA directly support the MO HealthNet program, the funding frees up state general revenue that is used for education and other priorities.

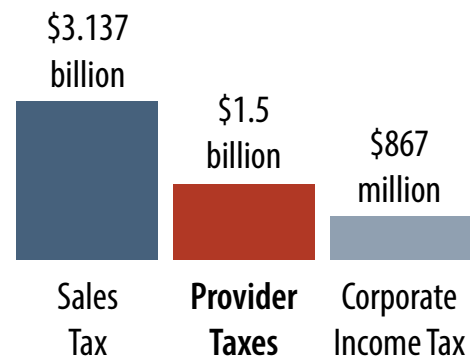
In Fiscal Year 2026, the FRA is expected to generate nearly \$1.5 billion in state revenue. These funds are then used as the state match for Medicaid, drawing down more than \$2.8 billion in federal funds for health services.

The FRA must be renewed in the 2024 legislative session. Without its renewal, the state would face a \$1.5 billion hole in the general revenue budget. Due to the magnitude of the funding, as well as federal and state restrictions that limit how or if Medicaid services could be cut, the loss of the FRA would likely result in steep cuts to education and other priorities.

Provider Taxes Fund State Medicaid Match, Free Up General Revenue

- The FRA provides critical revenue to support Medicaid. In doing so, it frees up state general revenue to support education and other priorities. Without it, general revenue would be needed in its place.
- By comparison, if FRA were general revenue, it would be the third largest source, behind only individual income tax and sales tax, and bringing in more state funding than the corporate income tax.

The FRA Relative to Selected State General Revenue



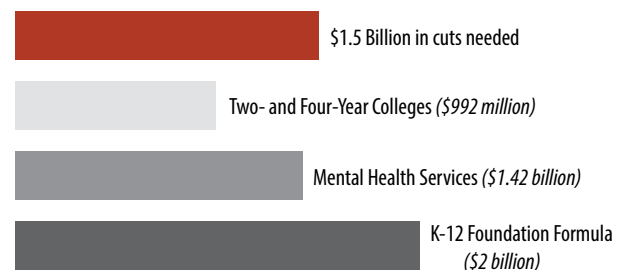
What Happens if FRA is Not Renewed

The entire state budget effectively relies on the funds made available by provider taxes.

- Because of state and federal requirements, it's unlikely that lawmakers could reduce Medicaid enough to make up for the loss of \$4.3 billion in state & federal Medicaid funds (about 30% of the total Medicaid budget).
- Instead, cuts would likely be focused on an array of priorities across the state budget. As context, elimination of provider taxes would require about \$1.5 billion in cuts to other general revenue spending - that's more than what the state spends in general revenue to support Missouri's public colleges.

Cuts of This Magnitude Would Be Catastrophic

\$1.5 Billion Relative to State General Revenue Spent on Various Priorities



Provider Taxes Fund State Medicaid Match

The federal reimbursement allowance system began in the early 1990s, when hospitals began voluntarily contributing funds to the state, which could then be used as the state's Medicaid match to draw down additional federal dollars in support of Medicaid. Since that time, these voluntary provider taxes have been formalized and are paid by nursing facilities, pharmacies, and other providers, and the FRA has become a major funding stream for MO HealthNet – freeing up state general revenue tax dollars for other state priorities.