



# Budget Brief: Medicaid Mandatory Services

## SUMMARY

Medicaid is a joint federal/state entitlement service that provides health care to selected low income populations. Overall, Medicaid is an "optional" program, one that a state can elect to offer. However, if a state offers the program, it must abide by strict federal regulations. It also becomes an entitlement program for qualified individuals; that is, anyone who meets specific eligibility criteria is "entitled" to Medicaid services. The federal government establishes and monitors certain requirements concerning funding, and establishes standards for quality and scope of medical services. Requirements include services that must be provided and specific populations that must be served. States may expand their program to cover additional "optional" services and/or "optional" populations. In addition, states have some flexibility in determining certain aspects of their own programs in the areas of eligibility, reimbursement rates, benefits, and service delivery.

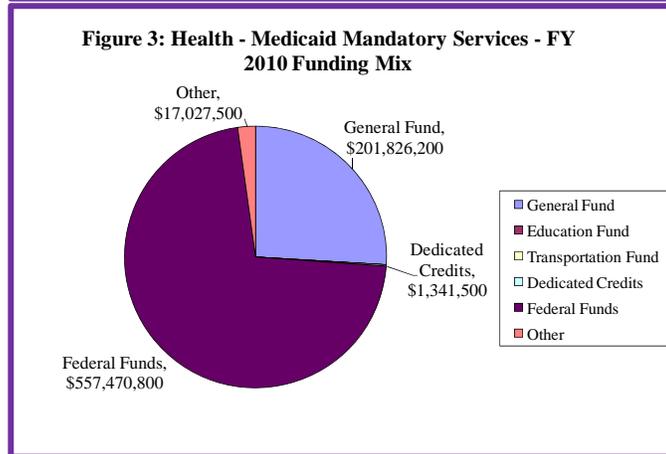
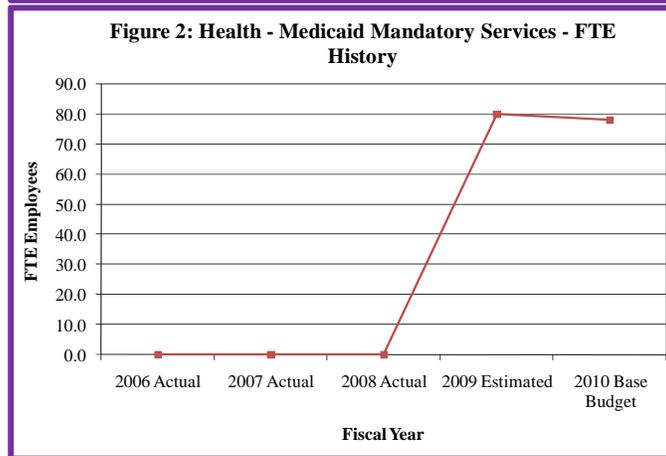
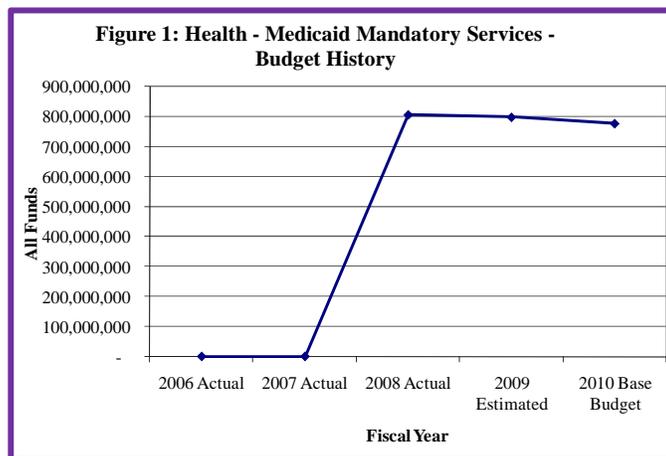
Mandatory services in the Medicaid Program are those that the federal government requires to be offered if a state has a Medicaid program. These include: inpatient and outpatient hospital, physician, skilled and intermediate care nursing facilities, medical transportation, home health, nurse midwife, pregnancy-related services, lab and radiology, kidney dialysis, Early Periodic Screening Diagnosis and Treatment, and community and rural health centers. The State is also required to pay Medicare premiums and co-insurance deductibles for aged, blind, and disabled persons with incomes up to 100 percent of the Federal Poverty Level.

