



House Begins Public Hearings on HHS Agencies Monday: How Medicaid, CHIP, Health Programs Stand in the LBB's Budget

Summary. Public hearings on the budget for Article II health and human service programs in SB 1, the General Appropriations Act for 2006-2007, will begin Monday February 7, in the Health and Human Services Subcommittee of the House Appropriations Committee (HAC). HAC and the Senate Finance Committee plan to complete their subcommittee/workgroup activities (including taking public testimony) on HHS agencies **before the end of February**. In that short time frame these committees will develop proposals for how much funding to add to the Legislative Budget Board's (LBB) proposed budget (SB 1).

Key features of the proposed LBB budget (which serves as the starting point for hearings) include:

- **The budget does not include \$1.23 billion in General Revenue (GR)** requested by the Health and Human Services Commission (HHSC) to cover current services inflation and cost increases in Medicaid. It does allow for Medicaid caseload growth, though LBB assumes lower caseloads than HHSC projects.
- **The budget does not restore any of the 78th Legislature's Medicaid cuts.** HHSC has requested \$314.5 million GR to partially restore the cuts.
- **The budget does not include funding to allow CHIP enrollment or costs to increase** (\$29.8 million GR needed). Without funding for enrollment growth, enrollment could be restricted or benefits reduced.
- **The budget restores vision and dental care to CHIP** (worth an estimated \$52.7 million GR), but does not restore any other cuts or changes made by the 78th Legislature. Full restoration may cost as much as \$140 million GR more.
- **The budget assumes HHS state workers will be cut by as much as 4,800**, after already dropping over 2,500 from 2003 to 2005.
- **Medicaid funding is reduced by about \$110 million** based on LBB's assumed savings from STAR+PLUS "managed long term care" program expansion.
- **Medicaid funding at the Department of Aging and Disability Services (DADS) does not include about \$29 million GR needed for full staffing of current services.** Funding is increased for nursing homes and expansion of several community care program caseloads. However, caseloads for some community care programs would remain below 2003 levels.
- **Proposed funding of direct service programs** at the Department of State Health Services (DSHS) **varies** from one program to the next. The budget would allow growth in Children with Special Health Care Needs and Substance Abuse Treatment. Other services are allowed growth, but some would still remain below 2003 client levels.

State agency budget requests (Legislative Appropriations Request, or "LARs") were released in Fall 2004. On January 14 the Legislative Budget Board (LBB) released its recommended budget for 2006-2007, filed as Senate Bill 1 (SB 1), the General Appropriations Act. This proposal is the foundation or starting point for the state budget, and legislative budget committees will consider what amounts to add to (or even take away from) the filed version.

Agencies were instructed by the LBB and Governor to make their GR "base requests" 5% lower than their 2004-05 GR funding (general revenue: state dollars), but Medicaid and CHIP client services were exempt from this cut (though administrative functions and state workers were cut). Agencies' "Exceptional Items" lists lay out requests for any funds they recommend "above the base." The Exceptional Item lists include funds needed for "current services" (i.e., need based on current eligibility standards, benefits, and rates), restoration of 2003 cuts, as well as new investments. The LBB used these agency requests in building the proposed budget bill. *Agencies are expected to soon release revised Exceptional Item lists for use by the budget committees, now that the LBB budget has been filed.*

Medicaid at HHSC

Though Medicaid client services were exempt from the 5% cut, Medicaid programs (principally at HHSC and DADS) were still limited to an even lower base than was used in the last four legislative sessions. This is because agencies were required to exclude from their base budgets some very large Medicaid costs which the state must pay to maintain “current services”—to keep eligibility, benefits, and payment rates the same, without further cuts. Until this 2006-07 budget cycle, Medicaid caseload growth has always been included in the base budget. Also new was the requirement to exclude state dollars needed to compensate for reductions in the Medicaid (and CHIP) federal matching rates from the base request. Increases in medical costs per client due to inflation and utilization are also excluded from the base request (and have been since the 1999 session).

