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Medicaid Funding in Texas' State Budget: Putting House and Senate Budget Cuts in Perspective

And New State Revenue Cuts, Federal Medicaid Cap Proposals Could Force More Cuts in Eligibility, Benefits, and Provider Pay

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REVENUE MATTERS. At some point Texas legislators will pass a balanced budget, but decisions they made in 2013 and 2015 to give tax breaks and divert revenue resulted in having $10 billion less to work with for the 2018-2019 budget. This shortage is independent of any lower revenues Texas has because of lower oil and gas prices. In addition to coming into this 2017 session without enough money, the Legislature is looking to pass another huge tax break – even considering eliminating Texas' main business tax completely – which could send us into our 2019 session another $3.5 billion in the hole.

CONGRESS CONTEMPLATING REDUCING FEDERAL MEDICAID DOLLARS, TOO. All versions of the recent Obamacare Repeal bills have proposed reducing Congress' federal funding to states for Medicaid. Therefore we cannot count on federal funds to prevent Medicaid cuts if our own state budget comes up short.

Medicaid Underfunding and Cuts in proposed 2018-2019 budgets

HOUSE	SENATE
$111 million Cost Containment #36	$410 million Cost Containment #36
$1,000 million Fed Flex	$930 million Unfunded 2017
$450 million Contract savings	$350 million 2019 enrollment unfunded
$1,900 million 2018-19 inflation unfunded	$1,900 million 2018-19 inflation unfunded
TOTAL: $3.461 billion (~ $12.8% of client services)	**TOTAL: $3.590 billion** (~ 13.3% of client services)

Rough Projected Medicaid Client Services, 2018-2019: ~ $27 billion, proposed short-funding: ~ 13%

Compared to:

2003: Cuts passed at 13.4%; ultimately 10.4% after federal fiscal relief

2011: 10.5% cuts adopted, plus 23% IOU (~$4.5 billion GR, covered in 2013 supplemental)

Sources: HHSC, LBB
All amounts GR, non-federal

Current Medicaid Proposals Compare in Scope to Cuts in 2003, 2011:

We calculated total reductions for earlier budget periods and compared them to the actual "client-service spending" that the state of Texas reported to federal Medicaid authorities for those years (i.e., does not include administration costs or special supplemental payments). For 2018-2019, we used Texas HHSC's current Medicaid projection for 2018 and inflated that amount by the recent average annual growth rate to model 2019.

2003: Sweeping Medicaid and CHIP cuts originally passed at nearly $1 billion of General Revenue (GR). Then Congress made recession-related relief dollars available, and the Legislative Budget Board (LBB) reduced cuts to 10.4 percent of client services.

2011: The Legislature passed direct cuts to Medicaid that were 10.5 percent of the actual client service spending for 2012-2013, a comparable percentage to 2003. In addition, the Legislature left roughly $4.5 billion GR as an explicit "IOU" for Medicaid, to be funded in the 2013 session supplemental bill. This IOU left Medicaid four to five months short of covering the full 24 months in the biennium, and the Legislature passed a supplemental appropriations bill early in the 2013 session to prevent default on payments for health care and long-term care. The 2011 rate and benefit cuts largely remained, however.

2017: As the small chart above and the detailed table below describe in detail, the House and Senate appropriations bills include a mixture of potential cuts and IOUs for Medicaid. **Should all of the under-funding of Medicaid be achieved through program cuts—that is, if the 2019 Legislature cannot or will not fund the supplemental needs—then the total tally would be about 13 percent of projected Medicaid direct client services for 2018-2019.** Because of this, the Legislature's intentions and its ability to find revenue in 2019 are of paramount importance.

Remember: Texas can't kick Medicaid can down the road, unless there will be revenue available down the road.

To assess the threat to ongoing Texas Medicaid services for over 4 million Texas children, seniors, people with disabilities, and pregnant women, it is important to watch the House and Senate budget bills closely. But we also have to watch how the chambers have handled the current 2017 Medicaid funding shortfall, actions they're taking with respect to using available dollars, and making sure adequate dollars will be available in the future.

- The Texas Senate has not yet passed a supplemental appropriations bill to fill the current Texas Medicaid shortfall for 2017 (and other key state budget needs for 2017). The House did pass its supplemental bill, which included $930 million state dollars for Medicaid in 2017.
- The House approved use of some funding from the Rainy Day Fund, and the Senate has not (the RDF is projected to have $12 billion available by the end of 2019).
- The House has included text expressing its intention not to make Medicaid program cuts in association with its "federal flexibility" rider that pulls $1 billion state GR dollars from Medicaid. *However, other House Medicaid funding reductions do not come with those reassurances.* The Senate has remained silent about its intentions.

