



Highlights of the Governor's Amended FY 2010 & FY 2011 Healthcare Budget Proposals

Department of Community Health & Department of Behavioral Health and Developmental Disabilities

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Summary

The enacted fiscal year (FY) 2010 budget spared the Department of Community Health (DCH) from large-scale program cuts because enhanced federal Medicaid funding from the American Recovery and Reinvestment Act of 2009 as well as additional Tobacco Settlement funds were used to replace DCH state General Fund spending.

The extra Tobacco Settlement funds have been depleted, however, and are unavailable in FY 2011. In addition, the enhanced Medicaid funding in the Recovery Act is slated to expire December 31, 2010.

By the end of this fiscal year (June 30, 2010), DCH is projecting a 7.7 percent increase in enrollment in the portion of Georgia's Medicaid program that serves low-income children and pregnant women, compared to June 2009. This population grew by approximately 12 percent from June 2008 to June 2009; however, the governor's budget assumes that enrollment growth will slow to 2 percent from June 2010 through June 2011.

As a result of the looming expiration of the Recovery Act funds, the loss of one-time Tobacco Settlement funds, projected increases in enrollment, and rising healthcare costs, DCH reports that it is facing a funding hole of \$608 million in FY 2011.

In order to fill this hole, the governor is proposing new 1.6 percent healthcare provider fees on hospitals and managed care organizations in Georgia. In total, the proposed fees raise \$247.1 million from hospitals and \$97.1 million from managed care providers. The governor's budget uses these revenues to: replace the lost Tobacco Settlement funds; fund relatively modest enrollment and expenditure growth; and increase reimbursement rates paid to hospitals and the Medicaid Care Management Organizations (CMOs) to offset all or a portion of their new fees.

In addition to the new provider fees, the governor's budget assumes that Congress will extend the enhanced Medicaid funding included in the Recovery Act for an additional six months. Because many states continue to face sizable budget deficits, many other states likely will be urging Congress to extend

the enhanced Medicaid funding. Such an extension has not yet been passed; however, Georgia's FY 2011 budget as proposed by the governor would be short \$378.5 million if such an extension is not enacted.

The Department of Behavioral Health and Developmental Disabilities also benefits from the enhanced federal Medicaid funding in the Recovery Act. As in DCH, the FY 2011 budget reflects the full year continuation of these funds, although they are currently slated to expire mid-year in FY 2011.

While many state agencies have seen net budget reductions in recent years, the governor proposes increasing funding in both AFY 2010 and FY 2011 for hospital operations and to address quality-of-care issues. The budget also adds funding in FY 2011 for new waiver slots and to annualize developmental disability waiver slots added in the original FY 2010 budget.

The following discussion provides an overview of the governor's budget proposals for the two departments and various components of each.

Department of Community Health

The Department of Community Health (DCH) houses a variety of health-related programs and functions. In particular, DCH operates the state's Medicaid and PeachCare programs that serve low-income, elderly, and/or disabled individuals, as well as the State Health Benefit Plan, which provides health insurance to Georgia state employees and teachers. In addition, DCH houses the state's Division of Public Health and performs a variety of regulatory, planning, and administrative functions relating to health and healthcare.

Medicaid and PeachCare

The Medicaid and PeachCare programs represent the bulk of FY 2011 state General Fund spending in DCH; the governor's proposed \$1.4 billion General Fund appropriation for Medicaid and PeachCare make up nearly 84 percent of the General Fund total for DCH. Together, these programs are expected to serve approximately 1.7 million Georgians in FY 2011, and will bring in more than \$5.8 billion in federal funds in order to do so. The following sections examine the major Medicaid and PeachCare changes the governor proposes for the Amended FY (AFY) 2010 and FY 2011 budgets.

Revised Enrollment Funding

Overall Medicaid and PeachCare enrollment did not grow as significantly as expected in FY 2009. As a result, DCH reports surplus funds available from FY 2009 as well as expected surplus funds after FY 2010.