What the Agency Requested. Because so much is excluded from the base request, the original HHSC Exceptional Item list includes \$3.65 billion GR, of which \$2.4 billion is funding needed for current services. Of the remaining \$1.2 billion, about \$470 million GR is for restoration of cuts made in 2003, and another \$754 million GR for new investments. Medicaid related Exceptional Items are listed below.

Major <u>Medicaid</u> Exceptional Items Requests in the HHSC Budget Request (Biennial GR)	
Needed for Current Services	GR
<i>Medicaid Caseload Growth</i> (\$1.03 billion GR for current services, \$228.7 million GR for increasing children’s coverage from 6 to 12 month renewal ¹)	\$1.26 <u>billion</u>
<i>Federal Match (FMAP) Change</i> (small amount is CHIP)	\$110.9 million
<i>Medicaid Cost Growth</i> (costs related to inflation and higher utilization; base request assumes only FY 2005 costs per client)	\$1.23 <u>billion</u>
<i>Restore 5% base Reduction</i> (this is the total HHSC amount, and includes more than Medicaid; Medicaid staffing levels ARE reduced in this cut)	\$25.6 million
Needed to Undo 2003 Legislature’s Cuts	
<i>Restore Medicaid Rates to FY 2003 levels</i>	\$177 million
<i>Restore Medicaid Adult Services</i> (\$56.7 million for mental health, podiatry, hearing aids and eyeglasses. \$40 million for Graduate Medical Education payments, which is actually a <u>rate cut</u> . Remainder is for a managed care adjustment, and chiropractic services.)	\$102.5 million
<i>Partial Medically Needy Restoration</i> (per HHSC, this amount would reinstate payments at about 20% of normal Medicaid rates.)	\$35 million
<i>Reduce HHS Waiting Lists "growth"</i> (includes items from DADS, DSHS, and DARS). (Note: Community Based Alternatives remains below 2003 levels even with this funding. ²)	\$47 million
Requested for New Investment	
<i>Reduce HHS Waiting Lists "10 year plan"</i>	\$254.5 million
<i>Provider Rate Increases</i>	\$263.9 million

¹ State law schedules 12-month coverage for Children’s Medicaid to begin in September 2005; thus those costs arguably could be considered to be “new investment”, current services, or restoration.

² While other waivers would grow to higher-than-ever caseloads, CBA (the largest waiver) would remain below both 2004 and 2003 levels; thus this item is part restoration, and part new investment.

What the LBB Included in the Budget (SB 1). The LBB budget recommends \$28.3 billion all funds (\$11.3 billion non-federal funds³) for HHSC, which is about \$1.86 billion all funds (\$805 million non-federal funds) more than HHSC’s “base request”. According to the LBB’s summary, the proposal includes funding for Medicaid caseload growth and the decrease in federal Medicaid matching rates.

Not included in the LBB budget is the **\$1.23 billion GR needed to cover higher Medicaid costs per client** (the LBB budget assumes costs remain the same as in 2005). Also missing from the filed budget are any funds to restore the remaining major Medicaid cuts from 2003:

- the elimination of coverage for mental health professional services, eyeglasses and vision care, hearing aids, and podiatry for all 862,000 adults on Medicaid (77% of whom are either elderly or seriously disabled);
- across-the-board rate cuts for Medicaid providers; or
- Medicaid coverage for Medically Needy Adults—poor parents who have high medical bills.

As the Medicaid Exceptional Item table above shows, HHSC estimates it will need another **\$314.5 million to restore these three cuts**. And, still more would be needed for any new investment, such as the provider rate increases suggested in the HHSC Exceptional Item request.

The LBB budget assumes that the state’s share of Medicaid Graduate Medical Education payments would be funded with local tax dollars via intergovernmental transfers.

Finally, the budget process begins with a discrepancy between the LBB assumptions for Medicaid caseload growth and HHSC’s projections, as laid out in the table below. Reaching agreement on caseload projections with thus be a part of the budget negotiation process.

