

Michigan Medicaid Budget for FY 2011

On February 11th Governor Granholm released her budget for FY 2011. The Governor indicated that continuation of current revenue and program policies would result in a shortfall of \$1.5 billion for the general fund and School Aid fund in combination for FY 2011. The School Aid Fund shortfall would be more than resolved with a proposed modification of the sales and use tax that would reduce the tax rate to 5.5% but extend the tax to services that are not currently subject to the tax.

Nearly half of the general fund shortfall is solved if the federal government, as is anticipated, extends the Medicaid stimulus funding for an additional two quarters (through June 30, 2011). This action would increase Medicaid revenue by \$514 million. The budget includes a total of \$566 million in reduced general fund spending through a series of reductions and reforms.

Given this fiscal context, the Department of Community Health (MDCH) fares relatively well in the Governor's budget. Total funding for MDCH is increased by 10.1% from \$13.1 billion in FY 2010 to \$14.4 billion in FY 2011. The state general fund contribution, however, is reduced by 12.5% from \$2.3 billion in FY 2010 to \$2.0 billion in FY 2011.

Funding for the Medicaid program was increased by 13.7% from \$9.01 billion in FY 2010 to \$10.24 billion in FY 2011. State general funds for Medicaid are decreased, but not by as great a percentage as the total department: a decrease of 2.9% from \$10.48 billion in FY 2010 to \$7.41 billion in FY 2011.

Highlights of the Medicaid Budget Changes

Base Program Assumptions:

Increased Medicaid caseloads and utilization of services as well as inflation are projected to cost an additional \$137.2 million.

- This includes an assumption of a 2.9% increase in the Medicaid caseload to 1,754,000 individuals. (This is a much slower rate of caseload growth than recent experience.)
- Inflation/utilization/caseload increases are budgeted at 3.3% for most provider categories.
- Pharmacy costs are assumed to increase by 7.4%.
- Medicare Part B premiums are assumed to increase by 5.6%.
- Nursing Homes receive the annual cost-of-living increase (based on using a more recent year of cost information).

Provider Rates:

Most provider rates are flat. Exceptions include the following:

- Physicians receive a rate increase of about 80% (making Medicaid rates approximately equal to Medicare rates) that is funded with a 3% physician tax (quality assurance assessment program or QAAP). The tax will be about \$300 million and the cost of the increased physician rates is about \$750 million. Since the state retains 13.2% of the net gain from the new federal dollars, this program generates a net savings of \$133 million in the state general fund. Boilerplate language in section 1830 of the executive budget bill for MDCH indicates that absent passage of the physician QAAP, effective October 1, 2010 physician rates will be reduced to achieve general fund savings equivalent to what the physician QAAP would have generated. It would appear that this would require a rate cut of more than 10%.
- Medicaid HMO rates are increased by 3% to maintain actuarially soundness (budgeted at a cost of \$73.7 million).
- The Governor's budget proposes a \$16 million increase in the Hospital Rate Adjustment (HRA) program for psychiatric hospitals through the community mental health system (the Prepaid Inpatient Health Plans or PIHPs) This action would save \$2 million in state general funds.

- The budget eliminates the 25 cent pharmacy dispensing fee increase that was built into the FY 2010 budget, for a savings of \$338,000.

Adult Benefits Waiver (ABW):

The Governor's budget continues the same level of **state general funds** for the ABW program as the FY 2010 budget. The FY 2010 budget was built based on the assumption that the ABW program (both the Medical Services component and the Community Mental Health Component) would receive federal funding at the SCHIP rate for the first quarter (74.23%) which did occur, and the enhanced federal stimulus Medicaid matching rate (which is 73.27%) for the last three quarters of FY 2010 (which did not in fact occur). Since ABW will only qualify for the regular federal match rate of 65.79% for FY 2011, the FY 2010 level of state general funds will only support \$136.9 million in total for the CMH and medical components of ABW for FY 2011. The allocation in the budget is \$32,054,900 to CMH-ABW and \$104,856,800 to the ABW medical program, reductions of 19.9% and 24.7% respectively from FY 2010 funding levels.

Revenues:

With regard to revenues, the highlights are the following:

- As noted above, the budget assumes an extension of the federal stimulus funds for two additional quarters, which is worth \$514 million.
- There is also a one-time \$160 million revenue adjustment related to a retroactive change in the federal matching rate based on a revised computation of personal income in Michigan (related to exclusion of the General Motors pension bonds).
- Medicaid also receives a transfer of revenues from the Merit Award Trust Fund of \$126.3 million due to the elimination of these scholarships.

Program Reductions & Savings:

There are a total of 37 program reductions in the MDCH budget. Most are small in scope and the total savings are \$39 million in general fund (GF) reductions. The following program reductions are among those included in the budget:

- The Transitional Medical Assistance Plus (TMA+) group is eliminated from Medicaid for a savings of \$3.7 million. (These are individuals that had left Medicaid due to increased income and have been allowed to pay a premium to stay in the Medicaid program.)
- Funding for human growth hormone therapy under the Children's Special Health Care Services (CSHCS) program is eliminated for a savings of \$2.0 million.
- Genetics counseling for CSHCS clients is eliminated for a savings of \$40,000.
- The drug manufacturer immunity law (MCL 600.2946) is proposed for elimination for a savings of \$342,000.
- The funding for school-based clinics at Saginaw Arthur Hill and Mumford high schools is again proposed for elimination.
- An additional 5 staff are proposed for the Third Party Liability unit of the Medical Services Administration for a net savings of \$616,000.
- Five staff are proposed for the Office of Medicaid Inspector General which would result in a net savings of \$1 million.
- Savings of \$19.7 million in the long term care line item are projected based on an increase of 300 in the number of individuals transitioned from nursing homes to the community.

There are also savings budgeted from reductions in local health department operations (\$2.7 million GF) and community mental health administration (\$3.8 million GF).

For additional information contact Eileen Ellis at 517-482-9236 or eellis@healthmanagement.com.