At the end of FY 2009, DCH reported \$35.1 million in Medicaid and PeachCare surplus funding. These funds are rolled forward into FY 2010, generating savings in the proposed AFY 2010 budget. Likewise, DCH forecasts \$20.2 million in savings for the AFY 2010 budget due to a revised enrollment forecast (\$15.9 million) and as a result of more timely eligibility reviews for the Breast and Cervical Cancer program (\$4.3 million).

In total, the governor's proposal generates greater budgetary savings for DCH than is taken to balance the AFY 2010 budget. As a result, \$32.2 million in surplus AFY 2010 funding is carried forward to generate General Fund savings in FY 2011.

The proposed FY 2011 budget also cuts the Medicaid General Fund support by \$30.3 million; reflecting a lowered projected expenditure forecast. During the recent Joint Appropriations Committee hearing, the

DCH commissioner suggested that this reduction amounts to underfunding projected growth for FY 2011 by \$30.3 million.

Implementing New Provider Fees

In order to fill the hole left from losing one-time funding sources (the Tobacco Settlement and other small funds) used in FY 2010 but now depleted for future use, and to prevent major cuts in provider reimbursement rates, the governor proposes implementing 1.6 percent provider fees on hospitals and managed care providers. The governor and commissioner have publicly stated that without these new fees, provider rate cuts totaling 16.5 percent would be needed.¹

Together, these fees would generate approximately \$344.9 million in new state revenue in FY 2011. The governor’s budget directs this new revenue to fund Medicaid and PeachCare, thus generating more than \$1 billion in federal funds, as shown below in Table 1.

Table 1 **Governor’s Proposed Use of New Provider Fees in FY 2011 (in millions)**

	Provider Fee Revenue	Federal Funds Generated	Total State and Federal Funds
<u>Revenues:</u>			
Hospital Fee Revenue	\$ 247.8	\$ 747.7	\$ 995.5
Managed Care Fee Revenue	97.1	293.3	390.4
<u>Uses:</u>			
Replace Tobacco Settlement	214.9	648.4	863.3
Fund Enrollment Growth	59.1	178.3	273.4
Increase Hosp. Rates	58.9	178.0	236.9
Increase CMO Rates	12.0	36.3	48.3
Total New Fees	\$ 344.9	\$ 1,041.0	\$ 1,385.9

Sources: Governor’s FY 2011 Budget Report and DCH presentation to the Joint Appropriations Committee on 1/21/2010.

Provider Reimbursement Rate Cuts

The proposed FY 2011 budget cuts Medicaid and PeachCare provider reimbursement rates 1.98 percent; in/out-patient hospital services and home- and community-based services are excluded. These cuts generate \$26.1 million in General Fund savings and will cost Georgia’s Medicaid providers \$78.9 million in federal funds, for a net cut to providers of \$105 million.

In addition, the proposed budget generates savings by capping the risk adjustments paid to the Medicaid Care Management Organizations (CMOs.) Currently, capitation rate ranges are actuarially determined, and DCH pays the contracting CMOs monthly capitation rates based on those ranges. Although the state generally sets rates towards the low end of the range, DCH also makes some risk adjustment payments to CMOs that serve a riskier population. The proposed budget caps the risk adjustment so that the rates may not exceed the midpoint of the actuarially determined range. Capping the risk adjustment generates \$2.5 million in state General Fund savings in FY 2011 and costs CMOs \$7.7 million in lost federal funds, for a net loss to the CMOs of \$10.2 million.

Extend Insurance Premium Tax to Medicaid CMOs

Currently, the state imposes a 2.25 percent insurance premium tax on health insurers in the state, but exempts the Medicaid CMOs from the tax. The governor’s budget eliminates this exemption and

extends the existing insurance premium tax to Medicaid CMOs. This is forecasted to generate \$67.8 million in new state revenue in FY 2011.²

The capitation rates the state pays the CMOs to serve Medicaid and PeachCare must be “actuarially sound” and take into account all of the costs to the CMOs, therefore the state must fund the cost of extending the tax to the CMOs in the DCH budget. Thus, the governor’s proposal adds \$19.8 million in state funds to the DCH budget, which are then used to match additional federal funds. These federal funds are included in the state’s insurance premium tax collections, and represent the net benefit to the state.