Medicaid

2016-17 level	Senate 2018-19 Budget	House 2018-19 Budget
$64.2 billion All Funds (federal + state funding), of which $26.1 billion is General Revenue (GR). This includes $2.6 billion All Funds ($930 million GR) needed for Medicaid obligations that would be provided in supplemental appropriations. The House has passed HB 2, which includes this funding. The Senate did not mention Medicaid in its filed version (SB 1266), and the Senate Finance Committee has not yet heard a supplemental appropriations bill.	$63.9 billion All Funds, of which $26.2 billion is GR. Assumes $410 million GR reduction from cost-containment initiatives. *(Health and Human Services Commission (HHSC) rider 36) lists (see below) policy changes that HHSC can use to reduce Medicaid spending.* The Senate does not include the Legislative Budget Board's (LBB) projected Medicaid enrollment growth for 2019, instead funding two years at 2018 enrollment levels.	$63.2 billion All Funds, of which $25.8 billion is GR. Assumes $110.8 million GR reduction from cost-containment initiatives *(HHSC rider 36) lists (see below) policy changes that HHSC can use to reduce Medicaid spending.* Assumes another $1 billion GR reduction from "federal flexibility," which is uncertain. (HHSC rider 185). *Amended on House floor to add instructions that clarify that they do not intend to make program cuts.* During mark-up, HHSC appropriations were also reduced by another $450 million GR to meet a "target savings" in contract-related cost containment (Art. IX sec 17.10). *House did <u>not</u> include any written or public discussion about avoiding program cuts (benefits, eligibility, or provider payments) that could result from this large contract-related reduction.* HHSC rider 218 directs the agency to find $300 million in savings related to prescription drug benefit administration across multiple HHSC and Department of State Health Services programs, and via a list of policy options. *Note: rider 218 was added as an amendment on the House floor, and as we release this analysis, our understanding is that it does not impose an <u>additional</u> $300 million GR reduction on Medicaid.*
	Neither chamber's proposal covers per-client cost increases, estimated at $4.5 billion All Funds ($1.9 billion GR). Assumes 2017 per-enrollee costs for 2018 and 2019.	

	Senate rider 36 cost-containment list ($410 million GR reduction): (1) Increasing fraud, waste, and abuse prevention and detection; (2) Evaluating reimbursement for dual eligibles; (3) Improving prior authorization and utilization review for non-emergent air ambulance services; (4) Reviewing utilization and evaluating appropriateness of rates for durable medical equipment; (5) Increasing third party recoupments; (6) Implementing a pilot program on motor vehicle subrogation; (7) Achieving efficiencies in the printing and distribution of Medicaid identification cards; (8) Enforcing the limitations on recipient disenrollment from managed care plans pursuant to Government Code, §533.0076; and (9) Achieving other programmatic efficiencies. And from initiatives in Rider 178, Managed Care Risk Margin, Rider 182, Managed Care Contract; Procurement, Rider 196, Contingency for Senate Bill 1787, and Rider 192, Prescription Drug Savings.	**House rider 36 cost-containment list ($111 million GR reduction):** (1) Continue strengthening and expanding prior authorization and utilization reviews, (2) Incentivize appropriate neonatal intensive care unit utilization and coding, (3) Pursuant to Human Resources Code §§32.064 and 32.0641, maximize co-payments in Medicaid programs, (4) Increase fraud, waste, and abuse prevention detection and collections, (5) Explore changes to premium structure for managed care organizations and contracting tools to reduce costs and increase efficiency, (6) Implement fee-for-service payment changes and managed care premium adjustments that incentivize the most appropriate and effective use of services, (7) Increase efficiencies in the vendor drug program, (8) Increase third party recoupments, (9) Implement a pilot program on motor vehicle subrogation, (10) Continue to pursue efficiencies in eligibility determination and processing by using self-service options to submit applications, (11) Implement facility cost savings by reducing leased space or decommissioning buildings, (12) Recoup administrative costs for programs HHSC administers for other entities, such as the School Health and Related Services Program (SHARS), (13) Seek flexibility from the federal government to improve the efficiency of the Medicaid program, (14) Implement actions necessary to effect an increase in experience rebates, (15) Provide incentives for the completion of health risk screenings and engagement in healthy behaviors that address identified high-cost risk factors, and (16) Implement additional initiatives identified by HHSC.

