



Update: What's NOT in the Budget for Medicaid, CHIP, Health

Summary. Public hearings on the budget for Article II health and human service programs in SB 1, the General Appropriations Act for 2006-2007, began Monday February 7, in both the Senate Finance committee and the Health and Human Services Subcommittee of the House Appropriations Committee (HAC). On a faster track than in previous sessions, the budget committees plan to complete their subcommittee/workgroup activities (including taking public testimony) on HHS agencies before the end of February. This means major decisions about whether to add funds to the Legislative Budget Board's (LBB) proposed budget (SB 1) are being made in the next few weeks.

The HHS agencies have now revised their "exceptional item" lists, so that all the requests now are for funding that is NOT included in SB 1 as introduced. *These exceptional item amounts replace those in Policy Page 225, dated 2/4/05.*

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

- The budget does not include \$1.54 billion in General Revenue (GR) requested by the Health and Human Services Commission (HHSC) to cover Medicaid and CHIP at their current service levels, i.e., before any cuts are reversed. \$1.2 billion GR is for inflation and cost increases in Medicaid. SB 1 does allow for some Medicaid caseload growth, but HHSC is requesting another \$352 million GR because LBB assumes lower caseloads than HHSC projects.
- The budget does not restore any of the 78th Legislature's Medicaid cuts. HHSC has requested about \$355 million GR to partially restore the cuts.
- The budget does not include funding to allow CHIP enrollment or costs to increase. HHSC requests \$76.4 million GR to fund caseload growth and inflation even at the reduced (6 month) coverage. Without funding for enrollment growth, enrollment could be restricted or benefits reduced.
- The budget restores vision and dental care to CHIP (worth an estimated \$47 million GR), but does not restore any other cuts or changes made by the 78th Legislature. HHSC has requested another \$14.4 million GR to restore provider rates, and \$54.6 million beyond that to cover CHIP costs, caseloads, and restored rates if eligibility is restored to 12 months. It is not yet clear whether any additional funds would be needed for full reversal of the CHIP cuts and changes.
- 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 GR 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 \$53 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.

Budget hearings are well underway, and state HHS agencies have now released revised Exceptional Item lists, which request funds that are not included in the LBB's recommended budget, SB 1. The tables below reflect changes from the original Exceptional Item lists, which were described in Policy Page 225. A summary of the revised lists can be found at: http://www.hhsc.state.tx.us/news/presentations/020205_HAC.pdf.

Medicaid at HHSC

SB 1 includes funding for Medicaid caseload growth, but at a lower rate than HHSC assumes. Not included in the LBB budget is the \$1.16 billion GR needed to cover higher Medicaid costs per client (the LBB budget assumes costs remain the same as in 2005), and \$352 million GR requested to fund HHSC's projected Medicaid caseload growth. Also missing from the filed budget are any funds to restore the remaining major Medicaid cuts from 2003. All of the items below are NOT funded in SB 1 as introduced.

Major Medicaid Exceptional Items Requests in the HHSC Budget Request February 2005 Update (Biennial GR)		
	Needed for Current Services	GR
1	<i>Medicaid Caseload Growth</i> (This assumes remaining at 6 month renewal for children's coverage. ¹ This item is due to LBB assuming lower caseloads than HHSC projects. It is possible that the agency and LBB will agree on a set of common assumptions soon, and this item might be revised or deleted.)	\$352 million
2	<i>Medicaid Cost Growth</i> (costs related to inflation and higher utilization; base request assumes only FY 2005 costs per client)	\$1.16 billion
14	<i>Restore 5% base Reduction</i> (this is the total HHSC reduction, is not limited to Medicaid administrative costs, but would reduce Medicaid staffing and administration.)	\$19.1 million
17	<i>Restore GR for GME</i> (SB 1 assumes that the state's share of Medicaid Graduate Medical Education payments would be funded with local tax dollars via intergovernmental transfers.)	\$40 million
Needed to Undo 2003 Legislature's Cuts		
3	<i>Restore Medicaid Provider Rates to FY 2003 levels, at 6 month Children's eligibility</i>	\$204.8 million
15	<i>Restore Medicaid Adult Services</i> (Eliminated coverage of mental health, podiatry, hearing aids and eyeglasses for all 862,000 adults on Medicaid, 77% of whom are aged or disabled. HHSC requests \$55.7 million for these; remainder is for a managed care adjustment, and chiropractic services.)	\$62.4 million
16	<i>Partial Medically Needy Restoration</i> (Temporary coverage for poor parents with high medical bills. Per HHSC, this amount would reinstate payments at about 20% of normal Medicaid rates.)	\$35 million
18	<i>Restore Hospital Rate "Fix" from 2002</i> (Public hospitals have been contributing local tax dollars since 2002 to avoid a rate cut initiated in the 2001 session; this would restore state funding.)	\$52.7 million
26	<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
Costs if Children's 12-month Coverage is Implemented on Schedule		
4	<i>Medicaid Caseload growth at 12 month coverage for children</i>	\$229.6 million
5	<i>Medicaid Cost Growth at 12 month coverage for children</i>	\$28.5 million
6	<i>Restore Medicaid Rates at 12 month coverage for children</i>	\$5.5 million
Requested for New Investment		
27	<i>Reduce HHS Waiting Lists "10 year plan"</i>	\$257.6 million
28	<i>Provider Rate Increases</i>	\$263.5 million
30	<i>New Medicaid Buy-In for Workers with Disabilities</i>	\$6.3 million