Medicaid Caseloads: Actual and Projected		
HHSC Estimated Medicaid “recipient months” November 2004	2,779,106	
Actual point-in-time Medicaid enrollment, January 2005 <i>(Final recipient months average 104% of point-in-time enrollment, after retroactive coverage is included)</i>	2,676,633 (equals about 2,783,698 recipient months)	
HHSC’s LAR Projected Annual Average Monthly Enrollment, FY 2005	2,925,447	
LBB assumption of Annual Average Monthly Enrollment, FY 2005	2,862,298	
	2006	2007
HHSC 2/05 estimated caseloads staying at 6-month coverage for children	3,124,110	3,356,597
HHSC 2/05 estimated caseloads WITH 12-month coverage for children	3,256,200	3,588,967
LBB Budget recommended caseloads (assumes 6-month coverage of children)	2,987,578	3,137,045

CHIP at HHSC

CHIP funding needed to maintain Current Services, and not included in the HHSC base request. As with Medicaid, HHSC was not allowed to include some CHIP funding needed to maintain current services in its “base request”, but did include these funds in its “Exceptional Items” funding request list. Without the funding listed under “Current Services” in the table below, CHIP would face additional cuts or enrollment caps.

Funding needed to Restore CHIP, included in the HHSC Exceptional Items request. The HHSC budget request also includes Exceptional Item requests to undo CHIP benefit cuts and eligibility policy changes that were designed to reduce enrollment, but the list does NOT include full restoration. Restorations requested are:

- (1) the longer 12-month coverage period (the 78th Legislature cut it from 12 to 6 months)
- (2) restoring the CHIP dental and vision benefits, and
- (3) restoring across-the-board 2.5% rate cuts for CHIP medical providers.

³ “Non-federal” HHSC funds consist primarily (over 93%) of the aforementioned state general revenue (GR), but also includes small amounts of dedicated revenues and other small revenue sources.

Funding needed to Restore CHIP, NOT included in the HHSC Exceptional Items request. Not included in the HHSC Exceptional Items request list are costs of reversing:

- Increased premiums and co-payments,
- 90-day delay in new coverage taking effect,
- Elimination of income deductions for child care and child support,
- New Asset "test" (at least 3,000 children have lost or been denied coverage since late August 2004).

Thus, the full costs of restoring CHIP to 2003 policies would be higher than the \$108 million GR amount in the HHSC Exceptional Items. Because HHSC did not include these items in its budget request, official cost estimates for these policies are not yet available. They will likely be provided to legislative budget committees fairly soon after they begin their work.

To sum up, the HHSC Exceptional item list includes about \$140 million GR for CHIP, or which about \$32 million is for current services, and \$108 million for restoration. The cost of full restoration for the biennium, once officially estimated, is likely be at least \$190 million, based on the most recent estimates released by HHSC in 2004.

CHIP Exceptional Items Requests in the HHSC Budget Request (Biennial General Revenue Amounts)	
Current Services	Requested by HHSC
<i>CHIP Caseload growth, remaining at 6 month renewal</i>	\$14.5 million
<i>CHIP cost growth (inflation, price increases)</i>	\$15.3 million
<i>CHIP federal match rate decline</i>	\$2.6 million ⁴
Selected Restorations	
<i>Additional caseload growth, restore 12-month coverage⁵</i>	\$50.4 million
<i>Restore Benefits: vision, dental, hospice, home nursing, and chiropractic (\$8.1 M vision, \$44.6 M dental, \$500,000 all other)</i>	\$53.2 million
<i>Undo 2.5% rate cuts</i>	\$4.4 million

What the LBB Included in the Budget for CHIP. The LBB budget does not allow for CHIP caseload growth or cost/inflation increases. This means that the HHSC budget would need about \$29.8 million additional funds simply to cover current service costs related to caseload and cost growth (the change in the federal match rate is included in the LBB's proposal). The LBB also assumes even lower CHIP caseloads than HHSC presented in its base request, for reasons that are not yet clear.