These calculations appear to be based on the enhanced FMAP in the Recovery Act expiring December 31, 2010, however, and not on the higher federal funding rate assumed in the governor’s budget proposal. If the enhanced FMAP is extended, the state funds needed for DCH could be reduced by approximately \$3 million and generate the same \$67.9 million in revenue assumed in the governor’s proposal.³

Other Medicaid and PeachCare Changes

In addition to the larger items detailed above, the proposed budget makes the following changes to Georgia’s Medicaid and PeachCare budgets:

AFY 2010:

- (\$20.6 million) from hospital cost settlements;
- (\$8.6 million) due to savings from a national drug cost settlement;
- (\$0.9 million) from delaying the implementation of the Family Planning Waiver (funding remains in FY 2011) and for revisions to the pre-admission screening and resident review (PASRR) contract; and
- \$8.6 million to fund Disproportionate Share Hospital (DSH) payments to some private hospitals that are “deemed” eligible.

FY 2011:

- (\$22.8 million) to account for an increase in the base Federal Medical Assistance Percentage (FMAP) for FY 2011 that reduces Georgia’s share of total Medicaid costs;⁴
- (\$8.8 million) to replace General Funds with increased nursing home provider fees and to use the increased provider fees to fund increases originally approved in the FY 2010 budget;
- (\$2.9 million) due to moving adopted foster care children on Medicaid from the fee-for-service program to Medicaid CMOs; and
- (\$0.6 million) to reflect reduced pharmaceutical costs associated with negotiating lower reimbursements for certain drugs.

Medicaid and PeachCare Summary

In the proposed AFY 2010 budget, the use of reserve funds along with other cuts reduces the General Funds directed to Medicaid and PeachCare by \$76.5 million. The proposed FY 2011 budget reduces funding from the General Fund and other funding sources but is offset by new provider fees, for a net increase in state funding for the Medicaid and PeachCare programs of \$39.2 million more than the amended FY 2010 budget. However, as shown below in Table 2, both the amended FY 2010 budget and

the proposed FY 2011 budget contain fewer state funds overall than the originally enacted FY 2010 budget.

Table 2 **State Funds in Medicaid & PeachCare in FY 2010 and FY 2011 (in millions)**

	Enacted FY 2010 Budget	Governor's AFY 2010 Budget	Governor's FY 2011 Budget
General Fund Adjustments for PeachCare & Medicaid:			
Use prior year reserves		\$ (35.1)	\$ (32.2)
DCH revised forecast		(20.2)	(18.2)
Gov's enrollment reductions		--	(30.3)
Hospital cost settlements		(20.3)	--
Drug settlement recoveries		(8.6)	--
Delay FP waiver & revise PASRR		(0.9)	--
Fund private hospital DSH payments		8.6	--
Provider & CMO rate reductions			(28.7)
Base FMAP increase for FY 2011			(22.8)
Elim. CMO premium tax exemption			19.8
Use nursing home provider fees to offset General Funds			(8.8)
Move adopted foster kids to CMOs			(2.9)
Reduced pharmaceutical costs			(0.6)
Change from enacted FY 2010		\$ (76.5)	\$ (124.8)
All State Fund Sources for Medicaid and PeachCare:			
State General Fund	\$ 1,478.7	\$ 1,402.2	\$ 1,353.9
Tobacco Settlement	265.3	265.3	53.1
CMO Fees	42.5	42.5	--
Indigent Care Trust Fund Reserves	2.7	2.7	--
Hospital Provider Fee	--	--	247.8
Managed Care Fee	--	--	97.1
Total State Funds	\$ 1,789.2	\$ 1,712.7	\$ 1,751.9

Sources: Governor's FY 2011 Budget Report and DCH presentation to the Joint Appropriations Committee on 1/21/2010.

