

February 10, 2012 - Special Edition

The Michigan Update

In This Issue

[Michigan Budget](#)

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Michigan Budget

This week Michigan Governor Rick Snyder presented his proposed Fiscal Year (FY) 2012-2013 Executive Budget Recommendation. The budget, across all departments, assumes expenditure of \$48.2 billion / \$9.2 billion General Fund/General Purpose (GF/GP), a proposed increase in GF/GP expenditure of 3.0 percent.

The proposed Department of Community Health (DCH) appropriation assumed expenditure of \$15.0 billion Gross / \$2.8 billion GF/GP, a change 3.3 percent Gross and -3.5 percent GF/GP.

While the recommendation allocates less GF/GP to support DCH in FY 2012-2013, this proposal may be best characterized as an effort to expand financial support for health coverage programs. The appropriation funds several expansions in Medicaid covered services, mandates increases in Medicaid provider reimbursement rates and funds new (unspecified) public health efforts.

Assumed program savings in the appropriation are not generated through reductions in ongoing Medicaid provider rates, Medicaid covered services or mental health and public health programs but through assumed efficiencies in Medicaid provider payment and reduced costs associated with State employee health benefit changes. The most significant reduction in GF/GP comes from the ability to reduce Medicaid Health Maintenance Organization (HMO) rates since the 6 percent State use tax on Medicaid HMOs is being replaced by a 1 percent claims tax. This adjustment affects only the component of the HMO rate for the cost of taxes and will not impact the payment rates for covered services. It should be noted that changes in budget boilerplate will reduce available Medicaid funding to some hospitals.

Provided below is a summary of the major changes included in the proposed Executive Recommendation.

Medicaid Changes

- **Medicaid Caseload Utilization and Inflation Adjustment:** The recommended appropriation assumed continued increases in Medicaid program caseload and makes adjustments for increased utilization and inflation costs: ***\$108.7 million Gross / \$39.2 million GF/GP***
- **Assumed Medicaid Payment Recovery Savings:** The recommended appropriation assumed savings through reductions in inappropriate Medicaid provider payments. Savings are assumed through new contracts with vendors to identify unclaimed hospital credit balances and payables, third party liability data matches, retrospective overpayment detection, and increased Office of Inspector General staff. ***-\$32.8 million Gross / -\$10.7 million GF/GP***
- **Assumed Medicaid Pharmacy Savings:** The recommended appropriation assumed reductions in Medicaid pharmacy costs through initiatives to improve prescribing for behavioral health drugs and for greater utilization of generic injectable drugs. ***-\$6.5 million Gross / \$2.2 million GF/GP***
- **Medicaid Program Expansions:** The recommendation proposed the following Medicaid expansions:
 - A new requirement for the Medicaid and MICHild programs to cover new therapies for children with autism spectrum disorders ***\$34.1 million Gross / \$10.1 million GF/GP,***
 - An expansion of the Healthy Kids Dental program to additional counties ***\$25.0 million Gross / \$8.4 million GF/GP,***
 - Expansion of the MIChoice Home and Community-Based Waiver program ***\$7.5 million Gross / \$3.4 GF/GP,***
 - Addition of a new PACE site in Berrien County (no net cost or savings), and
 - Restoration of the Medicaid adult chiropractic benefits ***\$900,000 Gross / \$300,000 GF/GP.***
- **Medicaid Provider Rate Increases:** The recommendation funded the ACA mandated increase in Medicaid primary care rates to 100 percent of the Medicare level, assumed a 1.5

percent increase in HMO rates in compliance with actuarial soundness requirements and funded an increase in non-emergency transportation rates.

\$330.3 million Gross / \$16.9 million GF/GP

- **Medicaid Disproportionate Share Hospital (DSH) Funding:** The recommendation restored DSH funding allocated to the Wayne State University Psychiatric residency program, increases provider-tax funded DSH payments to eligible hospitals and increased DSH payments for special indigent care agreements. ***\$25.4 million Gross / \$0.0 GF/GP***
- **One-Time Boilerplate Funding:** The recommendation did not continue one-time funding to hospitals for Graduate Medical Education (***\$17.3 million Gross***) and special payments for rural and sole community hospital providers (***\$29.5 million Gross***). Failure to continue this funding represents a net reduction in hospital reimbursement of \$46.8 million. New one-time funding was assumed for upgrades to the Michigan Medicaid CHAMPS computer system.

Mental Health Changes

- **Prepaid Inpatient Health Plan (PIHP) Actuarial Soundness:** The recommendation funded a 1.25 percent increase in capitation rates provided to PIHPs for the provision of mental health services to Medicaid eligible individuals. ***\$27.8 million Gross / \$9.3 million GF/GP***

Public Health / Aging Services

- **Health and Wellness Initiatives:** The recommendation provides \$1.0 million for new health and wellness initiatives. It is not yet clear how this money would be used. This funding is further enhanced by one-time dollars available through budget boilerplate. ***\$1.0 million Gross / \$1.0 million GF/GP***
- **Aging Grant Increases:** The recommendation provides additional funding for grants for aging options counseling, Alzheimer's and dementia and elder abuse prevention initiatives. ***\$850,000 Gross / \$850,000 GF/GP***
- **One Time Boilerplate Funding:** The recommendation did not continue one-time funding for the Healthy Michigan Fund (\$3.0 million) and but did allocate \$5.0 million for unspecified health and wellness initiatives and

provided additional funding for laboratory services (\$200,000).

The Governor's Executive Budget Recommendation and related documents are available online at www.michigan.gov/budget. For more information, contact [Eileen Ellis](#), Managing Principal, at (517) 482-9236.

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