Presentation to the Senate Finance Committee

Health and Human Services System Issues

May 24-25, 2004

Summary of Key HHS Budget Issues
2004-2005 Biennium
General Revenue
($ in millions)

Budget Issue	FY 2004	FY 2005	Biennial Total
1. Medicaid/CHIP Shortfall (Schedule A)			
a. Medicaid Acute Care	$112.6	$435.0	$547.6
b. CHIP	20.5	32.4	52.9
• Various funding strategies identified to lower estimated shortfall • Supplemental appropriation by 79th Legislature, R.S., anticipated			
2. Community Care LTC Programs Projected Shortfall (Schedule B) • Various funding sources identified to maintain current service levels		**141.5**	**141.5**
3. Use of Enhanced FMAP Balance (Schedule C) • Apply against Medicaid/CHIP Shortfall: $140.0 M • Apply against Community Care Shortfall: $52.1 M • Maintain Provider reimbursement rates at FY2004 level: $53.2 M (Schedule D) • Apply to Substance Abuse MOE penalty: $3 M		**269.0**	**269.0**
4. Substance Abuse Block Grant MOE Penalty • Apply $3.0 M Enhanced FMAP to lessen the reduction • Carryback $5.0 M from FY2005 to level out state MOE requirement	**9.8**	**6.7**	**16.5**
5. Children with Special Health Care Needs Projected Surplus • Serve children from the waiting list • Notification letter transmitted to the Governor and LBB	**3.4**	**4.2**	**7.6**
6. Graduate Medical Education • Funds expected to be available from unclaimed lottery proceeds		**20.0**	**20.0**

Summary of Key HHS Budget Issues
2004-2005 Biennium

7. Federal Funding Issues

a. Title XIX Targeted Case Management Resolved for 2004-2005 biennium	$184.5 million
b. MH Block Grant MOE Penalty Discussion with SAMHSA ongoing	$23.3 million
c. TANF Disallowance Appeal filed, discussion ongoing	$14.5 million
d. SYNAR Enforcement Resolved	$5.0 million
e. SHARS Disallowance (School Health & Related Svcs) Pending further discussions	$30.0 million

Funding Sources Available for FY2004-2005
To Address Key Budget Issues

Enhanced Federal Medical Assistance Percentage (FMAP) $269.0 million

- The Federal Fiscal Relief provisions of the Jobs and Growth Tax Relief Reconciliation Action of 2003 (P.L. 108-27) increased the Federal Medical Assistance Percentage (FMAP) by 2.95 percentage points for five calendar quarters, the last two quarters of Federal Fiscal Year 2003 and first three quarters of Federal Fiscal Year 2004.

Disproportionate Share Hospital Gain for FY2004-2005* $120 million

- Increasing the DSH payments to state owned acute care hospitals up to 160 percent of their uncompensated care.

UPL for State Operated Hospitals* $45.8 million

- Supplemental Medicaid reimbursement for inpatient and outpatient services provided by state owned or operated acute care hospitals. (UTMB, MD Anderson, UT-Tyler, Texas Center for Infectious Disease)

Unappropriated Balance From MHMR
Quality Assurance Fee Receipts (QAF)* $40 million

- The Quality Assurance Fee is a daily fee per occupied bed applied to all ICF-MR providers, not to exceed 6 percent of each facility's gross cash revenues. An estimated QAF balance of $40 million is available in FY2004-2005. Fee revenue from fees imposed on hospitals, nursing homes, home health care, and ICFs-MR can be used by the state for any purpose.

Unclaimed Lottery Proceeds $20 million

- HHSC Rider 48 specifies that unclaimed lottery proceeds in excess of the Comptroller's Biennial Revenue Estimate be designated to fund Graduate Medical Education.