Public Health

The Division of Public Health was moved from the Department of Human Resources to DCH effective July 1, 2009, therefore FY 2010 is the first year in which the public health budget is included with DCH. The governor's proposed FY 2011 budget for the 12 programs that make up DPH includes General Fund cuts of \$8.4 million, or about 5.2 percent. In addition (but not reflected in reduction totals), the budget moves \$23 million in funding for trauma centers from the Emergency Preparedness program to fund the Georgia Trauma Care Network Commission as a separate agency administratively attached to DCH.⁵

The \$8.4 million of cuts is distributed throughout nearly all of the programs that make up the Division, however the bulk is comprised of cuts to grant-in-aid funding that is directed to county health

departments. In AFY 2010, the governor proposes a \$7.7 million reduction in general grant-in-aid funding (which includes reduced funding for state employee health insurance premiums), which amounts to 11.2 percent of the total general grant-in-aid budget. In FY 2011 the proposed reduction is \$5.6 million, which represents an 8.3 percent cut.

In addition, the proposed budget also increases fees for some public health services, effective April 1, 2010. According to DCH, the fee increases will generate \$0.7 million in AFY 2010 and \$3.2 million in FY 2011.⁶

State Health Benefit Plan

The AFY 2010 and FY 2011 budget proposals for the State Health Benefit Plan contain many changes to the program. Although the SHBP does not receive direct General Fund appropriations in the DCH budget, it receives funding from other state agencies for employer and employee contributions on behalf of eligible state employees and teachers; therefore, changes to SHBP policies and procedures will affect the General Fund even though the effect will be primarily felt in other agency budgets.

In FY 2009, prior year surpluses in SHBP were used to generate state General Fund savings by reducing the required contribution state agencies were required to make. In total, \$456.9 million in prior year balances were used in FY 2009, leaving SHBP with no sizable reserves going into FY 2010.

In AFY 2010, the governor's budget generates statewide General Fund savings by reducing the employer contribution made by state agencies. Also, in order to generate additional revenue for SHBP, employee premiums are increasing by 10 percent effective January 1, 2010, and spousal and tobacco surcharges are also being increased. In total, these premium increases generate an additional \$24.2 million in FY 2010.

The premium increases implemented in FY 2010 will generate \$50.1 million in FY 2011, as they will be in effect for the full year. In addition, the governor proposes an additional 10 percent employee premium increase to take effect January 1, 2011 to generate \$30.5 million in additional revenue in FY 2011.

Other DCH Programs & Departments

Although a large majority of the DCH budget is directed to Medicaid, PeachCare, the Division of Public Health, and SHBP, the governor also makes general fund changes in the remaining parts of the DCH budget, including its Administration program, Healthcare Access and Improvement program, and Planning and Regulatory program.

In total, the proposed budget cuts \$19.3 million for AFY 2010 in the remaining programs and generates \$13.5 million in savings for FY 2011 (both figures are relative to the enacted FY 2010 budget). Many of the changes are made statewide and are technical in nature, such as reducing the employer contribution to SHBP and making adjustments to agency appropriations for telecommunications services through the Georgia Technology Authority. Furthermore, the majority of the changes made for AFY 2010 are carried forward into FY 2011.

Changes made only in AFY 2010 include:

- (\$5.2 million) by replacing General Funds with prior year reserves;
- (\$0.6 million) by implementing six employee furlough days for FY 2010;

Changes made in both AFY 2010 and FY 2011 include:

- (\$4.9 million) by eliminating and reducing various contracts;

- (\$3.1 million) by implementing a new cost allocation plan;
- (\$2.0 million) by cutting some funding for Federally Qualified Health Center Startup and Behavioral Health Integration sites;
- (\$1.9 million) by cutting personal services and other operating expenses;
- (\$0.2 million) by cutting various grants.

Department of Behavioral Health and Developmental Disabilities

Beginning in FY 2010, Georgia's programs providing Behavioral Health, Developmental Disability, and Addictive Disease related services were moved into a new agency, the Department of Behavioral Health and Developmental Disabilities (DBHDD). In total, 11 programs that were previously housed in the Department of Human Resources have been moved to create the new agency, as well as a portion of the DHR administration budget. The FY 2010 enacted budget included \$690.4 million in General Fund support for DBHDD.