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. Simply put, LBB and HHSC have not used the same data, methods, or growth rate assumptions in projecting Medicaid (or CHIP) growth and costs. As budget negotiations proceed, it is possible that the agency and LBB will eventually agree on a set of common assumptions, which could change the amounts of related exceptional items, or even eliminate some items.

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. More discussion in DADS section.

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

The CHIP benefit cuts and eligibility policy changes adopted by the 78th Legislature included:

- (1) Coverage period reduced from 12 to 6 months;
- (2) Elimination of CHIP dental and vision benefits, hospice; skilled nursing facilities; tobacco cessation; chiropractic services. Mental health coverage reduced to about half of the coverage provided in 2003;
- (3) Across-the-board 2.5% rate cuts for CHIP medical providers;
- (4) Increased premiums and co-payments;
- (5) 90-day delay in new coverage taking effect;
- (6) Elimination of income deductions for child care and child support;
- (7) New asset "test" (limit; at least 3,000 children have lost or been denied coverage since late August 2004);
- (8) Outreach and marketing were reduced by more than half.

All of the items below are NOT funded in SB 1 as introduced.

CHIP Exceptional Items Requests in the HHSC Budget Request (Biennial General Revenue Amounts)		
	Current Services – at 6 month coverage	Requested by HHSC
8	<i>CHIP Caseload growth</i> , remaining at 6 month renewal	\$46.6 million
9	<i>CHIP cost growth</i> (inflation, price increases)	\$29.8 million
	Restorations	
10	<i>CHIP Rate restoration</i> , at 6 month coverage	\$14.4 million
11	<i>CHIP Caseload Growth</i> , at 12 month coverage	\$47.9 million
12	<i>CHIP cost growth</i> , at 12 month coverage	\$4.6 million
13	<i>Restore CHIP Rates</i> , at 12 month coverage	\$2.1 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 \$76.4 million additional funds simply to cover current service costs related to caseload and cost growth, without reversing the cuts and program changes made. Without the funding listed under "Current Services" in the table above, CHIP could face additional cuts or enrollment caps.

SB 1 does not assume (or incorporate funds for) CHIP restorations other than vision and dental services. Another \$69 million would be needed to restore the 2.5% rate cuts taken by the 78th Legislature, and to restore 12-month coverage of children. It is not yet clear what additional amounts might be needed to fully restore CHIP policies, e.g., to eliminate the asset test. HHSC Exceptional Item #7 proposes (with little detail) a new CHIP premium policy, which agency documents say will not affect the overall cost of the program. More details on this proposed policy will be needed to clarify the budget impact.

As with Medicaid, the LBB has assumed even lower CHIP caseloads than HHSC projects, and further negotiations between LBB and HHSC may yield further revisions to these Exceptional Item amounts. A final concern is that HHSC assumes that significant recovery (growth) in CHIP caseloads will only occur if 12-month coverage is restored to CHIP. But, with restored benefits, an improved premium policy, and re-energized community-based outreach for CHIP, it is entirely possible that enrollment trends could increase faster than either LBB or HHSC has assumed. It will be important for CHIP to be funded adequately to allow for enrollment growth to occur, even if coverage remains at six months. If the Legislature approves policy restorations for CHIP, but the budget fails to include enough funding for actual caseloads and costs, a CHIP shortfall “crisis” would likely occur in 2007.

