



United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-281986

February 19, 1999

The Honorable Daniel Patrick Moynihan
United States Senate

Subject: Medicaid Formula: Effects of Proposed Formula on Federal Shares of State Spending

Dear Senator Moynihan:

Medicaid is the primary program for providing health care services to eligible low-income individuals. It is jointly financed by federal and state governments under a matching formula that varies for each state. Using the formula, the federal contribution varies from a low of 50 percent to a high of 83 percent. In fiscal year 1997, Medicaid expenditures totaled about \$160 billion for medical assistance payments (which exclude administrative costs), of which the federal government paid about 57 percent. Preliminary estimates indicate that about \$170 billion was spent in fiscal year 1998, and \$181 billion is projected for fiscal year 1999.

You have introduced legislation that would replace the existing Federal Medical Assistance Percentage (FMAP) formula with an alternative known as the "Equitable Federal Medical Assistance Percentage" formula.¹ This letter responds to your request that we calculate the matching percentages and how federal funding for each state would be altered by the formula and assumptions described in your bill.

We calculated Equitable FMAPs that would apply to fiscal year 1999 in order to compare our results with the latest available FMAPs based on current law as reported by the Health Care Financing Administration (HCFA) when we began our review. By law, FMAPs are determined about 1 year before the beginning of a fiscal year, using the latest data available at that time. Thus, HCFA computed fiscal year 1999 FMAPs in November 1997, using a 3-year average of per capita income data for 1994 through 1996. Likewise, the data we used to calculate Equitable FMAPs represented the latest data available as of November 1997.

¹ S. 203, "Equitable Federal Medicaid Assistance Percentage Act of 1999," introduced in the Senate on Jan. 19, 1999.

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GAO/HEHS-99-29R Medicaid Formula Proposal

To estimate the effects of FMAP changes in federal reimbursements to states, we applied the current law and the Equitable FMAPs for fiscal year 1999 to the states' total Medicaid spending for medical assistance payments in fiscal year 1997, the latest year for which expenditure data were available.² We conducted our work between November 1998 and January 1999. Except that we did not verify data obtained electronically from federal agencies, we did our work in accordance with generally accepted government auditing standards.

In summary, using the formula and assumptions specified in your bill, federal matching percentages for fiscal year 1999 would change in most states. Several states would experience substantial changes. For example, New York and California would have the largest matching percentage increases. The federal share in New York would increase from 50 to 69 percent of its Medicaid spending, and in California from 52 to 71 percent.³ In contrast, the greatest decreases would occur in Montana and Utah. The federal share in those states would decline from 72 to 50 percent. Revised matching percentages for the 50 states and the District of Columbia for fiscal year 1999 are shown in enclosure I.

Had these revised federal matching percentages been applied to fiscal year 1997 spending, New York would have received about \$17.1 billion in federal assistance instead of the \$12.4 billion it actually received, an increase of \$4.8 billion, or 39 percent. California would have received an additional \$3.3 billion, 38 percent more than it actually received. Montana would have received \$190 million instead of \$271 million, a reduction of \$80 million, or 30 percent. Federal assistance to Utah would have been reduced \$134 million, 30 percent less than it actually received. Estimates of changes in funding for the 50 states and the District of Columbia are shown in enclosure II.

²We used fiscal year 1997 Medicaid spending to estimate the effects of changes in FMAP because that was the latest year of actual spending data available. FMAPs for fiscal year 1999 will ultimately be used for determining the federal share of fiscal year 1999 spending. Also, this calculation assumes the same total federal and state spending as actually occurred in fiscal year 1997. However, states receiving more generous matching rates would be encouraged to expand benefits to some degree since a dollar of spending would require fewer state dollars. Similarly, states receiving lower reimbursement rates would be encouraged to reduce their benefits since they would have to finance a larger share of a dollars' worth of benefits. Consequently, the figures we cite most likely understate the change in federal funding that states would experience.

³FMAPs are determined about 1 year before the beginning of a fiscal year. At the time we began our review, the fiscal year 1999 FMAPs were the most recent available.

BACKGROUND

The federal share of eligible Medicaid spending is determined by a formula known as the FMAP. The FMAP, set forth in the statute when the program was authorized in 1965, was adapted from a per capita income based formula originally used to fund hospital construction under the Hill Burton Act of 1946. In 1960, it was adapted for the Medical Assistance to the Aged Program, a predecessor to the current Medicaid program.

The legislative history of the Medicaid program indicates that the per capita income based formula was intended to provide more generous matching percentages for the states that have more limited resources to finance program benefits and have more low-income people to serve.⁴ Consistent with this intent, low-income states can receive a matching percentage as high as 83 percent of eligible expenses, and high-income states are guaranteed that the federal government will reimburse 50 percent of their eligible spending. In fiscal year 1999, Mississippi received the highest FMAP (77 percent), and 10 states received the minimum percentage (50 percent).

Under your bill, the per capita income based FMAP would be replaced with a formula that uses a more comprehensive measure of state funding resources and a more direct indicator of low-income individuals in need of services.⁵ State resources would be measured by an income measure that reflects all income potentially subject to state taxation, as defined by the Secretary of the Treasury, adjusted for cross-state differences in the cost of health care services. Also under the bill, the number of low-income individuals potentially in need of health care services would be measured by the number of people living in poverty, adjusted for cross-state differences in the cost of living.⁶ In addition, the provisions of the bill give greater weight to the elderly in

⁴For the legislative history of the formula, see Changing Medicaid Formula Can Improve Distribution of Funds to States (GAO/GGD-83-27, Mar. 9, 1983).

⁵Our past congressional testimony has suggested replacing per capita income with a more comprehensive indicator of state funding resources and a more direct indicator of people in need: Medicaid Formula: Fairness Could Be Improved (GAO/T-HRD-91-5, Dec. 7, 1990) and Medicaid: Medicaid Formula's Performance and Potential Modifications (GAO/T-HEHS-95-226, July 27, 1995). However, because a number of possible alternatives are available, we have not endorsed the use of any particular indicator.