*Appropriation required

Medicaid/CHIP Shortfall $600.5 million

- Medicaid
  - Medicaid caseloads have been increasing overall, with decreases in specific risk groups as a result of policy changes by the 78th Legislature, R.S.
    - TANF Adult and Medically Needy caseloads have decreased
    - Growth in Child risk groups caseloads
  - Medicaid caseload increases have resulted in higher numbers of prescriptions, even with the overall average number of prescriptions per Recipient Month stable.
    - The average number of prescriptions per month has increased among the Aged, Disabled, and Blind Risk Groups
    - The average price per prescription is increasing, but policies to control costs such as the Preferred Drug List (PDL) and 34-day limit, were recently implemented.
- CHIP
  - There has been an overall caseload decline of 130,208 from September 2003 through April 2004
  - Two policy changes from the 78th Legislature, R.S., impacted eligibility
    - Elimination of income disregards
    - Assets Test
  - Procedural change aimed at verifying continued eligibility
    - Renewal required every six months
      - Clients either choose not to re-enroll (108,913 since September 2003) or attempt to enroll but are determined ineligible (45,585 since September 2003)

Funding Strategies to Lower Estimated Medicaid/CHIP Shortfall

($ in millions)

Current Shortfall Estimate	**$(600.5)**
Proposed Funding Sources:	
Increased Disproportionate Share Hospital Funds	74.7
FY2003 Enhanced FMAP (request pending)	75.2
Enhanced FMAP Funds	64.8
Unappropriated Quality Assurance Fee (QAF) Balances (MHMR)	40.0
New State Operated Hospital Upper Payment Limit (UPL)	45.8
Total, Proposed Funding Sources	**$ 300.5**
Remaining Variance	**$(300.0)**

DHS Community Care Funding Demand for FY 2005

A shortfall is projected for FY2005 in DHS Community Care programs due to the following:

- In FY 2004, HB 1 assumed a 15 percent reduction in community care service hours that was restored with Enhanced FMAP funds. To restore community care service hours in FY 2005, approximately $116.1 million is needed.
- Entitlement programs such as Primary Home Care, Community Attendant Services (Frail Elderly), and Day Activity Health Services (DAHS) are experiencing caseload growth and an upward trend in service demands; an estimated $25.4 million is attributable to these programs.

Status of Community Based Alternatives (CBA) Waiver

- CBA waiver intake is planned to be opened in June 2004 to maintain appropriated service levels.

Community Care Shortfall Projected for FY 2005	**($141.5)**
Proposed Programmatic Changes	
Implement Functional Assessment Score for DAHS	1.5
Establish CBA Service Planning Guide	1.6
	($138.4)
Proposed Actions	
Transfer FY2004 LTC Lapsing Funds	47.6
Transfer Title XX Funds from TDH and FPS	11.7
Use MHMR One-Time HCS Refinance Savings	27.0
Allocate Available Enhanced FMAP Funds	52.1
	$138.4
Remaining Variance	**$ -0-**

Schedule C

Summary of Enhanced FMAP Earnings and Uses

($ in millions)

	SFY 2003	SFY 2004	SFY 2005
Earnings	$187.2	$346.7	$ -
Uses	112.0	152.9	TBD
Amount Remaining	**$ 75.2**	**$193.8**	**$269.0**

Proposed Uses

Amount Available	**$269.0**
Medicaid/CHIP Shortfall	(140.0)
Community Care Shortfall	(52.1)
Maintain Provider Rates at FY2004 Levels	(53.2)
Lessen the Reduction for the Substance Abuse Block Grant MOE Penalty	(3.0)
Amount Remaining	**$ 20.7**

Schedule D

Amounts from Enhanced FMAP to Maintain Provider Reimbursement Rates at FY 2004 Levels

Agency	Program		FY2005 GR Cost
HHSC	Medicaid (non-hospital)	2.50%	$ 24.0
HHSC	CHIP	2.50%	2.9
HHSC	Pharmacy Dispensing Fee	2.50%	3.9
DADS	Nursing Facilities	1.75%	13.8
DADS	STAR+Plus	2.50%	1.8
DADS	Community Care for Aged and Disabled	1.10%	6.8
DADS	Community ICF/MR	1.75%	[1.3]
DADS	HCS	1.10%	[0.7]
DADS	MH Service Coordination	1.75%	[0.1]
DADS	MR Service Coordination	1.75%	[0.2]
DADS	Rehabilitation Services	1.75%	[0.4]
DFPS	Foster Care Payments	1.60%	[2.4]
DARS	Comprehensive Rehab Services	1.75%	[0.1]
DARS	Reduction in ECI Provider Contracts	2.50%	[1.5]
DSHS	Children with Special Health Care Needs (CSHCN)	2.50%	[0.1]
	TOTAL		**$ 53.2**

Note: Bracketed amounts will be covered within agencies' current funding. No additional funds are needed to restore to FY 2004 levels.