## ISSUES AND RECOMMENDATIONS

This budget funds six programs within the line item, including:

Contracted Health Plans	\$210,080,300
Inpatient Hospital	\$207,607,400
Nursing Home	\$142,004,500
Outpatient Hospital	\$ 89,830,300
Physician Services	\$ 71,772,000
Other Mandatory Services	\$ 56,371,500

The Analyst recommends a base budget for the Medicaid Mandatory Services line item for FY 2010 in the amount of \$777,666,000. This budget level funds nine programs. The recommendation reflects adjustments to



the General Fund, Federal Funds, Restricted Funds, Transfers, Dedicated Credits and Other Revenue for FY 2010. The beginning of funding and FTE's in FY 2009 reflects the creation of this line item and Medicaid Optional Services from the previous Medical Assistance line item. The funding level supports 78 FTE. For more detailed information please visit the online Compendium of Budget Information for the 2009 General Session at [http://le.utah.gov/lfa/reports/cobi2009/LI\\_LHB.htm](http://le.utah.gov/lfa/reports/cobi2009/LI_LHB.htm).

### Restricted Funds Summary

- The Medicaid Restricted Account, established in UCA 26-18-402, as of February 9, 2008 has an unencumbered balance of \$13,098,700. Revenues for this fund come from monies unexpended in the Medicaid program at the close of each fiscal year. Monies remain in the fund until appropriated by the legislature. Statute indicates that the monies may be used for expanding for medical insurance coverage.
- The Nursing Care Facilities Account, established in UCA 26-35a, ended FY 2008 with a balance of \$123,500. Revenues come from an assessment on nursing homes based on their non-Medicare patient days. Revenues may only be used for increasing the rates paid to nursing care facilities and 3% for administering the assessment.

### Unused Balance in FY 2008, Will it Help in FY 2009?

Medicaid lapsed \$13,906,400 General Fund at the close of FY 2008. The Department indicates that this money was from \$4.1 million from a one-time overpayment recovery and \$7.3 million from unspent caseload/utilization increases.

### Accountability Detail

The following paragraphs discuss recent appropriations and how they were used by the agency:

#### FY 2009

1. **Nursing Home Placement Prevention Pilot:** The Legislature moved \$106,500 (one-time) from Medicaid Mandatory Services to fund a nursing home placement prevention pilot project in the Department of Human Services. This pilot project was put on hold by the Department of Human Services pending resolution of budget reductions for FY 2009 and FY 2010.
2. **Medicaid Inflation/Provider Reimbursement Rates:** The Legislature approved \$20,447,000 (\$5,552,300 General Fund) to fund Medicaid inflation. This impacts the rates paid to providers of Medicaid services. All providers will receive an increase in reimbursement rates, ranging from 2.0 percent to 3.3 percent. The agency indicated that provider reimbursement rates were implemented on July 1, 2008 for FY 2009. Some of the provider rates were reduced as a result of the September 2008 Special Legislative Session.
3. **Medicaid Utilization/Inflation:** The budget included \$3,480,600 (\$1,045,200 General Fund) to fund one percent combined utilization and caseload growth for FY 2009. Utilization growth occurs where the same clients use more units of service. Caseloads from January 2008 to January 2009 have increased 11%.
4. **Medicaid Match Rate Change:** The Federal Medical Assistance Percentage (FMAP) rate fell from 71.26 percent to 70.94 percent in FY 2009. The Legislature appropriated \$3,410,000 to the 2 new Medicaid line items to maintain the current level of services in the Medicaid program.
5. **Medicaid Funding Adjustment:** The Legislature made a reduction of (\$2,158,900) to match the decrease in actual expenditures in the Medicaid fee-for-service populations from FY 2006 to FY 2007 because of declining caseloads. The Legislature allocated these monies to fund other priorities.