⁶In Poverty Measurement: Adjusting for Geographic Cost-of-Living Differences (GAO/GGD-95-64, Mar. 9, 1995), we noted that there is general agreement among experts that it is appropriate to adjust poverty counts for cost-of-living differences. However, the experts we consulted for our study differed on the most appropriate method of making such an adjustment. We take no position on how adjustments for cost-of-living differences should be made.

poverty than to either adults or children in poverty to account for higher Medicaid costs associated with the elderly population. A more detailed technical discussion of the formula and the indicators you use to measure state resources and people in need appear in enclosure III. The data we used for each of the 50 states and the District of Columbia and their sources appear in enclosure IV.

RESULTS

The formula described in the bill would replace the per capita income factor, now used to calculate federal matching percentages for each state, with an indicator that reflects a potential mismatch between states' funding resources and the number of low-income residents in need of health care services. Basing matching percentages on the mismatch between resources and needs would shift matching percentages substantially for many states, with an FMAP change exceeding 10 percentage points for 26 states. Matching percentages would be higher in 7 states and lower in 36, and matching percentages would remain unchanged for 8 states.⁷ The direction of the shift in state matching percentages is shown in figure 1. The specific percentage change for each state is shown in enclosure I.

⁷The proposed formula would change matching percentages in all states. However, in 8 states, the resulting FMAP would remain unchanged. In 7 states, the matching percentages under both formulas are below the 50-percent minimum. They would therefore continue to receive the more generous 50-percent minimum. Provisions in current law also provide Alaska with a matching percentage of 59.80 percent. These provisions are continued in your bill, resulting in no change in Alaska's percentage as well.

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If you have any questions regarding this letter, or if we can be of further assistance, please call Jerry Fastrup, Assistant Director, at (202) 512-7211 or me at (202) 512-7114.

Sincerely yours,

A handwritten signature in cursive script that reads "Kathryn G. Allen".

Kathryn G. Allen
Associate Director, Health Financing
and Public Health Issues

Enclosures - 4

CHANGES IN FEDERAL MEDICAL ASSISTANCE PERCENTAGES
UNDER PROPOSED FORMULA

The formula described in your bill would replace the per capita income factor used in the current formula with an indicator that reflects a potential mismatch between states' funding resources and the number of low-income residents in need of health care services. The state values for each of these factors are shown in table I.1 along with the resulting FMAPs under both the current and proposed formulas. The FMAPs in the table also reflect any constraints imposed by law, as discussed in the notes to the table.

Table I.1: Federal Medical Assistance Percentages for Fiscal Year 1999
Under Current Law and Under Proposed Formula

State	Current Formula		Proposed Formula		FMAP Difference
	Per Capita Income Index ^a	Official FMAP ^b	Resource/Need Mismatch	Equitable FMAP ^b	
Alabama	0.68	69.3	0.92	58.7	-10.6
Alaska ^c	1.06	59.8	1.72	59.8	0.0
Arizona	0.77	65.5	0.90	59.5	-6.0
Arkansas	0.60	73.0	1.02	54.1	-18.9
California	1.08	51.6	0.65	70.9	19.4
Colorado	1.10	50.6	1.63	50.0	-0.6
Connecticut	1.91	50.0	1.42	50.0	0.0
Delaware	1.26	50.0	1.84	50.0	0.0
District of Columbia ^c	1.96	70.0	0.66	83.0	13.0
Florida	0.98	55.8	0.81	63.3	7.5
Georgia	0.88	60.5	1.08	51.5	-9.0
Hawaii	1.14	50.0	0.86	61.2	11.2
Idaho	0.67	69.9	1.39	50.0	-19.9
Illinois	1.20	50.0	1.16	50.0	0.0
Indiana	0.87	61.0	1.45	50.0	-11.0
Iowa	0.82	63.3	1.67	50.0	-13.3
Kansas	0.89	60.1	1.53	50.0	-10.1
Kentucky	0.65	70.5	0.94	57.8	-12.8
Louisiana	0.66	70.4	0.82	62.9	-7.5
Maine	0.75	66.4	1.08	51.4	-15.0
Maryland	1.29	50.0	1.34	50.0	0.0
Massachusetts	1.46	50.0	1.08	51.4	1.4
Michigan	1.05	52.7	1.10	50.4	-2.3
Minnesota	1.08	51.5	1.38	50.0	-1.5
Mississippi	0.52	76.8	0.77	65.4	-11.4
Missouri	0.88	60.2	1.38	50.0	-10.2
Montana	0.63	71.7	1.10	50.5	-21.3
Nebraska	0.86	61.5	1.87	50.0	-11.5
Nevada	1.12	50.0	1.29	50.0	0.0
New Hampshire	1.20	50.0	1.71	50.0	0.0

State	Current Formula		Proposed Formula		FMAP Difference
	Per Capita Income Index ^a	Official FMAP ^b	Resource/Need Mismatch	Equitable FMAP ^b	
New Jersey	1.65	50.0	1.23	50.0	0.0
New Mexico	0.60	73.0	0.71	67.9	-5.1
New York	1.42	50.0	0.68	69.3	19.3
North Carolina	0.82	63.1	1.16	50.0	-13.1
North Dakota	0.67	69.9	1.55	50.0	-19.9
Ohio	0.93	58.3	1.29	50.0	-8.3
Oklahoma	0.65	70.8	0.97	56.2	-14.7
Oregon	0.88	60.6	1.21	50.0	-10.6
Pennsylvania	1.03	53.8	1.10	50.7	-3.1
Rhode Island	1.02	54.1	0.91	59.1	5.0
South Carolina	0.67	69.9	0.93	58.2	-11.6
South Dakota	0.71	68.2	1.36	50.0	-18.2
Tennessee	0.82	63.1	0.95	57.5	-5.6
Texas	0.83	62.5	0.97	56.3	-6.1
Utah	0.63	71.8	1.83	50.0	-21.8
Vermont	0.85	62.0	1.26	50.0	-12.0
Virginia	1.08	51.6	1.47	50.0	-1.6
Washington	1.06	52.5	1.16	50.0	-2.5
West Virginia	0.57	74.5	0.84	62.0	-12.5
Wisconsin	0.91	58.9	1.75	50.0	-8.9
Wyoming	0.80	64.1	2.18	50.0	-14.1

^aThis index is based on the squared value of state per capita income when expressed relative to the U.S. average.

^bIn states for which the calculated FMAP is below 50 percent are guaranteed a 50-percent minimum federal percentage. This would apply in any state with an index value greater than 1.11 with respect to either the current or proposed formula.

