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The Michigan Update

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Special Michigan Budget Update

On February 11th Governor Rick Snyder released both Executive Order 2015-5 for fiscal year 2015 and his budget for fiscal year 2016.

Executive Order 2015-5

Reflecting recent decreases in state revenue projections, the Executive Order cuts General Fund (GF) spending for the current fiscal year by \$102.9 million and State Special Purpose spending by \$3.5 million.

Medicaid policy and funding changes for the current fiscal year include the following:

- Medicaid Graduate Medical Education (GME) payments to hospitals are reduced by \$14.5 million (\$5 million GF), which is a reduction of 8.9%. (Additional cuts for fiscal year 2016 are described below.)
- The Medicaid Rural and Sole Community Hospital Pool is reduced by \$5.8 million (\$2 million GF, reducing the state contribution from \$12 million to \$10 million).
- Medicaid HMO rates will be reduced effective August 1, 2015 to reflect an expectation that laboratory services are or will be reimbursed at Medicaid rates rather than Medicare rates, which are the current basis for the Medicaid HMO rates. The reduction is \$1.5 million in state spending (\$.4.35 million total) for August and September. The annual value is \$9 million in GF reduction.

In addition to these reductions, there are other state savings that generate an additional reduction of \$134.4 million in state funds budgeted for the Department of

Community Health. The largest of these is anticipated savings due to lower than estimated Medicaid caseload, a total reduction of \$100 million. The Executive Order includes a companion request for a supplemental budget, which would, among other things, appropriate additional funds for the Healthy Michigan Plan. The estimated average caseload for fiscal year 2015 is 540,000, well beyond the budgeted level. (That level of enrollment was already exceeded this week.)

Executive Budget for Fiscal Year 2016

The Executive Budget for fiscal year 2016 addresses the projected \$289 million shortfall in state revenues for fiscal year 2016. While total spending from all state and federal revenue sources increases from the original \$52.1 billion for the current fiscal year to a total of \$54 billion for fiscal year 2016, the GF share of the budget is reduced from the original \$10 billion for fiscal year 2015 to only \$9.7 billion for fiscal year 2016. This decrease is achieved by a combination of program reductions and changes in revenue sources.

Issue Briefs

The Executive Budget [release](#) was accompanied by a set of [issue papers](#), two of which relate to the Medicaid program. One issue brief discusses dental access issues for Medicaid children in Kent, Oakland, and Wayne Counties, as well as dental access issues for adults on Medicaid. Another discusses revenues from the Health Insurance Claims Assessment.

Healthy Kids Dental: The Governor proposes extending the Healthy Kids Dental Program (under contract with Delta Dental) to the remaining three counties (Kent, Oakland and Wayne) at a cost of \$21.8 million, of which the state share would be \$3.9 million. With this expansion, the number of children covered would increase from 612,000 to 822,000.

Adult Medicaid Dental Services: The issue brief notes that current Medicaid dental fee-for-service rates are around 25% to 30% of commercial dental fees, which results in limited access to services for adult Medicaid enrollees. The budget proposes increasing the funding by \$23 million (of which \$7.9 million is the state share) and moving from a fee-for-service delivery system for the adult dental benefit to managed care. The budget indicates that this is partial year funding, and it appears that this change is effective July 1, 2016.

Health Insurance Claims Assessment (HICA): The Governor's budget proposed two changes to HICA that

would require amendments to Public Act 162 of 2014. That act reduced the HICA rate from 1.0% to 0.75%. The Governor proposes increasing the rate to 1.3%, which would generate an additional \$162.8 million in revenues. In addition, his budget proposes eliminating the cap on total revenue generated by the combination of the HICA and the Use Tax on Medicaid HMOs. This second change would generate an additional \$17.3 million in HICA revenues.

Other Medicaid Changes:

- The Governor's budget notes that the enrollment of more than 530,000 individuals in the Healthy Michigan Plan has resulted in significant new funds to support health care providers, especially physicians and hospitals. As a result of the reduction in uncompensated care that hospitals should be experiencing, the budget proposes that the current enhanced rural hospital payments and all GME payments be supported with hospital provider assessments rather than state funds. The general fund savings are \$10 million for the rural hospital payments and approximately \$56 million for GME funding. Since by statute the state shares the "gain" of the federal revenue realized from provider assessments, there is an additional savings to the state from these two items, which further reduces the net revenues for hospitals.
- Additional savings are assumed from increased pharmacy rebates due to moving pharmacy services out of Medicaid HMOs to Medicaid fee-for-service, and from modifications of HMO contracts to reflect better care coordination. The total of the anticipated savings from these two items is \$64.1 million, of which \$22 million is the GF portion.
- The Governor's budget assumes that the Healthy Michigan Plan caseload for fiscal year 2016 will average 580,000 individuals.

Several of the changes made in the Executive Order result in further savings in the fiscal year 2016 budget since they will be in place for a full year.

The February issue of *The Michigan Update* will include additional detail on the Medicaid budget recommendations for fiscal year 2016.

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Health Management Associates is an independent national research and consulting firm specializing in complex health care program and policy issues. Founded in 1985, in Lansing, Michigan, Health Management Associates provides leadership, experience, and technical expertise to local, state, and federal governmental agencies, regional and national foundations, investors, multi-state health system organizations and single site health care providers, as well as employers and other purchasers in the public and private sectors.