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STATE BUDGET CONFERENCE COMMITTEE MEDICAID DECISIONS: CUTS, IOUS, AND GRAY AREAS

The conference committee on the state budget for 2012-13 adopted recommendations for nearly all health and human services issues on May 16. Medicaid provisions adopted include a mix of specific direct cuts and spending reductions totaling \$1.65 billion general revenue (GR: state dollars) including \$805 million GR in cuts to fees paid to Medicaid service providers; and a \$4.8 billion GR under-funding or IOU that will come due early in 2013.

This *Policy Page* summarizes high-level Medicaid decisions adopted for health and human services, which will take effect if the full budget is ultimately adopted in these last seven days of the regular legislative session.

Medicaid Overview

- Medicaid funding decisions overall tracked Senate decisions to adopt an array of service and program reductions as an alternative to making 10 percent across-the-board rate cuts for all Medicaid service providers.
- Specifically identified Medicaid funding reductions totaling roughly \$1.65 billion GR **fall into three broad categories:**
 - Provider rate/fee cuts (approx. \$805 million GR);
 - Other benefit and spending cuts (approx. \$843 million GR); and
 - Managed care expansion spending reductions (approx. \$372 million).
- An additional Medicaid funding shortfall of about \$4.8 billion GR results from:
 - Senate-adopted Medicaid funding shortfalls totaling roughly \$3.95 billion GR; and
 - Rider-directed additional savings, the sources of which are unspecified and/or have not been scored by the Legislative Budget Board (LBB) (approx. \$886 million GR).

Medicaid Provider Rate Cuts

- All rate cuts already imposed in 2010 and 2011 remain unchanged.
- Rate cuts adopted for 2012-13 total roughly \$805 million GR.

Department of Disability and Aging (DADS)

- Nursing Homes: No additional cut (stay at 3 percent cut already taken 2010-2011)
- Intermediate Care Facility for the Mentally Retarded (ICF-MR) (not including State-Supported Living Centers): 2 percent rate cut (*added* to current 3 percent cut taken 2010-2011)
- Health and Community Services (HCS) waiver: 1 percent rate cut (*added* to 2 percent cut in 2010-2011)
- Nursing-facility-related hospice: 1 percent rate cut (*added* to 2 percent cut in 2010-11)
- Other community care waivers: No cuts, but \$12.5 million GR reduction in administrative fees for agencies that manage attendant services.

Health and Human Services Commission (HHSC)

- Medicaid and CHIP physicians, dentists, and orthodontists: No additional cuts (2 percent cut in 2010-2011)
- Hospitals: 8 percent cut; (*added* to 2 percent cut in 2010-11)
 - Exempted children's and most rural hospitals from inpatient, but not outpatient portion
- Medicaid Durable Medical Equipment, Labs: 10.5 percent cut; (*added* to 2 percent cut in 2010-2011). DME includes a wide range of items from wheelchairs to diabetic and incontinence supplies.
- Other Medicaid providers: 5 percent cut (*added* to 2 percent cut taken in 2010-2011)
- Other CHIP providers: 8 percent additional cut (*added* to 2 percent cut taken in 2010-2011)
- Medicaid pediatric private duty nursing and home health: no additional cut (2 percent cut taken in 2010-2011)
- Managed care premiums are adjusted down to "average acuity" (\$169.3 million GR)

Other Medicaid benefit and spending cuts

The adopted budget assumes an array of benefit and spending cuts, totaling approx. \$843 million GR.

- Reduced amount, duration, and scope of Community Services (\$31 million GR)
- Nursing Facility Cost Change (\$58 million GR)
- Prescription dispensing fee reductions(\$34.7 million GR)
- Community care wrap-around services (\$15 million GR)
- HHSC fee cuts (\$34.7 million GR)
- Reduced "optional" Medicaid benefits for adults (\$45 million GR)
- Reduced administrative spending at HHSC (\$38.2 million GR)
- "Medicare Equalization:" Limiting payment for services to seniors and adults with disabilities enrolled in both Medicaid and Medicare to the Texas Medicaid fee schedule. (\$295.8 million GR)
- Reduced Medicaid Managed Care administrative costs (\$27 million GR)
- Additional unduplicated savings indicated by LBB from "Medicaid Funding Reduction" rider (\$264 million GR)

Medicaid Managed Care reductions

The adopted budget assumes substantial cost savings from expanding Medicaid Managed Care both for children, pregnant women, and a handful of parents; and for adults with disabilities and elderly poor clients who get both Medicaid and Medicare. The Conference Committee documents indicate a net spending reduction of about \$372 million GR (earlier documents said \$367 million GR).