^cThe Balanced Budget Act of 1997 set new FMAPs of 59.8 percent for Alaska through fiscal year 2000 and a permanent 70.0 percent for the District of Columbia. The proposed legislation would make permanent the Alaska rate of 59.8 percent and would set the rate for the District of Columbia at 1.4 times its computed Equitable FMAP, subject to the 83-percent ceiling.

Sources: Current FMAP is from the Health Care Financing Administration (HCFA) as published in the Federal Register, Nov. 24, 1997, page 62614. Equitable FMAP is calculated by the methodology described in enclosure III.

ESTIMATED EFFECTS ON FEDERAL FUNDING OF
EQUITABLE FEDERAL MEDICAL ASSISTANCE PERCENTAGE

To estimate the fiscal effects on states of changing the Federal Medical Assistance Percentage (FMAP) as described in your bill, we compared the estimated federal share of payments to states under the current FMAP and the proposed Equitable FMAP. We used HCFA data for fiscal year 1997, the latest year available, to estimate the funding changes..

In table II.1, total expenditures represent medical assistance payments states reported to HCFA. The federal share amounts were calculated by applying the respective FMAP rates shown in table I.1 to the total expenditures.

Table II.1: Estimated Change in Federal Medicaid Funding Under Proposed Formula Based on Fiscal Year 1997 Spending Levels

(Dollars in thousands)

State	Total medical assistance payments	Computed federal share of medical assistance payments			
		Current FMAP	Equitable FMAP	Difference	Percent difference
Alabama	\$2,195,360	\$1,520,726	\$1,288,253	\$(232,473)	-15.3
Alaska	360,114	215,348	215,348	0	0.0
Arizona	1,758,634	1,151,905	1,046,008	(105,898)	-9.2
Arkansas	1,313,549	958,365	710,397	(247,968)	-25.9
California	17,212,452	8,873,019	12,207,379	3,334,360	37.6
Colorado	1,513,004	765,429	756,502	(8,927)	-1.2
Connecticut	2,712,452	1,356,226	1,356,226	0	0.0
Delaware	406,579	203,289	203,289	0	0.0
District of Columbia	839,598	587,719	696,866	109,148	18.6
Florida	6,270,108	3,499,974	3,971,187	471,213	13.5
Georgia	3,500,438	2,116,715	1,801,935	(314,780)	-14.9
Hawaii	558,767	279,383	342,012	62,629	22.4
Idaho	407,146	284,391	203,573	(80,818)	-28.4
Illinois	6,581,270	3,290,635	3,290,635	0	0.0
Indiana	2,478,505	1,512,136	1,239,253	(272,883)	-18.0
Iowa	1,200,637	760,244	600,319	(159,925)	-21.0
Kansas	1,016,176	610,214	508,088	(102,126)	-16.7
Kentucky	2,544,852	1,794,884	1,469,719	(325,165)	-18.1
Louisiana	3,030,956	2,132,884	1,906,818	(226,066)	-10.6
Maine	1,050,988	697,856	540,570	(157,286)	-22.5
Maryland	2,688,167	1,344,084	1,344,084	0	0.0
Massachusetts	4,941,440	2,470,720	2,537,980	67,260	2.7
Michigan	5,612,899	2,959,120	2,831,140	(127,980)	-4.3
Minnesota	2,682,989	1,381,739	1,341,494	(40,245)	-2.9
Mississippi	1,686,297	1,294,738	1,102,477	(192,262)	-14.8

State	Total medical assistance payments	Computed federal share of medical assistance payments			
		Current FMAP	Equitable FMAP	Difference	Percent difference
Missouri	3,111,128	1,874,143	1,555,564	(318,579)	-17.0
Montana	377,174	270,547	190,330	(80,217)	-29.7
Nebraska	749,611	460,711	374,805	(85,905)	-18.6
Nevada	473,555	236,777	236,777	0	0.0
New Hampshire	728,498	364,249	364,249	0	0.0
New Jersey	5,443,596	2,721,798	2,721,798	0	0.0
New Mexico	943,168	688,324	640,293	(48,032)	-7.0
New York	24,701,892	12,350,946	17,110,389	4,759,443	38.5
North Carolina	4,383,229	2,764,503	2,191,615	(572,888)	-20.7
North Dakota	321,984	225,196	160,992	(64,204)	-28.5
Ohio	6,450,716	3,758,187	3,225,358	(532,829)	-14.2
Oklahoma	1,180,844	836,510	663,483	(173,026)	-20.7
Oregon	1,499,574	907,992	749,787	(158,205)	-17.4
Pennsylvania	8,107,788	4,359,558	4,112,174	(247,384)	-5.7
Rhode Island	906,437	489,929	535,698	45,769	9.3
South Carolina	2,097,190	1,464,888	1,220,974	(243,914)	-16.7
South Dakota	325,673	221,978	162,836	(59,142)	-26.6
Tennessee	3,585,948	2,262,375	2,060,701	(201,673)	-8.9
Texas	9,499,542	5,932,464	5,350,711	(581,753)	-9.8
Utah	616,322	442,396	308,161	(134,235)	-30.3
Vermont	365,646	226,591	182,823	(43,768)	-19.3
Virginia	2,252,805	1,162,448	1,126,403	(36,045)	-3.1
Washington	3,170,158	1,664,333	1,585,079	(79,254)	-4.8
West Virginia	1,261,333	939,315	782,222	(157,093)	-16.7
Wisconsin	2,680,454	1,577,447	1,340,227	(237,220)	-15.0
Wyoming	210,423	134,839	105,211	(29,628)	-22.0
United States	160,008,066	90,400,187	92,570,214	2,170,027	2.4

Source: Total medical assistance payments from HCFA Medicaid Financial Management Report data for fiscal year 1997. Administrative costs are excluded.

DESCRIPTION AND INTERPRETATION OF THE "EQUITABLE" FEDERAL
MEDICAL ASSISTANCE PERCENTAGE FORMULA

THE PROPOSED FEDERAL MEDICAL ASSISTANCE PERCENTAGE FORMULA

Your bill proposes an alternative Medicaid formula referred to as the "Equitable" Federal Medical Assistance Percentage formula. It would base federal matching percentages for each state on a calculation of the relationship between the bill's specification of "resources" (the fiscal resources a state is potentially able to tax) and of "need" (the number of low-income state residents). The factors are adjusted for cross-state differences in the cost of health care and the cost of living.