The budget recommendation produced by the LBB and filed as SB 1 does not assume (or incorporate funds for) CHIP restorations other than vision and dental services. Presumably, the LBB budget includes something close to the \$52.7 million GR that HHSC requested for CHIP vision and dental benefits in its Exceptional Items. Thus an additional amount, perhaps as much as \$140 million, might be need to fund full restoration of CHIP.

CHIP Caseloads: Actual and Projected			
		2006	2007
September 2003 actual caseload	507,259		
January 2005 actual caseload	332,055		
decline, 9/03 to 1/05	(175,204)		
	34.5%		
Annual monthly average, FY 2004	409,865		
BUDGETED monthly average, FY 2005	346,818		
PROJECTED monthly average, FY 2005	351,849		
HHSC 2/05 projected, with 12-month eligibility restored		386,110	467,404
HHSC 2/05 projected, stay at 6 month renewal		360,786	388,920
HHSC projected, hold caseloads at FY 2005 "base" (LAR)		351,849	351,849
LBB Budget/SB 1 caseload "recommended"		324,750	331,132

⁴ Subject to correction, as numbers in HHSC budget presentation do not total correctly.

⁵ Because current statute calls for restoration of CHIP 12-month coverage effective September 2005, HHSC was required to include projections for 12-month coverage in its budget request.

Other HHSC Budget Notes

Until budget hearings begin, only a limited amount of information will be available regarding the LBB's assumptions in writing a draft budget. Listed below are notes and questions related to the HHSC budget request and the LBB recommended budget for HHSC:

- Medicaid, CHIP, Guardianship Grants, and Family Violence were not cut by 5% in the LBB budget, but other HHSC programs and administrative functions (e.g., staffing levels) were funded 5% below 2005 levels. HHSC had requested \$25.6 million GR as an Exceptional Item to restore the 5% cut; this number will likely be updated when the agency releases a revised list based on the LBB budget levels.
- The LBB notes that HHSC funding has been reduced across the board by \$99.5 million GR “as part of a broader effort to achieve savings.”
- The LBB budget notes that state employees at all Health and Human agencies dropped from 48,894 in 2003 to a projected 46,328 in 2005 (a cut of 2,566 workers), and projects that workers will drop to 41,720 in 2007—a drop of an additional 4,608 state workers. The lion's share of this drop is related to the planned privatization of the Eligibility Determination System for Medicaid, CHIP, TANF and Food Stamps, formerly operated by DHS. This initiative is referred to as “Integrated Eligibility” or “Call Centers”. The LBB's summary analysis of its budget includes text related to Call Center implementation in two separate sections of the report. These sections detail a proposed reduction in state workers from 2005 to 2007 of somewhere between 4,107 and 4,809, for a savings of \$140.9 to \$168.1 million GR (the difference may be related to some savings and jobs being redirected to DADS for Long Term Care Eligibility work).
- An overall reduction of \$109.5 million GR in Medicaid costs is assumed by LBB related to the planned expansion of “STAR+PLUS” Medicaid Managed Long-Term Care to several major urban areas. Funds are reduced at DADS, with some funding transferred to HHSC, where the premiums for STAR+PLUS are appropriated.

Other HHSC Exceptional Items included:

- Restoring annual \$60 “back-to-school” payments to families on the Temporary Assistance for Needy Families cash assistance program (TANF: Texas' only welfare program) eliminated by the 78th Legislature. Texas' maximum monthly TANF benefit for a family of 3 is currently \$222 per month. The budget also assumes TANF caseloads will drop even further, from 235,432 in 2005 to 232,171 in 2007. Welfare recipients make up less than 8% of the 2.7 million Texans on Medicaid in January 2005.
- The LBB budget funds Family Violence at 2005 levels. HHSC has requested an additional \$2 million GR in funding for Family Violence, which would allow an estimated additional 3,753 Texans to be served each year.
- Guardianship grants, which complement Adult Protective Services improvements at DFPS, appear to have been funded in the LBB budget at the Exceptional Item funding level.