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
LBB Budget/SB 1 caseload “recommended”		324,750	331,132

Other HHSC Budget Notes

Other HHSC Exceptional Items on the updated list include (reminder, all items on the list are NOT funded in SB 1):

- **E.I. #20: Restoring annual \$60 “back-to-school” payments** to families on the Temporary Assistance for Needy Families cash assistance program (TANF: Texas’ only welfare program) reduced to \$30 by the 78th Legislature. This would come entirely from federal TANF block grant funds (\$11.1 million), and requires no state dollars.
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.
- **E.I. #23 Family Violence.** 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.
- **E.I. #22 Integrated Eligibility.** This new item asks for restoration of the 5% of eligibility system FTEs cut in the LBB budget (\$6.6 million) as well as \$65.1 million cut through HHSC “rider” #54 in SB 1 related to the implementation of eligibility call centers and the proposed Integrated Eligibility initiative. However, the Exceptional Item does not specifically request restoration of the reduction of 3,980 FTES at HHSC and 4,487 FTES overall that the rider calls for.

Overall, 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 assumes 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.

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. In addition, some very substantial costs for restoration and growth in community care programs at DADS are included in the two HHSC Exceptional Items (#26 and #27) related to waiting lists. DADS’ exceptional Item list does not include a request to restore the monthly Personal Needs Allowance for nursing home residents to \$60 (reduced to \$45 by Legislature in 2003), expected to cost about \$12 million GR for the biennium. **Again, none of the Exceptional Items requested below are funded in SB 1 as introduced.**

Major Medicaid Exceptional Items Requests in the DADS Budget Request (Biennial GR)		
	Needed for Current Services	GR
1	<i>Fund Entitlement Growth</i>	\$25.4 million
2	<i>Entitlement caseload growth staffing</i>	\$10.3 million
3	<i>Restore 5% base Reduction (Medicaid <u>services</u> exempt, but staffing is cut. Without restoration, client workload per worker would grow to 445, up from 240 in 1999.)</i>	\$13.2 million
4	<i>Fund Actual 2005 costs in Waivers (SB 1 amounts are based on outdated cost data)</i>	\$3.9 million
6	<i>Restore Appropriation Reduction for STAR+PLUS (SB 1 reduces DADS budget this amount, despite fact that savings, if any, would likely be in HHSC budget, not DADS’.)</i>	\$109.5 million
9	<i>Fund Long Term Care Acuity Cost Increase (SB 1 does not allow for increased cost per client trend)³</i>	\$52 million
	Needed to Restore 2003 Legislature’s Cuts	
10	<i>Restore rates to 2003 levels (rates were cut 1.75% for nursing facilities and 1.1% for community care providers)</i>	\$55.3 million
	Requested for New Investment	
8	<i>Promoting Independence (Transition of 146 clients with mental retardation from institutional settings to HCS community waiver program.)</i>	\$4.7 million
11	<i>Re-base and Increase Provider Rates (Update rates to reflect actual increased costs.)</i>	\$531 million
12	<i>Rate Increase for Direct Care Staff (Enough to increase attendants and aides wages by an average \$1 per hour)</i>	\$241.4 million

Community Care Programs in SB 1, and what HHSC E.I. #26 Would Do

As the table above illustrates, SB 1 treatment of community care programs varies from one program to the next. Under SB 1, some programs’ caseloads would be frozen at 2005 levels. A number of programs are allowed to increase above 2004-2005 caseloads; however, several such programs would remain below 2003 caseloads despite an increase, because of the reduced 2004-2005 caseloads imposed by the 78th Legislature’s budget.

³ Note: DADS has not described this item as “current services”, but it appears to be needed to fund inflation and intensity trends.

DADS Community Care Program Caseloads, Actual and Proposed

<u>Entitlement</u>	Expended 2003	Estimated 2004	Budgeted 2005	E.I. #26, 2006**	E.I. #26, 2007**	SB 1, 2006	SB 1, 2007
Primary Home Care	51,801	56,871	63,326	70,348	78,067	69,119	75,401
Community Attendant services*	34,843	40,126	44,887	49,880	55,392	49,396	53,732
DAHS	15,963	17,013	17,119	17,796	18,421	18,937	19,969
subtotals	102,607		125,332		151,880		149,102
<u>Waivers</u>							
CBA	30,279	27,664	26,100	26,407	27,327	26,100	26,100
HCS	7,280	8,243	8,860	9,072	9,362	8,970	8,970
CLASS	1,700	1,812	1,817	1,839	1,905	1,817	1,817
Deaf-Blind Multiple Disability	130	143	143	145	150	143	143
Medically Dependent Children	977	979	983	990	1,010	983	983
Consolidated Waiver	175	192	192	194	201	192	192
Texas Home Living	0	101	2,052	2,899	2,959	2,851	2,851
subtotals	40,541		40,147		42,914		41,056
<u>Non-Medicaid</u>							
Non-Medicaid Community Care (Title XX)	13,346	12,273	12,451			12,179	12,179
Non-Medicaid Community Care (GR)	1,153	0	0			0	0
subtotal (XX and GR)	14,499	12,273	12,451	12,617	13,066	12,179	12,179
<u>Other Community Services</u>							
Community Services for clients with mental retardation	13,305	11,891	10,137	n/a	n/a	10,137	10,137
In Home and Family Support	3,521	3,262	3,262	n/a	n/a	3,262	3,262
IHFS, MR	4,175	2,674	2,674	n/a	n/a	2,674	2,674