The formula for the Equitable FMAP has the following general form:

Equation III.1

$$\text{Equitable FMAP} = 1.00 - 0.45 \left(\frac{\text{state share of resources}}{\text{state share of need}} \right)$$

The bill also provides that no state will receive a matching percentage less than 50 percent or more than 83 percent, the same constraints as in the current FMAP.

We selected New York, Texas, and New Jersey to illustrate how Equitable FMAPs would be calculated under your bill. New York has comparatively few resources compared with the number of people in need; in Texas there is a balance between needs and resources; and in New Jersey resources are high compared with the number of people in need. The calculations of Equitable FMAPs are illustrated in table III.1.

Table III.1: State Funding Resources, People in Need, and Equitable Federal Medical Assistance Percentages

State	Resource factor		Need factor		Ratio of resources to need	Equitable FMAP	
	Cost-adjusted resources (in billions)	Share of U.S. (percent)	Cost-adjusted poverty (in thousands)	Share of U.S. (percent)		Without 50% floor	With 50% floor (percent)
New York	\$525	6.7	3,786	9.8	0.68	$1-.45*.68=.693$	69.3
Texas	\$581	7.4	2,950	7.7	0.97	$1-.45*.97=.563$	56.3
New Jersey	\$268	3.4	1,074	2.8	1.23	$1-.45*1.23=.447$	50.0
United States	\$7,821	100.0	38,548	100.0	1.00	$1-.45*1.0=.55$	55.0

Source: GAO calculations based on statistical indicators of state resources and people in need as described below.

Each state's shares of resources and need are reported in the first four columns of the table, based on data described below. As shown in the next column, New York's share of resources is approximately 68 percent of its share of those in need. Based on these conditions, the Equitable FMAP formula computes a matching percentage for New York of 69 percent. The share of resources is almost equal to the share of those in need in Texas and the state would receive a matching percentage of 56 percent, approximately the national average matching percentage of 55 percent. Finally, New Jersey's share of fiscal resources exceeds its share of those in need by 23 percent, which would yield a matching percentage of 45 percent. However, the 50-percent floor would insure New Jersey a matching percentage of 50 percent. Data in the first two highlighted columns were used to calculate the Equitable FMAPs shown in the last column, using the formula in equation III.1.

MEASURING STATE RESOURCES

Under your bill, the value of a state's funding resources depends on two factors: the value of its tax base and the relative cost of purchasing health care services in the state. State tax bases are measured using total taxable resources (TTR), as reported by the Secretary of the Treasury. A health care cost index is used to adjust the TTR so that it better reflects a state's power to purchase health care services.

Total Taxable Resources Is Used to Measure State Funding Resources

The TTR is a measure of state tax bases that is defined and reported by the Secretary of the Treasury. It is intended to measure all income potentially subject to state taxation,

regardless of whether it is produced within the state or earned by state residents from out-of-state sources. TTR measurement begins with a state's gross state product (GSP), a measure of all income produced within a state, as reported by the Secretary of Commerce. It includes undistributed corporate profits, and dividends and interest corporations pay to both state and out-of-state residents alike. It then includes the components of personal income that are not counted in GSP. These include income state residents receive from out-of-state sources that is also potentially subject to state taxation—for example, interest income, rents, and royalties state residents receive from businesses located in other states. The combination of GSP and state personal income then provides a more comprehensive measure of a state's funding resources than personal income alone.

Total Taxable Resources Is Adjusted for the Cost of Health Care Services

Your bill adjusts the TTR for differences in states' power to purchase health care services. Your bill defines a Health Care Cost Index (HCCI) that assumes that the cost of health care varies geographically depending on differences in personnel and nonpersonnel related costs. The bill's HCCI is constructed using a weight of 75 percent for personnel costs, a weight of 15 percent for nonpersonnel costs that vary across geographic areas, and a weight of 10 percent for nonpersonnel costs that do not vary geographically.

The bill uses wages paid to hospital employees under the Medicare Hospital Inpatient Prospective Payment System as a proxy for personnel related costs. The bill also uses rents paid for two-bedroom rental housing units, reported by the Secretary of Housing and Urban Development (HUD), as a proxy for the nonpersonnel costs that are assumed to vary across states. These cost factors are then combined into an overall cost index using the following formula:⁸

Equation III.2

$$\text{HCCI} = .10 + .75 * (\text{wage index}) + .15 * (\text{rent index})$$

Using equation III.2 and data for the wage index and the rent index, illustrative calculations of the HCCI for New York, Texas, and New Jersey are shown in table III.2.

⁸This cost-adjustment formula follows the same methodology that the Public Health Service Act directs the Department of Health and Human Services to use in determining state grant allocations under the Substance Abuse and Mental Health Block Grant formulas. Those grant programs also use TTR for measuring state resources with an adjustment to reflect cross-state differences in the cost of providing services.

Table III.2: Illustrative Calculations of the Health Care Cost Index

State	Constant	Wage index	Rent index	HCCI
New York	.10	+ .75(1.23)	+ .15(1.31)	= 1.22
Texas	.10	+ .75(0.92)	+ .15(0.88)	= 0.93
New Jersey	.10	+ .75(1.12)	+ .15(1.37)	= 1.15
United States	.10	+ .75(1.00)	+ .75(1.00)	= 1.00

Sources: The index of Medicare hospital wages is a 3-year average for fiscal years 1992-94 obtained from HCFA. The index of rents for two-bedroom rental housing units is calculated from HUD data of annual estimates of fair market rents for metropolitan and nonmetropolitan areas for its Section 8 Housing Assistance program for fiscal year 1997. The rent data were aggregated to the state level using population to weight data for each area.

A state's cost-adjusted resources are calculated by dividing a state's TTR by its HCCI:

Equation III.3

$$\text{Cost-adjusted TTR} = \frac{\text{TTR}_{\text{state}}}{\text{HCCI}_{\text{state}}}$$

The state share of financing resources is then calculated by dividing its cost-adjusted TTR by the cost-adjusted TTR of all states:

Equation III.4

$$\text{State share of resources} = \left(\frac{\text{cost-adjusted TTR in a state}}{\text{cost-adjusted TTR in all states}} \right)$$

Using data for the states' TTR provided by the Department of the Treasury and the HCCI calculated above, table III.3 provides illustrative calculations of state resources as defined in your bill.

