

The Michigan Update

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Fiscal Year (FY) 2013-2014 Executive Recommendation

This week Michigan Governor Rick Snyder revealed his Fiscal Year (FY) 2013-2014 Executive Budget Recommendation. The Governor's Recommendation, across all State Departments, would appropriate \$51.8 billion in total funding of which \$9.2 billion is State General Fund (GF). If appropriated, this budget would represent a small increase (\$52.4 million or less than 1.0%) in State GF expenditure for the upcoming fiscal year. Major elements of the Governor's proposal include:

- Funding increases made available through the State school aid fund, including a 2.0% increase in the per-pupil foundation allowance and an expansion of early childhood funding of \$65.0 million.
- Increases in state support in the higher education and community college appropriation of 2.0%.
- A proposal to increase support for the Michigan Department of Transportation by \$1.2 billion. This increase would be funded through a proposed increase in the state's motor fuels tax and registration taxes for Michigan residents and commercial entities.
- A significant expansion of eligibility in Michigan's Medicaid program.

Proposed Michigan Department of Community Health Appropriation

The proposed FY 2013-2014 appropriation for the Michigan Department of Community Health (DCH) was \$16.6 billion Gross / \$2.7 billion GF. The Governor's proposal would represent a dramatic increase (nearly 11.0%) in total funding available to DCH. This increase was almost fully

driven by Governor Snyder's recommendation to implement the Medicaid coverage expansion authorized through the Federal Affordable Care Act (ACA).

Detailed below is a summary of the major changes included in Governor Snyder's recommendation for DCH.

Medicaid

The FY 2013-2014 recommended appropriation would provide over \$11.0 billion Gross / \$1.2 billion GF to support Michigan's Medicaid program. Major changes to the program would include expansions of covered populations, as allowed through the Federal ACA, needed base adjustments to the current program and efforts to expand children's access to Medicaid-funded dental services.

Proposed Changes to Current Medicaid Program

- **Integrated Care Organizations:** The Executive recommendation includes a placeholder line of \$100 to fund Integrated Care Organizations that would be responsible for the care of individuals served by both Medicaid and Medicare under the proposed Integrated Care for Dual Eligibles (ICDE) demonstration project. The FY 2013-2014 budget reverses the assumed savings from the ICDE initiative that were reflected in the last two budgets. It would appear the Governor is waiting to see what happens with this initiative in the selected demonstration sites of Wayne County, Macomb County, the Upper Peninsula and Southwest Michigan.
- **Caseload, Utilization and Inflation:** The Executive recommendation accounted for slower than anticipated growth in Medicaid program cost in the current fiscal year and projected modest growth in the current base Medicaid program through FY 2013-2014. **(\$644,100 Gross / \$4.9 million GF)**
- **Medicaid Managed Care Rate Adjustments:** The recommendation would fund adjustments in capitation payments made to Medicaid Managed Care Organizations (2.5%) and Pre-Paid Inpatient Health Plans-(mental health managed care providers) (1.25%). **(\$112.7 million Gross / \$37.9 million GF)**
- **Healthy Kids Dental Expansion:** The recommendation would fund an expansion of the Medicaid Healthy Kids Dental program to Ingham, Washtenaw and Ottawa counties (leaving only five

counties where the program is not available - Kalamazoo, Kent, Macomb, Oakland and Wayne).

(\$11.6 million Gross / \$3.9 million GF)

- **Graduate Medical Education (GME):** The current year appropriation made \$4.3 million in "one-time" funding available for Medicaid GME payments to hospitals. This payment is not included in the Recommendation. **(-\$4.3 million Gross)**
- **Special Indigent Care Payments:** Disproportionate Share Hospital payments related to Indigent Care Agreements (ICA-DSH) are reduced to \$23.9 million for FY 2013-2014, reflecting an end of this program as of December 31, 2013. (The ACA reduces DSH capacity for states beginning in 2014. The Secretary of the US Department of Health and Human Services has not yet released the rules that would enable Michigan to know exactly the dollar value by which Michigan's DSH capacity is being reduced.)

Proposed Expansion of Medicaid Eligibility

The Executive Budget Recommendation would fund the Governor's proposal to expand Medicaid coverage to all eligible adults under 138% of the Federal Poverty Level. This expansion on January 1, 2014 would be fully funded by the Federal government and is projected to increase the Medicaid program caseload by about 330,000 in FY 2013-2014 and by nearly 420,000 in FY 2014-2015. By 2017 Michigan would be required to provide limited match funding toward the Medicaid expansion (5.0% of eligible costs) with an anticipated 10% match requirement in 2020 and beyond. Detail behind the proposed expansion of Medicaid revealed the following Executive assumptions for the nine-month period from January to September 2014:

- Enrollment of 320,000 "newly eligible" Medicaid beneficiaries would increase Federal support for Michigan's Medicaid program by \$1.3 billion.
- Additional Federal Medicaid funds would offset current State-funded mental health, substance abuse, public health, family planning and correctional health initiatives, reducing State GF expenditure in FY 2013-2014 by \$181.0 million.
- Mental health funding for the expansion population is proposed at \$288.6 million for the last nine months of FY 2013-2014. This level of spending would be more than double the proposed \$152.9 million deduction in GF spending for mental health services.
- A deposit of 50% of all identified GF savings

achieved by the State as a result of the Medicaid expansion into a health savings fund. These savings would then be used to fund the State's Medicaid match requirements in 2017 and beyond.

Mental Health

- **Mental Health Innovations:** The Governor's Budget Recommendation would make "one-time" funding of **\$5.0 million GF** dollars available for mental health innovation efforts. Budget detail links this funding to three initiatives:
 - Provision of comprehensive home-based mental health services to children.
 - A pilot effort to fund high-intensity care management teams to serve children with complex behavior disorders.
 - Provision of mental health "first aid" training to public and private groups, intended to provide community organizations with information on how to identify individuals with mental health problems and refer affected persons to appropriate supports.
- **Jail Diversion:** A new initiative to provide diversion services to individuals with mental health issues or substance use disorders in the criminal justice system. (**\$1.6 million GF**)
- **Health Home Demonstrations:** The Governor's Recommendation would provide funding for three health home efforts for Medicaid beneficiaries with chronic mental illness. Through the initiative Medicaid physical and mental health services would be coordinated through comprehensive case management and integration with necessary supports.

Public Health

- **Health Innovation Grants:** The Governor's Budget Recommendation would provide funding for a competitive grant program intended to identify new approaches to the provision of health care. Funding would be available to local governments and other private entities. Focus is placed on integration of mental and physical health care, community health improvements and changes in service delivery. (**\$3.0 million GF**)
- **Infant Mortality:** The Recommendation would provide additional funding for infant mortality reduction efforts. (**\$1.5 million GF**)
- **Health and Wellness Initiative:** The

Recommendation would increase funding for the State Health and Wellness Initiative. (**\$1.5 million GF**)

The Michigan Legislature will now work with the proposal outlined above. In the weeks ahead, appropriations subcommittees in both the Michigan House of Representatives and Senate will generate their own proposed FY 2013-2014 spending plans. It is likely that a great deal of discussion will be centered around the DCH appropriation, in particular the proposal to expand Medicaid eligibility.

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