*formerly Frail Elderly, **HHSC EI # 26; detail from HHSC Consolidated Budget

Source: LBB's Legislative Budget Estimates and SB 1

Other Exceptional Items at DADS. Non-Medicaid Exceptional Items requested by DADS include:

- #5: Restore Non-entitlement Community care Services (Title XX). DADS redirected funds from state-funded community care programs in order to pay for the adult Guardianship transferred from Family and Protective Services (FPS). With Title XX Social Services Block Grant funds, DADS could restore this program.
- #7: DADS requests \$11.7 million GR in funding for the Guardianship program, which was transferred to that agency from FPS, but without benefit of funding or staff.
- Also requested are \$20.3 million GR for replacement and repairs of aging vehicles, computers, telecommunications equipment, and buildings (E.I. #13); and bonding authority for completion of planned cottages at Richmond State School (E.I. #14).

Programs at the 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 an Exceptional Item request for rate restoration. A summary of funding in SB 1 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, it may also be assuming that the cost per client is reduced; and some programs would remain below 2003 caseloads despite the increases.

Caseloads for Selected DSHS Programs, Historical and Proposed

	Expended 2003	Estimated 2004	Budgeted 2005	SB 1, 2006	SB 1, 2007	With E.I., 2007*
Children with Special Health Care Needs	1,463	1,843	2,114	2,274	2,315	n/a
Mental Health Community Services, Adult	52,448	51,894	46,086	47,506	47,473	47,598
Mental Health Community Services, Child	11,431		9,962		10,331	n/a
Clients Receiving New Generation Medications (<i>Assumes monthly drug cost remains at 2005 levels.</i>)	15,898	18,105	18,105	18,663	18,650	n/a
Substance Abuse Treatment for Adults (<i>Assumes a drop in cost per client in 2006 and 2007</i>)	43,702	46,563	52,977	54,350	54,350	55,512
Substance Abuse Treatment for Children	5,661	6,404	7,377	7,553	7,553	7,710
Substance Abuse Treatment, Dual Diagnosis	4,362	5,700	6,265	6,082	6,082	n/a
State Mental Hospitals (average daily census)	2,265	2,295	2,268	2,254	2,254	2,294
Kidney Health Program	22,834	19,316	21,247	17,298	18,927	n/a
HIV Medication Program	12,317	13,107	13,107	13,127	13,127	14,602
Immunizations (<i>doses administered</i>)	n/a**	11,805,340	11,788,002	11,823,411	11,823,411	13,892,224
Primary Health Care	95,613	84,000	84,000	82,497	82,497	84,000
Family Planning (<i>Assumes decline in cost per client</i>)	269,105	270,313	273,986	272,624	272,624	n/a
Infants & Children Served, Maternal and Child Health	40,442	40,000	40,000	40,000	40,000	n/a
Women Served, Maternal and Child Health	58,259	53,500	53,251	53,251	53,251	n/a

*Exceptional Items are NOT funded in SB 1 as introduced.

**Comparable value for 2003 not available, because this measure has been re-designed.

Other DSHS Exceptional Items: In 2004-2005 projected funding for the County Indigent Health Care grant program was \$15.8 million; the LBB budget recommends \$10.2 million funding for 2006-2007. The agency does not request Exceptional Item funding for this program. Exceptional Item #5 would restore funding to 2002-03 appropriated levels not only for substance abuse treatment for adult and youth (shown above), but also for prevention and intervention services for thousands of youth and adults. The remainder of DSHS' Exceptional Item list includes requests for infrastructure repairs, maintenance, and improvements; technologies needed for core public health activities and disaster preparedness; and staffing levels needed for public and mental health functions.

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