Table III.3: Illustrative Calculations of State Resources

(Dollars in billions)

State	Total taxable resources		Health care cost index (number)	State resources	
	Unadjusted TTR (dollars)	State share of U.S. total (percent)		Cost-adjusted TTR (dollars)	State share of U.S. total (percent)
New York	641	8.2	1.22	641/1.22=525	6.7
Texas	537	6.8	0.93	537/0.93=581	7.4
New Jersey	308	3.9	1.15	308/1.15=268	3.4
All states ^a	7,850	100.0	1.00	7,821	100.0

^aThe TTR values for all states represent the sum of states' TRR values, not computed U.S. values.

Sources: TTR data are a 3-year average for calendar years 1994-96, obtained from the Department of the Treasury. The health care cost index is computed in table III.2.

MEASURING PEOPLE IN NEED

Your bill makes two adjustments to the official poverty counts reported by the Bureau of the Census. First, state poverty counts are determined by taking into account cross-state differences in the cost of living. Second, the states' adjusted counts are separated into three age groups and weights are applied to reflect differences in the cost of serving each group.

Poverty Counts Adjusted for Cost-of-Living Differences

To account for cross-state differences in the cost of living, your bill uses an index that assigns a weight of 44 percent to differences in the cost of rental housing. This weighting was derived from a 1995 report on poverty measurement prepared by the National Academy of Sciences' National Research Council (NRC).⁹ NRC noted that housing is the item for which prices vary the most across the country, accounting for about 44 percent of a total poverty budget based on Consumer Expenditure Survey data. Your bill also provides that an

⁹Constance F. Citro and Robert T. Michael, eds., Measuring Poverty: A New Approach (Washington, D.C.: National Academy Press, 1995).

alternative methodology can be used if the Bureau of Labor Statistics finds it to be a more accurate determination of the cost-of-living index. Based on the assumptions in the bill, state cost-of-living indexes are calculated using the following formula:

Equation III.5

$$\text{State cost-of-living index} = 0.56 + 0.44 (\text{rent index})$$

The calculation of state cost-of-living indexes is illustrated in table III.4.

Table III.4: Illustrative Calculations of State Cost-of-Living Indexes

State	Constant	Rent index	Cost-of-living index
New York	.56	+ .44(1.31)	= 1.14
Texas	.56	+ .44(0.88)	= 0.95
New Jersey	.56	+ .44(1.37)	= 1.16
United States	.56	+ .44(1.00)	= 1.00

Source: The rent index is calculated from HUD data as described in source notes to table III.2.

Cost-of-living adjusted poverty counts are determined by adjusting the official poverty income thresholds by the cost-of-living index for each state. These income thresholds are then used to tabulate the number of people in poverty from the Current Population Survey. These calculations are illustrated for New York, Texas, and New Jersey in table III.5. The table also uses the average poverty threshold for a family of four in 1997 to illustrate the effect of the state cost-of-living adjustments.

Table III.5: Poverty Rates Based on Official Poverty Thresholds and Cost-of-Living Adjusted Poverty Thresholds

State	Official poverty rate		Poverty threshold (family of 4)	State cost-of-living index	Cost-of-living adjusted poverty threshold (family of 4)	Cost-of-living adjusted poverty rates	
	Percent	Percent of U.S.				Percent	Percent of U.S.
New York	16.7	119	\$16,400	1.14	\$18,696	19.3	138
Texas	17.7	126	\$16,400	0.95	\$15,580	16.7	119
New Jersey	8.8	62	\$16,400	1.16	\$19,024	11.0	78
United States	14.0	100	\$16,400	1.00	\$16,400	14.0	100

Sources: Official poverty counts for 1992-96 were obtained from the Current Population Survey, and an average poverty rate for the 5-year period was calculated. Cost-of-living adjusted poverty counts were tabulated using cost-of-living adjusted income thresholds for each of the years 1992-96, and an average cost-of-living adjusted poverty rate for the 5-year period was calculated.

Age Group Weights Are Based on Medicaid Costs and Participation

Your bill also makes an adjustment to reflect the fact that higher costs are associated with the elderly population than with either adults or children. Your bill therefore assigns age group weights to the cost-of-living adjusted poverty counts to account for this difference. The weighting is accomplished by disaggregating the cost-of-living adjusted poverty counts into three age groups: persons 65 years of age and older, adults aged 21 to 64, and children younger than 21.

The age weights were established through a two-step process, first to account for cost differences for the three age groups and second to account for differences in program participation rates. The cost weights assigned to each age group are based on the national average cost per recipient in each age group in the Medicaid program.¹⁰ Participation rates are determined by the ratio of Medicaid recipients to the cost-of-living adjusted poverty counts. The cost weights and participation rates were based on data from the Medicaid program for fiscal years 1993-97, the most recent data available.

The first step in determining a cost weight for each age group requires calculating the ratio

¹⁰ Medicaid recipients categorized as disabled were distributed to the three age groups based on Medicaid data on the age distribution of disabled recipients.

of Medicaid spending per recipient for each age group to the average spending for all Medicaid recipients (see the first two columns of table III.6). These weights are then adjusted to account for differences in the rate at which individuals in each age group participate in the Medicaid program. Participation rates were calculated by comparing Medicaid recipients to the cost-of-living adjusted poverty counts in each age group. These rates were then compared to the overall participation rate for all age groups to produce the index shown in the third column of table III.6. Multiplying the cost weight by the participation rate index yields the adjusted cost weights shown in the last column.

Table III.6: Cost Weights Adjusted for Participation Rates

Age group	Spending per recipient	Cost weight	Participation rate index	Adjusted cost weight
Elderly	\$8,674	2.5	1.43	3.6
Adults	\$4,407	1.3	0.77	1.0
Children	\$1,392	0.4	1.14	0.5
All groups	\$3,422	1.0	1.00	1.0

Sources: Spending per recipient is a 5-year average derived from data reported by HCFA for fiscal years 1993-97. Dividing the spending per recipient in each age group by the U.S. average yields the cost weight. Participation rates are calculated by dividing the number of recipients reported by HCFA by the cost-of-living adjusted poverty counts, described above in connection with table III.5.