Medicaid at DADS

The Department of Aging and Disability Services (DADS) is home to long term care programs including community care for elders and people with disabilities, nursing home care, and residential programs for persons with mental retardation. These programs were formerly at the now-defunct DHS and MHMR. Most DADS programs and services are financed by Medicaid: **89% of the non-federal share of the proposed LBB budget for DADS is state match for Medicaid.** Because some kinds of long term care are cost-intensive, a significant share of total Texas Medicaid funding runs through this agency.

Within the Medicaid-funded long term care programs operated by DADS, some are “entitlement” programs, meaning every individual who meets the financial and functional need criteria is served (no caps or waiting lists), while other programs are capped. Like HHSC, DADS had to request some of the funding needed simply to maintain current services through its Exceptional Item list. However, some very substantial costs for restoration and growth in community care programs at DADS are included in the two HHSC Exceptional Items related to waiting lists.

**Major Medicaid Exceptional Items Requests in the DADS Budget Request
(Biennial GR)**

Needed for Current Services	GR
<i>Restore Entitlement Growth</i>	\$154.1 million
<i>Restore 5% base Reduction</i> (Medicaid services exempt, but staffing is cut)	\$19.7 million
<i>Federal Match (FMAP) Change</i>	\$16.7 million
<i>Entitlement caseload growth staffing</i>	\$9.6 million
Needed to Restore 2003 Legislature's Cuts	
<i>Restore rates to 2003 levels</i>	\$53.8 million
Requested for New Investment	
<i>Promoting Independence</i> (Transition of 146 clients with mental retardation from institutional settings to HCS community waiver program)	\$4.7 million
<i>Provider Rate Increase</i>	\$531 million
<i>Rate Increase for Direct Care Staff</i>	\$239.6 million

As the table illustrates, DADS indicated a need for over \$200 million GR in funding above its base request in order to maintain Medicaid current services, and another \$53.8 million to restore across-the-board Medicaid rate cuts imposed on Medicaid providers by the 78th Legislature.

What the LBB Included in the Budget for DADS. The LBB budget recommends about \$4.14 billion in non-federal funds for DADS, a higher amount than their base request of about \$3.92 billion. The change in federal matching rates is funded in the LBB budget, as is nursing facility caseload growth.

LBB treatment of community care varies from one program to the next. Increases included by LBB are for growth in Medicaid's "Community Care Entitlement" programs (though LBB assumes lower caseloads than DADS projected), and higher client numbers for the Home and Community Based Services (HCS) and Texas Home Living Community Care waivers. Under the LBB budget, combined community care waiver caseloads in 2007 would be 909 higher than in 2005, due to increases in the Texas Home Living waiver (which did not exist in 2003) and HCS waiver clients proposed by LBB. The bad news: the Community Based Alternative (CBA) waiver (the largest waiver and the one which serves mostly elders at risk of nursing home placement) served 4,179 more clients in 2003 than it would in 2007 under the LBB proposal. Community services for Texans with mental retardation clients served per month in 2005 is projected to be 10,137, or 3,168 below 2003 levels; the LBB budget would freeze caseloads at this lower level through 2007. The In Home and Family Support general caseload is projected by LBB to have dropped from 3,521 per month in 2003 to 3,262 in 2005 (259 fewer clients per month); the LBB budget would freeze caseloads at this lower level through 2007. IHFS for consumers with mental retardation is projected to have dropped from 4,175 in 2003 to 2,674 in 2005 (a decline of 1,501 clients), and again LBB would freeze caseloads at that number through 2007.

Current services needs not included in the LBB's budget for DADS include the funding to restore the 5% staffing cuts, and funding for additional staff needed to keep up with caseload growth (combined total \$29.2 million GR). Nor are \$53.8 million in funds recommended to restore the 78th Legislature's rate cuts for institutional and community care service providers.