The governor proposes new General Fund support for DBHDD in both the amended FY 2010 budget as well as the FY 2011 budget. In AFY 2010, the governor adds \$19.8 million to DBHDD's General Fund budget, while in FY 2011 the governor's proposal increases the DBHDD budget by \$63.7 million from the original enacted FY 2010 budget.

Although the increases are spread throughout the programs that make up DBHDD, the increases are directed primarily to a common purpose — increased funding for hospitals providing behavioral health, and developmental disability services. In total, the proposal adds \$20.3 million in amended FY 2010 and \$42.1 million in FY 2011 to six DBHDD programs for this purpose; additional details are forthcoming regarding the precise use of the new funds.⁷ The new funds amount to a 7.4 percent increase in the budget for the affected programs.

In addition to the increased hospital funding, the governor's budget adds \$5.6 million to annualize developmental disability waiver slots added in FY 2010 and adds an additional \$3.3 million to fund 100 new slots for FY 2011.

Finally, the governor's budget includes a variety of more technical changes, even though the dollar value associated with the changes are significant. In particular, the AFY 2010 budget generates \$6.5 million in savings due to reducing the employer contribution for SHBP costs and generates \$4.7 million in savings from the six employee furlough days implemented for FY 2010. Additional changes for FY 2011 are as follows:

- \$10.8 million to revise the projected savings DBHDD would realize as a result of the enhanced FMAP included in the Recovery Act (occurs in AFY 2010 & FY 2011);
- \$3.8 million to fund increased telecommunications charges owed to the Georgia Technology Authority (GTA) and for increased workers compensation rates (in AFY 2010, increased GTA charges offset decreased workers compensation charges, relative to the enacted FY 2010 budget);
- (\$1.8 million) to account for an increase in the base Federal Medical Assistance Percentage (FMAP) for FY 2011 that reduces Georgia's share of total Medicaid costs.

Table 3 State General Funds for DBHDD Service Areas in FY 2010 and FY 2011 (in millions)

	Enacted FY 2010 Budget	Governor's AFY 2010 Budget	Governor's FY 2011 Budget
Addictive Disease Services	\$ 45.3	\$ 46.3	\$ 46.5
Developmental Disability Services	165.2	168.5	184.5
Forensic Services	48.1	51.1	55.8
Behavioral Health Services	277.6	276.4	282.0
Direct Care Support	120.4	134.8	147.6
Total DBHDD (including program areas not shown)	\$ 689.5	\$ 709.4	\$ 753.3

Source: Governor's FY 2011 Budget Report

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Endnotes

¹ Estimate is included in the DCH budget presentation to the Joint Appropriations Committee on January 21, 2010. http://dch.georgia.gov/vgn/images/portal/cit_1210/13/28/155775545BudgetPresentationJan21JTApprop.pdf

² Ibid.

³ Authors calculations based on data from the Governor's Proposed FY 2011 budget.

⁴ The "base FMAP" refers to the rate at which the federal government shares in the costs for Georgia's Medicaid program prior to the consideration of the enhanced Medicaid funding included in the Recovery Act. The FMAP for Georgia is updated every year, and will increase slightly effective October 2, 2010, generating savings for the state.

⁵ Beginning with the transition of the Division of Public Health to DCH, the proposed budget changes the structure of the Division of Public Health by moving two programs previously part of DPH (Injury Prevention and Emergency Preparedness & Disaster Response) to form a new Division of Emergency Preparedness. To be consistent with prior year budgets, these programs are included with the Division of Public Health in this document.

⁶ As reported by DCH in the Joint Appropriations Committee presentation, 1/21/2010.

⁷ The proposed budget directs funds to the following programs (FY 2011 figures): Adult Developmental Disability Services (\$6.3 M), Adult Forensic Services (\$7.7 M), Adult Mental Health Services (\$5.3 M), Adult Nursing Home Services (\$0.4 M), Departmental Administration (\$1.1 M), and Direct Care Support Services (\$21.4 M).

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