Finally, the number of people in need is calculated by assigning a weight of 3.6 for the elderly poor, a weight of 1.0 for adults, and a weight of 0.5 for children, according to the following formula:

Equation III.6¹¹

$$\text{People in need in a state} = 3.6 * (\text{elderly poor}) + 1.0 * (\text{adult poor}) + 0.5 * (\text{poor children})$$

Each state's share of people in need is the number of people in need in a state divided by the number of people in need in all states:

¹¹In this equation, references to the term "poor" refer to cost-of-living adjusted poverty counts.

Equation III.7

$$\text{State share of people in need} = \left(\frac{\text{people in need in a state}}{\text{people in need in all states}} \right)$$

Table III.7 provides illustrative calculations of the weighted poverty counts used for the state need factor in the Equitable FMAP formula. The table shows the cost-of-living adjusted poverty counts by age group and weighted counts using the adjusted cost weights shown in table III.6. The last column of table III.7 represents each state's share of people in need that was used to calculate the Equitable FMAP illustrated in table III.1.

Table III.7: Calculation of Weighted Poverty Counts in Millions Adjusted for Cost-of-Living Differences

State	Unweighted poverty counts (adjusted for cost-of-living differences)					Weighted poverty counts		
	Total	State share of U.S. total	Age group ^a			Total	Percent of unweighted total	State share of U.S. total
			Elderly (3.6)	Adults (1.0)	Children (0.5)			
New York	3.452	9.2%	409	1.540	1.503	3.786	110	9.8%
Texas	3.049	8.2%	242	1.323	1.483	2.950	97	7.7%
New Jersey	904	2.4%	132	411	360	1.074	119	2.7%
United States	37.384	100%	3,636	16.805	16.944	38.548	103	100%

*The figures in parentheses refer to the weights used in equation III.6 to adjust these poverty counts to calculate the total weighted poverty count shown in the next column.

ENCLOSURE III

ENCLOSURE III

DATA USED TO CALCULATE EQUITABLE FEDERAL MEDICAL
ASSISTANCE PERCENTAGES

The tables presented in this enclosure show the data elements that were used for calculating Equitable FMAPs for 1999, based on the methodology described in enclosure III. They also include other items as discussed below to highlight, in particular, the effects of various cost adjustments used in the formula.

Table IV.1 shows the data used to develop the state share of resource factor in the formula. The table also shows in the next-to-last column what the funding resource factor would have been for each state had the TTR data not been adjusted for state differences in the estimated cost of health care services.

Table IV.1: Funding Resource Factors

State	Health care cost			State share of TTR ^c	
	Wage index ^a	Rent index ^b	HCCI	Unadjusted TTR (percent)	Adjusted TTR (percent)
Alabama	0.83	0.70	0.83	1.28	1.56
Alaska	1.30	1.28	1.26	0.29	0.23
Arizona	0.96	0.95	0.96	1.44	1.51
Arkansas	0.77	0.68	0.78	0.73	0.95
California	1.24	1.29	1.22	12.34	10.12
Colorado	0.97	1.00	0.98	1.47	1.51
Connecticut	1.24	1.28	1.23	1.72	1.41
Delaware	1.08	1.05	1.07	0.37	0.35
District of Columbia	1.13	1.35	1.15	0.32	0.28
Florida	0.96	1.04	0.97	5.08	5.24
Georgia	0.91	0.89	0.91	2.63	2.89
Hawaii	1.11	1.65	1.18	0.49	0.42
Idaho	0.86	0.78	0.86	0.37	0.43
Illinois	1.00	1.06	1.01	4.87	4.86
Indiana	0.91	0.81	0.91	2.04	2.26
Iowa	0.84	0.76	0.84	1.00	1.20
Kansas	0.86	0.76	0.86	0.93	1.09
Kentucky	0.86	0.71	0.85	1.23	1.45
Louisiana	0.88	0.73	0.87	1.51	1.75
Maine	0.91	0.90	0.92	0.39	0.43
Maryland	0.98	1.13	1.01	2.11	2.10
Massachusetts	1.15	1.29	1.16	2.73	2.37
Michigan	1.04	0.90	1.01	3.43	3.39
Minnesota	1.00	0.91	0.99	1.78	1.81
Mississippi	0.74	0.67	0.75	0.74	0.99

State	Health care cost			State share of TTR ^c	
	Wage index ^a	Rent index ^b	HCCI	Unadjusted TTR (percent)	Adjusted TTR (percent)
Missouri	0.88	0.74	0.87	1.91	2.20
Montana	0.84	0.78	0.85	0.25	0.30
Nebraska	0.86	0.75	0.86	0.60	0.70
Nevada	1.13	1.08	1.11	0.68	0.62
New Hampshire	1.01	1.10	1.02	0.49	0.48
New Jersey	1.12	1.37	1.15	3.92	3.43
New Mexico	0.95	0.83	0.94	0.56	0.60
New York	1.23	1.31	1.22	8.16	6.71
North Carolina	0.90	0.81	0.90	2.54	2.84
North Dakota	0.80	0.71	0.81	0.20	0.25
Ohio	0.95	0.81	0.93	3.99	4.29
Oklahoma	0.79	0.70	0.80	0.96	1.20
Oregon	1.07	0.95	1.05	1.13	1.08
Pennsylvania	1.00	0.94	0.99	4.44	4.51
Rhode Island	1.10	1.12	1.09	0.37	0.34
South Carolina	0.86	0.79	0.87	1.16	1.34
South Dakota	0.78	0.78	0.80	0.26	0.32
Tennessee	0.86	0.76	0.86	1.80	2.11
Texas	0.92	0.88	0.93	6.85	7.43
Utah	0.96	0.86	0.95	0.61	0.65
Vermont	0.93	0.96	0.95	0.20	0.21
Virginia	0.88	1.00	0.91	2.66	2.92
Washington	1.09	1.04	1.07	2.10	1.96
West Virginia	0.83	0.65	0.82	0.52	0.64
Wisconsin	0.91	0.86	0.91	1.84	2.02
Wyoming	0.83	0.77	0.84	0.22	0.26
United States	1.00	1.00	1.00	100.00	100.00

^aThe index of Medicare hospital wages is a 3-year average for fiscal years 1992-94 obtained from HCFA.