Medicaid GR Shortfall*

Legislative budget chairs and the LBB have acknowledged a Medicaid funding shortfall—*after the cuts and reductions detailed above*—of about \$4.8 billion GR.

NOT associated with any specific program cut

This "shortfall" includes both (1) money the Legislature expects Medicaid to need, but simply left out of the budget, and (2) "savings" directed in riders for which no specific or reliable source is identified

- Medicaid funding shortfalls totaling nearly \$4 billion GR. This is a combination of the LBB-identified \$1.7 billion GR for unfunded Medicaid cost and caseload growth, and roughly 2.25 billion more in GR shortfall from un-replaced federal stimulus aid (ARRA) that Texas used in 2010-2011 to fund Medicaid, but is now ending.
- Rider-directed additional savings, the sources of which are unspecified and/or as yet unscored by LBB (approx. \$886 million GR)
 - \$700 million GR reduction "Federal Flexibility" rider (Art II SP rider 46); and
 - Unfunded portion per LBB of the "Medicaid Funding Reduction" rider \$186 million GR out of the \$450 million nominal rider total.

The Medicaid IOU

As noted in the chart above, both chambers' budget chairs as well as the LBB have acknowledged a \$4.8 billion GR gap (about \$11.2 billion All Funds) between what they expect Medicaid to cost (even after the cuts and reductions adopted) and what they are appropriating. The working assumption is that most of the "Medicaid GR Shortfall NOT associated with any program cut" (see chart above) will be covered in 2013 in a supplemental appropriation. Texas HHSC is obligated to pay the Medicaid and CHIP bills regardless of the exact appropriated amounts in the budget bill, and the state will make good on that shortfall.

The Medicaid program is currently paying over \$2 billion a month in health care and long term care bills, and about \$900 million a month of that is state dollars (GR). The funds appropriated for the Texas Medicaid program need to cover enough months of care to allow uninterrupted payments for care through spring 2013, when the Legislature can appropriate more to fill the gap, whether from higher-than-currently-expected tax revenues, or from the still largely untapped Rainy Day Fund.

Advocates' Concerns

Senate budget writers and the conference committee clearly tried to mitigate damage to the health care safety net by using the Medicaid IOU, which is preferable to massive (nearly 30 percent) cuts that would be required to balance the Medicaid budget with no additional revenues and no further use of the Rainy Day Fund. Still, a review of the rate cuts adopted and the list of program cuts and changes being used to reduce spending makes clear that many new challenges to access to care will be faced in 2012-13 by the 3.5 million Texans who rely on Medicaid for life-saving medical and long-term care services. Advocates for Medicaid clients will need to monitor many if not all of the program changes detailed above with an eye to protecting access to care.

Added to that concern is uncertainty related to the Medicaid shortfall. In particular, the \$700 million GR "Federal Flexibility" rider and the \$186 million GR unfunded portion (per LBB) of the "Medicaid Funding Reduction" rider must not be allowed to be converted to program cuts beyond the substantial cuts already certain to be applied to this vulnerable population.

Texas has Choices

The best that can be said about Medicaid's treatment in the 2012-2013 proposed budget is that it could be worse. But it could also have been much better. The Legislature could have taken a balanced approach to the budget that relied far less on cuts, used much more of the state's \$9.7 billion Rainy Day Fund, and added new revenues like closing unwarranted tax loopholes or adding sugary drink taxes. The constitutional purpose of the Rainy Day Fund is to protect Texans during an economic downturn, yet we have chosen to cut public schools and essential public services instead.

It would appear that Texans agree that the budget should be better. Texas polling from the last two weeks found 85 percent oppose cuts to public education; 90 percent don't want to cut children's health insurance, 86 percent oppose cutting payments to Medicaid providers like doctors and hospitals; and 93 percent want to avoid cuts to nursing home funding.

CPPP will provide additional analysis of health and human services funding after adoption of a final budget and when full documentation is public.

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