#### FY 2008

1. \$15,303,800 ongoing General Fund to increase provider reimbursement. Provider rate increases ranged from 3% to 10% and may help encourage providers to see more Medicaid clients. The agency used all of the funding.

2. \$19,149,600 ongoing General Fund to replace one-time funding. There was no change to program. The Department of Human Services originally suffered a loss of federal funding due to the Federal Deficit Reduction Act of 2005.
3. \$9,658,300 (\$3,049,600 General Fund) to address: 1) projected caseload growth and utilization, and 2) an increase in the Federal Medical Assistance Percentage (FMAP) which reduced the State General Fund requirement by \$10,135,900. Caseload and utilization increases did not materialize and excess funding was transferred to the Medicaid Restricted Account.
4. \$8,698,700 (\$2,500,000 from the GFR –Medicaid Restricted Account) was made in anticipation of Medicaid caseload growth due to the promotion of the State Children’s Health Insurance Program (CHIP) enrollment expansion. Caseload growth through November 2007 has continued to be flat or go down. Caseload and utilization increases did not materialize and excess funding was transferred to the Medicaid Restricted Account.
5. S.B. 189, “Medicaid Home and Community-based Longterm Care” allocated \$214,000 (one-time) to provide financial assistance for room and board to Medicaid clients participating in a new home and community-based services long-term care program. It is estimated that this will serve approximately 30 individuals. The original estimated service total was 60, but fewer clients were eligible by the time the program was implemented. The agency indicated that 15 clients were served during FY 2008.

### **BUILDING BLOCK REQUESTS FROM THE DEPARTMENT OF HEALTH**

The two items below affect both of Medicaid’s service line items (Medicaid Mandatory Services & Medicaid Optional Services):

1. The Department of Health requests \$11,372,000 one-time General Fund (\$40,084,600 Total Fund) for growth in FY 2009 and \$14,646,600 ongoing General Fund (\$51,279,100 Total Fund) for growth in FY 2010. Health estimates an 11% caseload and 0.5% utilization growth in FY 2009 and a 3.6% caseload and 0.5% utilization growth in FY 2009. Health has listed this request as their number 1 priority of 8 building blocks.
2. The Department is requesting \$22,484,000 General Fund (\$75,956,900 Total Funds) for a 6.2% average provider rate increase. \$5,083,100 General Fund (\$20,211,200 Total Funds) of estimated increased costs will take place with or without an approved increase because of federal or State requirements. Some of these automatic increases include: drug reimbursement rates, outpatient hospital where we pay a percentage of bill charges, and increases in premiums and co-pays paid for the Medicare program for our dual-eligible Medicaid clients.

### **BUDGET DETAIL**

The budget listed in the table below details the budget allocations in the base budget bill. The base budget includes the following changes:

1. \$(5,923,700) ongoing General Fund replacement with a new assessment on hospitals. This 0.25% assessment on gross revenues will be used to match federal funds for hospital reimbursement and replace General Funds.
2. \$(442,400) ongoing General Fund \$(1,516,400 total funds) reduction in spending on the optional eligibility group of aged, blind, and disabled clients for those with incomes of 75% to 100% of the Federal Poverty Level.
3. \$(145,700) ongoing General Fund \$(501,400 total funds) reduction in rates to Medicaid physician providers. This represents a 1/3 reduction of the rate increase given in FY 2009.
4. \$(384,900) ongoing General Fund \$(1,318,400 total funds) reduction in spending on the optional medical spenddown category for those individuals with incomes between 44% and 100% of the Federal Poverty Level. The medical spenddown category consists of individuals who are permitted to

deduct their medical expenses from their income in order to qualify for Medicaid. The individuals' income above the net income levels must be used to pay for medical expenses.