^bThe rent index is calculated from HUD data of annual estimates of fair market rents for metropolitan and nonmetropolitan areas for its Section 8 Housing Assistance program for fiscal year 1997. The rent data were aggregated to the state level using population to weight data for each area.

^cTTR data are a 3-year average for calendar years 1994-96 obtained from Department of the Treasury.

Table IV. 2 shows the data elements used to develop the state share of need factor in the formula. This table also shows what the state shares of poverty for each age group would be in the absence of the state cost-of-living adjustment. Further, the table shows what the people-in-need factor would be using cost-of-living adjusted poverty both with and without the age weight adjustments. If no adjustments were made for either cost-of-living or age weighting, the state share of need would be that shown in the first column of the table (state share of official poverty, total).

Table IV.2: People-in-Need Factors

State	State share of official poverty ^a				Cost-of-living index ^b	State share of cost-of-living adjusted poverty ^c				
	Total (percent)	By age group				By age group			No age weights ^d (percent)	Age weighted (percent)
		Elderly (percent)	Adults (percent)	Children (percent)		Elderly (percent)	Adults (percent)	Children (percent)		
Alabama	1.96	2.60	1.87	1.85	0.87	1.89	1.59	1.62	1.63	1.70
Alaska	0.14	0.04	0.16	0.14	1.12	0.05	0.19	0.16	0.16	0.14
Arizona	2.12	1.43	1.84	2.02	0.98	1.38	1.76	1.96	1.82	1.68
Arkansas	1.08	1.64	1.06	1.07	0.86	1.06	0.85	0.89	0.89	0.93
California	14.84	7.77	14.97	15.55	1.13	11.99	17.55	17.65	17.06	15.66
Colorado	0.97	0.75	1.11	0.85	1.00	0.74	1.11	0.85	0.96	0.93
Connecticut	0.95	0.77	0.72	1.05	1.13	1.07	0.85	1.13	1.00	0.99
Delaware	0.17	0.20	0.18	0.16	1.02	0.21	0.19	0.16	0.18	0.19
District of Columbia	0.34	0.34	0.35	0.34	1.15	0.48	0.41	0.38	0.40	0.43
Florida	5.84	6.98	5.96	5.67	1.02	7.25	6.11	5.78	6.07	6.43
Georgia	2.69	3.32	2.74	2.54	0.95	2.99	2.56	2.45	2.55	2.68
Hawaii	0.33	0.36	0.31	0.30	1.28	0.56	0.45	0.44	0.46	0.48
Idaho	0.40	0.29	0.40	0.43	0.90	0.22	0.34	0.37	0.35	0.31
Illinois	3.92	3.66	3.99	4.44	1.03	3.92	4.16	4.61	4.34	4.17
Indiana	1.61	2.12	1.66	1.62	0.92	1.67	1.51	1.49	1.51	1.56
Iowa	0.84	1.05	0.82	0.79	0.89	0.80	0.67	0.66	0.68	0.71
Kansas	0.84	0.96	0.82	0.80	0.89	0.70	0.71	0.72	0.71	0.71
Kentucky	1.75	1.97	1.91	1.72	0.87	1.45	1.64	1.51	1.56	1.55
Louisiana	2.56	2.41	2.54	2.84	0.88	1.91	2.12	2.45	2.25	2.12
Maine	0.35	0.46	0.43	0.36	0.96	0.41	0.41	0.35	0.38	0.39
Maryland	1.43	1.61	1.39	1.38	1.06	1.78	1.46	1.43	1.48	1.56
Massachusetts	1.69	1.95	1.73	1.51	1.13	2.73	2.01	1.73	1.95	2.20
Michigan	3.23	2.99	3.33	3.50	0.96	2.77	3.16	3.41	3.24	3.08
Minnesota	1.27	1.49	1.40	1.20	0.96	1.40	1.33	1.13	1.25	1.31
Mississippi	1.55	1.80	1.46	1.73	0.86	1.21	1.21	1.53	1.36	1.28
Missouri	1.60	2.36	1.92	1.61	0.88	1.65	1.64	1.45	1.55	1.60
Montana	0.35	0.31	0.34	0.34	0.90	0.25	0.28	0.29	0.28	0.27
Nebraska	0.43	0.56	0.40	0.44	0.89	0.45	0.32	0.36	0.35	0.37
Nevada	0.43	0.44	0.47	0.39	1.04	0.49	0.50	0.41	0.46	0.48
New Hampshire	0.20	0.32	0.23	0.21	1.04	0.35	0.25	0.23	0.25	0.28
New Jersey	1.87	2.61	2.01	1.83	1.16	3.64	2.45	2.13	2.42	2.79
New Mexico	1.16	0.82	0.97	1.09	0.92	0.68	0.88	1.00	0.92	0.84
New York	8.26	8.37	7.94	7.84	1.14	11.26	9.17	8.87	9.24	9.82
North Carolina	2.47	3.85	2.47	2.33	0.92	3.07	2.17	2.08	2.22	2.46
North Dakota	0.19	0.29	0.18	0.17	0.87	0.19	0.15	0.14	0.15	0.16