Other Exceptional Items at DADS. Non-Medicaid Exceptional Items requested by DADS include \$11.7 million in funding for the Guardianship program, which was transferred to that agency from Family and Protective Services (FPS), but without benefit of funding or staff. Also requested are funds for replacement and repairs of aging vehicles, computers, telecommunications equipment, and buildings, including completion of planned cottages at Richmond State School.

Selected Service Delivery Programs at Department of State Health Services (DSHS)

With the reorganization of HHS services under HB 2292, fewer Medicaid dollars are at DSHS than were in the TDH budget. Some Medicaid funding remains in several strategies in the DSHS budget, which include relatively modest amounts of Medicaid funds that may be affected by the provider rate cuts passed by the 78th Legislature. There is no detail in the DSHS LAR about this impact, nor is there a request for rate restoration. A summary of LBB funding recommendations for some key health care and behavioral health programs at DSHS is provided below. *Important Note: in some cases where the LBB budget indicates that increased caseloads are supported for 2006 and 2007, they may also be assuming that the cost per client is reduced.*

Children with Special Health Care Needs: In 2003, the average monthly caseload was 1,463; the LBB budget would allow that to grow to 2,315 in 2007 (an increase of 852 children).

Mental Health Community Services: The LBB budget funds these programs just above the 2004-05 level.

Adults served dropped from 52,448 in 2003 to 46,086 in '05; the LBB budget would allow an increase of about 1,400 clients by 2007—still 4,975 below 2003 caseload.

Children receiving Community Mental Health services per month was 11,431 in 2003, but dropped to 9,962 in 2005; the LBB budget would allow caseload to grow by 369 children per month in 2007—still 1,100 below 2003 levels.

Clients in the community receiving “new generation” psychiatric medications numbered 15,898 in 2003, growing to 18,105 in 2005; the LBB budget would fund growth to 18,650 clients per month in 2007 (2,752 above 2003 levels). *This assumes that the monthly cost of the drugs does not increase above 2005 levels.*

Substance Abuse treatment for adults and children: The LBB budget includes funding for increased treatment caseloads for adults and children, but decreases caseloads for treatment of dual-diagnosis (i.e., mental health and substance abuse) clients. *This is an area in which LBB has assumed a drop in cost per client in 2006 and 2007.*

Adults served in 2003 averaged 43,702, increasing to 52,977 in 2005; the LBB budget would allow growth to 54,350 (10,648 above 2003 levels).

Children served in 2003 numbered 5,661, growing to 7,377 in 2005; the LBB budget funds growth to 7,553 (1,892 above 2003 caseload).

Dual diagnosis clients served in 2003 were 4,362, which grew to 6,265 in 2005 but would drop to 6,082 in 2007 in the LBB budget.

State Mental Hospitals: The LBB budget assumes that average daily census in state mental hospitals changed little from 2003 to 2005 (2,265 to 2,268), and declines to 2,254 in 2006 and 2007.

Kidney Health Program: Kidney health program caseloads declined from 22,834 in 2003 to 21,247 in 2005. The LBB budget recommends further cutting caseloads (by 3,949) from 2005 to 2006, but then increasing to serve 18,927 clients in 2007 (still 3,907 below 2005).

County Indigent Health Care grant program: In 2004-2005 projected funding was \$15.8 million; the LBB budget recommends \$10.2 million funding for 2006-2007.

HIV Medication Program: The LBB budget includes about \$600,000 above 2004-2005 funding for 2006-2007. Estimated clients served in 2003 were 12,317, growing to 13,107 in 2005; the LBB budget allows for an increase of 20 clients in 2006 and 2007.

Primary Health Care: In 2003, 95,613 clients were served under this program, dropping to 84,000 in 2005; the LBB budget would further reduce the caseload to 82,497 in 2005 (a drop of 13,116 from 2003).

Family Planning: Clients served in 2003 numbered 269,105, growing to 273,986 in 2005. The LBB budget would fund clients at 272,624 for 2006 and 2007—lower than the 2005 caseload but slightly above the average for 2006 and 2007. Cost per client is assumed by LBB to decline.

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