5. \$(2,892,400) ongoing General Fund \$(9,953,200 total funds) reduction in rates to non-physician Medicaid providers. This returns the rates paid to these providers to what was paid in FY 2008 but with half of the increase over FY 2007.

Health - Medicaid Mandatory Services						
Sources of Finance	FY 2008	FY 2009		FY 2009		FY 2010*
	Actual	Appropriated	Changes	Revised	Changes	Base Budget
General Fund	226,622,800	212,871,800	(9,932,800)	202,939,000	(1,112,800)	201,826,200
General Fund, One-time	0	166,300	8,102,600	8,268,900	(8,268,900)	0
Federal Funds	566,577,500	561,422,200	3,923,100	565,345,300	(7,874,500)	557,470,800
Dedicated Credits Revenue	1,341,400	3,958,700	(2,617,200)	1,341,500	0	1,341,500
GFR - Medicaid Restricted	2,500,000	3,828,400	(1,828,400)	2,000,000	(2,000,000)	0
GFR - Nursing Care Facilities Account	13,911,900	13,911,900	1,828,400	15,740,300	(1,828,400)	13,911,900
Transfers - Intergovernmental	0	3,158,600	(3,158,600)	0	11,700	11,700
Transfers - Within Agency	3,115,600	104,200	3,011,400	3,115,600	520,400	3,636,000
Transfers - Workforce Services	0	0	0	0	(532,100)	(532,100)
Beginning Nonlapsing	699,500	699,500	0	699,500	0	699,500
Closing Nonlapsing	(699,500)	(699,500)	0	(699,500)	0	(699,500)
Lapsing Balance	(7,225,000)	0	0	0	0	0
<b>Total</b>	<b>\$806,844,200</b>	<b>\$799,422,100</b>	<b>(\$671,500)</b>	<b>\$798,750,600</b>	<b>(\$21,084,600)</b>	<b>\$777,666,000</b>
<b>Programs</b>						
Contracted Health Plans	193,872,800	210,520,900	(14,286,800)	196,234,100	13,846,200	210,080,300
Inpatient Hospital	224,749,100	215,718,000	11,372,500	227,090,500	(19,483,100)	207,607,400
Nursing Home	145,427,300	142,004,500	2,133,800	144,138,300	(2,133,800)	142,004,500
Other Mandatory Services	76,772,300	67,756,600	(6,893,800)	60,862,800	(4,491,300)	56,371,500
Outpatient Hospital	90,910,700	89,830,300	4,080,500	93,910,800	(4,080,500)	89,830,300
Physician Services	75,112,000	73,591,800	2,922,300	76,514,100	(4,742,100)	71,772,000
<b>Total</b>	<b>\$806,844,200</b>	<b>\$799,422,100</b>	<b>(\$671,500)</b>	<b>\$798,750,600</b>	<b>(\$21,084,600)</b>	<b>\$777,666,000</b>
<b>Categories of Expenditure</b>						
Personal Services	4,996,000	238,100	4,943,800	5,181,900	0	5,181,900
In-State Travel	58,300	0	57,300	57,300	0	57,300
Out of State Travel	7,200	0	6,600	6,600	0	6,600
Current Expense	2,246,500	0	987,600	987,600	(542,900)	444,700
DP Current Expense	56,000	0	56,000	56,000	0	56,000
DP Capital Outlay	39,100	0	0	0	0	0
Capital Outlay	39,400	0	0	0	0	0
Other Charges/Pass Thru	799,401,700	799,184,000	(6,722,800)	792,461,200	(20,541,700)	771,919,500
<b>Total</b>	<b>\$806,844,200</b>	<b>\$799,422,100</b>	<b>(\$671,500)</b>	<b>\$798,750,600</b>	<b>(\$21,084,600)</b>	<b>\$777,666,000</b>
<b>Other Data</b>						
Budgeted FTE	0.0	76.0	4.0	80.0	-2.0	78.0

\*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.

## LEGISLATIVE ACTION

- The Analyst recommends a FY 2010 base budget for Medicaid Mandatory Services of \$777,666,000.