Hospital Payment Rates

To maximize federal revenues under the DSH and UPL programs, hospital payments, under this proposal, would not be restored. Rather, State funds would be used to establish a UPL for urban non-public hospitals. With the establishment of this UPL, all DSH hospitals (which provide a great share of services to Medicaid clients) would also be covered by a UPL program. DSH and UPL pay the difference between Medicaid payments and hospital costs/charges up to the Medicare payment limit.

Proposal to Increase Disproportionate Share Revenue to the General Revenue Fund

The Disproportionate Share Hospital Payment Program (DSH) operates under the Medicaid Program to financially assist hospitals for the uncompensated care provided to large numbers of indigent persons. The Texas DSH program reimburses state-owned hospitals and mental health institutions and distributes the remainder of the federal allotment to eligible local public and private hospitals.

Federal law permits the state, for fiscal years 2004 and 2005, to increase the amount of DSH revenues for state-operated institutions. Subsequently, federal legislation was enacted which accelerated scheduled increases under the DSH program. For FY2004, the accelerated payment represents an increase of $106 million.

Proposed Actions

1. Increase DSH payments to state-owned acute care hospitals up to 160% of uncompensated care for FY2004 and 2005	$120.0
• Formulas adjusted to "hold harmless" local hospital DSH receipts to the amount due without the accelerated payment	
2. Apply a portion of increase to Medicaid variance	(74.7)
3. Apply remainder in Medicaid hospital services	
• Establish UPL payment to urban, non-public hospitals for FY2005	(25.0)
• Restore Medicaid eligibility for pregnant women to 185% of FPL for FY2005	(20.3)
Remaining Balance	**$ -0-**

Proposed Actions

Action	$ Impact (in millions)
Multiple Agencies	
• Use enhanced FMAP to maintain FY2004 rate restoration for FY2005	$53.2
Requires approval of Governor and LBB	
Health and Human Services Commission (HHSC)	
• Use enhanced FMAP to offset Medicaid/CHIP shortfall	$140.0
Requires approval of Governor and LBB	
• MHMR Quality Assurance Fee (QAF) balance to offset Medicaid/CHIP shortfall	$ 40.0 QAF
Requires appropriation authority	
• State operated hospital UPL payment to offset Medicaid/CHIP shortfall	$45.8 Increase to GR
Requires appropriation authority	
• Restore Graduate Medical Education (GME) to FY2003 level	$20.0 Lottery Proceeds
Contingent upon a determination by the Comptroller that sufficient funds are available. Under HHSC Rider 48 funds could be used at HHSC for GME.	
	$120.0
• Increase DSH funds and use for the following:	Increase to GR
- Restoration of Medicaid Pregnant Women to 185% FPL	($20.3)
- UPL payment to urban non-public hospitals	($25.0)
- Offset Medicaid variance	($74.7)
Requires appropriation authority	

Proposed Actions

Action	$ Impact (in millions)
Department of Aging and Disability Services (DADS)	
• Use enhanced FMAP to support community care service hours and entitlement caseload	$52.1
• Use TANF balances at DFPS to convert to Title XX for use at DHS for community care	$8.6
• Use lapsing Title XX at TDH to transfer to DHS community care	$3.1
• Use MHMR one-time HCS refinance savings for DHS community care	$27.0
Requires approval from Governor and LBB	
Department of State Health Services (DSHS)	
• Use available funds in the CSHCN program at TDH to remove clients from the CSHCN waiting list	$14.6 (All Funds)
TDH sent notification letter to Governor and LBB on April 23, 2004 as required by Rider 45.	
• Transfer funds within TDH from the CSHCN program to the County Indigent Health Care program	$1.3
TDH preparing notification letter to Governor and LBB as required by Rider 45.	
• Use enhanced FMAP to partially address MOE for Substance Abuse Block Grant at TCADA	$3.0
Requires approval from Governor and LBB	
• Move $5 million from TCADA appropriations in FY2005 to FY2004 to level appropriations between years and reduce potential for noncompliance with MOE requirements.	$5.0
Requires approval from Governor and LBB	