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**THE POLICY PAGE**

An Update on State and Federal Action

Center for Public Policy Priorities

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UPDATE on Medicaid and CHIP Cuts: What Was Restored in Restored in Recent Actions?

Some confusion has surrounded recent budget announcements by the Governor and actions by the Legislative Budget Board (LBB). This brief Policy Page describes how the actions taken will affect Medicaid and CHIP cuts, and explains which major cuts to those programs remain.

Recent Governor and LBB Decisions on HHSC Funding

The Health and Human Services Commission (HHSC) laid out a detailed proposal for Medicaid and CHIP funding in the current 2004-2005 budget period at legislative budget committee hearings in May and June of year. The HHSC proposal includes money both for covering *shortfalls* in program funding (i.e., areas in which Legislature's appropriations were too low, even after program cuts and changes) and for reversing a few that were built into the state budget. Also included in the HHSC proposal are policies designed to draw down federal matching funds for Medicaid, which can help reduce the state-dollar (General Revenue, or GR) shortfall the health and human services budget. Portions of the HHSC proposal required approval by the Governor and before the agency could take action.

The Governor announced his general approval of the HHSC proposal on August 17. The HHSC proposal was approved by the Legislative Budget Board (LBB) on August 23, as part of a larger package of budget issues considered by the LBB that day. Because the list of approved actions is complex, some press accounts have funding allocated for appropriation shortfalls with funding to reverse Medicaid and CHIP program cuts.

The approved funding actions which will reverse HHS program cuts include:

- The income limit for **Medicaid Maternity coverage** is restored to 185 percent of the federal poverty income level (FPL) from the lower 158 percent FPL limit imposed by the 2003 at a cost of \$20.3 million GR. HHSC staff estimate that over 5,500 more women per month will be covered in fiscal 2005 under the restored standard.

- Special Medicaid funds for teaching hospitals (those that train doctors) called **Graduate Medicaid Education** funds were restored at the \$20 million GR level. These funds did not affect benefits or eligibility, but they do affect the viability of safety net hospitals that were hit hard by eligibility and rate cuts.
- **Medicaid and CHIP provider payment rates:** the action approved does not reverse the rate made in 2004, but it prevents a deeper cut from taking effect in 2005 for some Medicaid providers. In 2004, hospitals and doctors' rates were cut by 2.5 percent; nursing home provider rates were cut by percent and community care providers were cut by 1.1 percent. Without the \$53.2 million GR those cuts would have doubled in 2005. It appears that hospitals are an exception; their rates will be subject to the deeper 5 percent cut. HHSC's rationale for this approach is that these deeper cuts will be offset for some hospitals by other changes they are making, such as new "upper payment limit" funds increased Medicaid maternity coverage.
- **Community Care Services for Aged and Disabled Persons:** The 2004-2005 budget bill the hours of care that about 100,000 of these vulnerable Texans receive would be cut by 15 percent the board, and the budget bill actually did not include enough funds to support even that reduced level services for the full 2-year budget period. State leaders had prevented a service cut in 2004, and \$141.5 million in state dollars has now been approved to prevent massive cuts in care in 2005.

The remainder of the HHSC proposal involved funding actions designed to address program areas in the 2004-2005 budget for which the legislature did not appropriate enough funds. The largest of these is a shortfall in Medicaid and CHIP (\$547.6 million GR for Medicaid, and \$52.9 million GR for CHIP). The decisions made address \$300.5 million GR of this shortfall; thus the shortfall funding accounts for half of the HHSC funding decisions approved by the LBB. This shortfall is due in large part to a big gap between the drug prices and utilization assumed in the budget and actual drug costs, and to a far lesser degree to caseloads that are higher the extremely conservative estimates built into the budget bill. Budget writers assumed a drop of nearly \$1 in 2004 Medicaid unit cost per prescription from the fiscal 2003 cost, but the actual average cost per unit in fiscal 2004 to date has been about \$4 higher than in 2003. HHSC in July 2004 projected a drug cost overrun of \$412 million GR, assuming the higher fiscal 2004 costs persist and continue to increase in 2005. According to the data, most of the drug cost overrun will be related to costs of aged and disabled clients (both ongoing and new clients), and relatively little of it due to drug costs for children on Medicaid.

What has NOT Been Restored in Medicaid and CHIP?

The HHSC spending proposal leaves the following cuts made by the 78th Legislature in place:

- **All adults on Medicaid** (more than 75 percent of whom are elderly or disabled) still are without for most mental health professional services, eyeglasses, hearing aids, or podiatric care.
- **Provider rate cuts** in Medicaid and CHIP (as described above) remain in place for FY 2005.
- **State-funded community care programs and Medicaid community care waiver programs** serve fewer Texans than in 2003.
- **Elderly and Disabled nursing home residents** have had their monthly spending allowance for needs cut from \$60 to \$45 per month (the rest of their pension income goes toward the nursing home bill).
- Medicaid coverage for **Medically Needy Adults**—poor parents who have high medical bills—is abolished. HHSC estimated in April that about 5,500 fewer adults per month are served because of this program cut.
- **Cuts in CHIP benefits and eligibility policy changes designed to reduce enrollment** have not been restored. At the Governor's request, a moratorium on terminating coverage of children whose parents are

premium payments has been extended, but no permanent changes in the new policies has been made. (A of the Texas CHIP policy changes can be found at <http://www.kff.org/medicaid/7132.cfm>.)

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