State	State share of official poverty ^a				Cost-of-living index ^b	State share of cost-of-living adjusted poverty ^c				
	Total (percent)	By age group				By age group			No age weights ^d (percent)	Age weighted (percent)
		Elderly (percent)	Adults (percent)	Children (percent)		Elderly (percent)	Adults (percent)	Children (percent)		
Ohio	3.86	3.94	3.60	3.98	0.92	3.17	3.26	3.70	3.45	3.33
Oklahoma	1.48	1.61	1.56	1.53	0.87	1.11	1.29	1.33	1.29	1.24
Oregon	1.00	0.72	1.04	0.95	0.98	0.70	1.02	0.93	0.95	0.89
Pennsylvania	3.90	5.06	4.01	3.61	0.97	4.76	3.91	3.53	3.82	4.12
Rhode Island	0.27	0.43	0.28	0.25	1.05	0.53	0.30	0.27	0.31	0.37
South Carolina	1.56	1.87	1.50	1.75	0.91	1.57	1.30	1.55	1.44	1.45
South Dakota	0.26	0.35	0.26	0.26	0.90	0.25	0.23	0.23	0.23	0.24
Tennessee	2.25	3.05	2.37	2.12	0.89	2.53	2.12	1.99	2.10	2.23
Texas	9.06	7.41	8.43	9.28	0.95	6.67	7.87	8.75	8.15	7.65
Utah	0.43	0.29	0.42	0.51	0.94	0.25	0.37	0.46	0.40	0.35
Vermont	0.16	0.18	0.17	0.14	0.98	0.18	0.17	0.14	0.16	0.17
Virginia	1.94	2.34	1.93	1.55	1.00	2.33	1.94	1.55	1.80	1.99
Washington	1.76	1.30	1.87	1.57	1.02	1.45	1.92	1.60	1.73	1.69
West Virginia	0.86	1.05	1.02	0.83	0.85	0.66	0.85	0.72	0.77	0.76
Wisconsin	1.23	1.35	1.31	1.42	0.94	1.10	1.14	1.27	1.19	1.15
Wyoming	0.15	0.14	0.15	0.15	0.90	0.10	0.13	0.13	0.13	0.12
United States	100.00	100.00	100.00	100.00	1.00	100.00	100.00	100.00	100.00	100.00

^a Official poverty counts were obtained from Current Population Survey data for 1992-96

^b The cost-of-living index is calculated as described in enclosure III.

^c Cost-of-living adjusted poverty counts were tabulated using cost-of-living adjusted income thresholds for each of the years 1992-96, and an average cost-of-living adjusted poverty rate for the 5-year period was calculated

^d State shares with no age weights are based on each state's total cost-of-living adjusted poverty counts for all age groups. The age-weighted state shares are based on applying the age group weights identified in the proposed legislation to the cost-of-living adjusted poverty counts for each age group.

Table IV.3 shows the items used in the final stage of development of the Equitable FMAP formula. As explained in enclosure III, FMAP is based on the ratio of a state's share of resources to its share of need. The Equitable FMAP for each state that is derived from the formula is shown in the next-to-last column (without legislative constraints). This shows what the federal matching percentages would be in the absence of the 50-percent floor, the 83-percent ceiling, and the special rules providing 59.8 percent for Alaska and 1.4 times the computed FMAP for the District of Columbia. The last column then shows the final Equitable FMAPs that would be used for reimbursing the states for Medicaid spending.

Table IV.3: Ratio of Resources to Needs and Resulting FMAP

State	State share of		Ratio of resources to need (number)	Equitable FMAP ^a	
	Funding resources (percent)	People in need (percent)		Without legislative constraints (percent)	With legislative constraints (percent)
Alabama	1.56	1.70	0.92	58.7	58.7
Alaska	0.23	0.14	1.72	22.4	59.8
Arizona	1.51	1.68	0.90	59.5	59.5
Arkansas	0.95	0.93	1.02	54.1	54.1
California	10.12	15.66	0.65	70.9	70.9
Colorado	1.51	0.93	1.63	26.7	50.0
Connecticut	1.41	0.99	1.42	35.9	50.0
Delaware	0.35	0.19	1.84	17.3	50.0
District of Columbia	0.28	0.43	0.66	70.3	83.0
Florida	5.24	6.43	0.81	63.3	63.3
Georgia	2.89	2.68	1.08	51.5	51.5
Hawaii	0.42	0.48	0.86	61.2	61.2
Idaho	0.43	0.31	1.39	37.6	50.0
Illinois	4.86	4.17	1.16	47.6	50.0
Indiana	2.26	1.56	1.45	34.7	50.0
Iowa	1.20	0.71	1.67	24.7	50.0
Kansas	1.09	0.71	1.53	31.1	50.0
Kentucky	1.45	1.55	0.94	57.8	57.8
Louisiana	1.75	2.12	0.82	62.9	62.9
Maine	0.43	0.39	1.08	51.4	51.4
Maryland	2.10	1.56	1.34	39.5	50.0
Massachusetts	2.37	2.20	1.08	51.4	51.4
Michigan	3.39	3.08	1.10	50.4	50.4
Minnesota	1.81	1.31	1.38	37.9	50.0
Mississippi	0.99	1.28	0.77	65.4	65.4
Missouri	2.20	1.60	1.38	38.1	50.0
Montana	0.30	0.27	1.10	50.5	50.5
Nebraska	0.70	0.37	1.87	15.9	50.0
Nevada	0.62	0.48	1.29	41.9	50.0
New Hampshire	0.48	0.28	1.71	23.0	50.0

State	State share of		Ratio of resources to need (number)	Equitable FMAP ^a	
	Funding resources (percent)	People in need (percent)		Without legislative constraints (percent)	With legislative constraints (percent)
New Jersey	3.43	2.79	1.23	44.7	50.0
New Mexico	0.60	0.84	0.71	67.9	67.9
New York	6.71	9.82	0.68	69.3	69.3
North Carolina	2.84	2.46	1.16	48.0	50.0
North Dakota	0.25	0.16	1.55	30.4	50.0
Ohio	4.29	3.33	1.29	42.0	50.0
Oklahoma	1.20	1.24	0.97	56.2	56.2
Oregon	1.08	0.89	1.21	45.5	50.0
Pennsylvania	4.51	4.12	1.10	50.7	50.7
Rhode Island	0.34	0.37	0.91	59.1	59.1
South Carolina	1.34	1.45	0.93	58.2	58.2
South Dakota	0.32	0.24	1.36	38.6	50.0
Tennessee	2.11	2.23	0.95	57.5	57.5
Texas	7.43	7.65	0.97	56.3	56.3
Utah	0.65	0.35	1.83	17.5	50.0
Vermont	0.21	0.17	1.26	43.3	50.0
Virginia	2.92	1.99	1.47	33.9	50.0
Washington	1.96	1.69	1.16	47.6	50.0
West Virginia	0.64	0.76	0.84	62.0	62.0
Wisconsin	2.02	1.15	1.75	21.1	50.0
Wyoming	0.26	0.12	2.18	1.8	50.0
United States	100.00	100.00	1.00	N/A	N/A

^aThe Equitable FMAP legislation would set a minimum FMAP of 50 percent and a maximum of 83 percent. It would also set the rate for Alaska at 59.8 percent and for the District of Columbia at 1.4 times its computed Equitable FMAP.

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Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
