

The Michigan Update

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Special Michigan Budget Update

On February 10th Governor Snyder released his budget for the coming fiscal year. The Executive Budget for fiscal year 2017 is \$54.9 billion which reflects an increase of 0.9 percent (\$438 million) in total funding and an increase of 1.5 percent (\$145 million) in state general funds. The Governor's budget message identifies four challenges being faced by Michigan:

- Flint water crisis
- Statewide infrastructure prioritization
- Detroit Public Schools
- Specialty medications

The last of these four issues relates primarily to Medicaid.

Funding for Specialty Drugs

With respect to specialty medications the budget indicates that the State's Pharmacy and Therapeutics Committee recently recommended coverage of additional drugs to treat Cystic Fibrosis and Hepatitis C. A recent legislative transfer authorized coverage of these drugs in the current fiscal year. The budget for FY 2017 includes the full year costs to cover Hepatitis C drugs for nearly 7,000 Medicaid enrollees (\$91.5 million in state general funds) and 340 prisoners (\$17.3 million in state general funds). Coverage of Orkambi for Cystic Fibrosis for approximately 320 children enrolled in Medicaid and/or Children's Special Health Care Services is budgeted at \$43.7 million in state general funds.

The budget also adds a one-time cost to create a pharmacy reserve fund (\$86.1 million total, with a state

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share of \$30 million.) This reserve fund is for unanticipated needs that could occur during FY 2017 as new high-cost specialty drugs come to the market. More detail on specialty drugs is included in one of the FY 2017 Executive Budget Issue Papers.

Integration of Mental Health Services with Physical Health Services

The book that accompanies the Executive Budget includes a single paragraph on page B-30 related to "service integration". That document states the following:

"The governor recommends that the state begin the process to better integrate mental and behavioral health services with a patient's physical health treatments. The governor expects to see improved coordination of care and a stronger focus on the needs of an individual patient by initiating a process by which all patient services are closely integrated. The budget recommendation asks the legislature and the health provider community to engage in an important conversation about integrating physical and behavioral health services into the larger consideration of patient need."

The language in the proposed budget is much more detailed and much stronger, beginning with the following statement: "Sec.8-298. (1) The department (of Health and Human Services) shall transfer the service funds appropriated in part 1 currently provided to PIHPs through the Medicaid mental health services, Medicaid substance use disorder services, Healthy Michigan plan - behavioral health and Autism services lines to the Health plan services line by September 30, 2017."

Section 8-298 indicates among other things that the department is to amend the contracts with the Medicaid Health Plans to include responsibility for the full array of behavioral health services, engage external stakeholders in the development of the integration plan, and contract with an administrative service organization to provide oversight and ensure continuity of care.

The budget requires that the HMOs contract with the existing Community Mental Health Service Providers (CMHSPs) for the provision of the behavioral health services. This proposed action would appear to eliminate the role of the Prepaid Inpatient Health Plans (PIHPs) that previously received the Medicaid funding for behavioral health services and contracted with the CMHSPs for the delivery of these services.

Healthy Kids Dental

The Governor's budget completes the expansion of the Healthy Kids Dental program to all eligible children in all Michigan counties at a cost of \$25.6 million (state share of \$8.9 million). The final expansion group is children between the ages of 13 and 20 in Kent, Oakland and Wayne Counties.

Other Medicaid Changes

The total budget for physical health care for Medicaid enrollees is \$14.27 billion, of which the state general fund share is \$1.82 billion. Most changes in the Medicaid budget are technical adjustments, including the following:

- Both traditional Medicaid and the Healthy Michigan Plan have enrollment in the current fiscal year that is below budgeted levels.
- The federal share of Medicaid is reduced from 65.60 percent to 65.15 percent for FY 2017. The federal share of the Healthy Michigan Plan is reduced from 100 percent to 95 percent as of January 1, 2017, resulting in an approximate federal share of 96.25 percent for the fiscal year from October 1, 2016 to September 30, 2017.
- Fewer individuals dually enrolled in Medicaid and Medicare are choosing the Integrated Care Organizations (ICO) as part of the "duals demonstration" than was anticipated by the FY 2016 budget. As a result, \$239.8 million is removed from the ICO line and the long term care services line is similarly increased.
- The federal requirement to eliminate the Use Tax on Medicaid HMOs and the PIHPs as of January 1, 2017 has a revenue implication for the state, but also reduces Medicaid and Healthy Michigan HMO costs by about \$490 million (state share of \$101 million) for the nine months from January to September of 2017.
- The budget assumes a 2 percent rate increase for HMOs for Medicaid and the Healthy Michigan Plan. However, the cost in FY 2017 is only 1.5 percent since those rates were rebased as of January 1, 2016.

One other programmatic change is that the Governor's budget expands funding for the Program of All-inclusive Care for the Elderly (PACE) from \$66 million to \$92.5 million. This proposed expansion allows for additional slots at current Michigan PACE sites and new slots in Jackson and Traverse City.

The Executive Budget and Issue Papers are available

online from the [State Budget Office](#).

For more information contact [Eileen Ellis](#), Managing Principal, at 517-482-9236.

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.

Health Management Associates, 120 N Washington Sq, Ste 705, Lansing, MI 48933