Major Issues for Texans with Disabilities	Senate and House 2018-19 Budgets
Read more on disability-related budget issues here.	**For the first time in a decade, neither chamber's budget recommends funding to reduce "interest" (waiting) lists for Texas' four Community Care Medicaid waivers (HCS, CLASS, DBMD, Texas Home Living).** The sole exception is the Senate's added 267 "slots" to the Home and Community-based Services (HCS) waiver, reserved for children with disabilities in state Child Protective Services (CPS) custody/foster care. *Over 132,000 Texans are waiting; over half of those on HCS and CLASS lists must wait more than five years.* **Neither chamber proposes an increase to personal attendant wages;** the lowest-paid earn just $8 per hour despite the critical services they provide. About 143,000 Texas Medicaid clients with disabilities and seniors use personal attendant services. **No Promoting Independence Waiver Slots in either chamber:** All states are obligated under the Americans with Disabilities Act and the related U.S. Supreme Court "Olmstead" decision to facilitate providing community-based (versus institutional) services to persons with disabilities. Texas HHSC's Promoting Independence Initiative is the vehicle for proactive policy and funding to support transitions to community living. HHSC requested (see EI #15) 2,596 waiver slots for Promoting Independence, but only the 267 slots for children in CPS (see above) are included. **Important Budget Context** **HHSC has not "released" any new waiver slots since November 2016,** so that the full number of additional slots authorized and funded by the Legislature in 2015 for 2016-2017 will not be made available before the end of this state fiscal year, August 2017. **As a spending-cutting measure, HHSC has proposed *reducing* rates for Community First Choice attendant and habilitation services by 21 percent in the HCS and Texas Home Living waivers.** Disability advocates oppose **HHSC's proposal to outsource its successful model program of direct contracts with "relocation specialists,"** who have helped over 4,200 Texans move from nursing facilities to community settings since 2013. HHSC proposes to further out-source the function to Medicaid Managed Care Organizations, but it is not clear how fully the function would be funded, or overseen under that new structure.

Special Issues for Texas Children	Senate 2018-19 Budget	House 2018-19 Budget
	Pediatric Therapy Cuts from 2015: No Senate action.	**Pediatric Therapy Cuts from 2015:** House would reverse about 75 percent of the *rate* reduction portion of this cut to physical, speech and occupational therapy for children, which originated in the 2015 Legislature's Medicaid Cost Containment rider. This is the combined effect of funds included in HHSC rider 211 ($48.5 million GR) and 213 ($21.5 million GR). The riders do not address the portion of the 2015 rider directive that cut spending on pediatric therapy though policy changes (as opposed to rate cuts).
Read more on ECI from Texans Care for Children	**Early Childhood Intervention (ECI).** *ECI services are funded only partially through Medicaid, but included here because they are critical for children with a variety of special needs and developmental delays. The combined effects of 2011 ECI program cuts and 2015 therapy rate cuts have reduced access to ECI services that help children to age 3 and their parents overcome challenges. A number of ECI providers have discontinued services because of the reduced support from Texas.* Both chambers allocated $5.5 million above the 2016-2017 funding level for ECI. The Senate did not fund HHSC EI #6, which requested $19.8 million for 2018-2019 to cover expected caseload growth.	**Early Childhood Intervention (ECI).** Both chambers allocated $5.5 million above the 2016-2017 funding level for ECI. The House did not fund HHSC EI #6, which requested $19.8 million for 2018-2019 to cover expected caseload growth. However, the House adopted HHSC rider 72, which would make that amount available to ECI programs if sufficient federal IDEA Part C funds are available.

CPPP Insights

Texas Medicaid covers over 4 million Texans, over 3 million of them children. Over half of babies delivered, virtually all community-based care for Texans with disabilities and seniors, and about two-thirds of nursing home residents are covered by Texas Medicaid today. Consistent downward pressure by legislators to intentionally make the budget smaller has reduced Texas Medicaid *per-client costs* to below 2000 levels when adjusted for inflation.

The last two decades have seen consistent downward pressure on Medicaid per-person costs coupled with continued decisions by the Legislature that have permanently reduced the states' ability to raise revenues to support all the functions of state government. Increasingly, Texas Medicaid is locked into physician fees that are far below cost of providing care and personal attendant rates that can't compete with fast food or "big box store" pay. Now lawmakers propose a budget that provides no progress in access to community care programs for Texans with disabilities. Judging by the current budget proposals and tax break bills, 2018-2019 may hold even poorer results in store.

At best, both chambers seem to be "kicking the can down the road" to make Medicaid whole in 2019. But the combined threats of damaging revenue cuts under consideration at the state level and Congressional pressure to cut Medicaid funding to states could force major program cuts if funding is not provided on the back end. This should alarm everyone who cares about access to health care for low-income Texans, as well as anyone who cares about the health of Texas' safety net and trauma care systems. Federal and state health care funding cuts will be passed on to local governments, and communities will be forced to cut care or raise local taxes.

Texas stakeholders and advocates, not just our Legislators, must take into account the revenue decisions of the last two decades along with the spending decisions. To advocate for adequate public services without equal attention to both just doesn't work.

Children's Health Insurance Program (CHIP)

2016-17 level	2018-19 Senate and House Budgets
$1.8 billion All Funds, of which $158 million is GR	$2.0 billion, of which $149.4 million is GR. Neither proposal covers per-client cost increases, estimated at $53 million ($15 million GR); premiums are maintained at the same levels as fiscal year 2017. The funding increase is for expected caseload growth: 396,000 kids are covered by CHIP in 2016 (monthly average, all CHIP programs), rising to almost 445,800 by 2019.

CPPP Insights

Federal Medicare Access and CHIP Reauthorization Act (MACRA) funds are likely to run out in the 2018 state fiscal year. Both the House and Senate assume that new federal funding will continue CHIP through 2018 and 2019, but that is uncertain. Over 92 cents per dollar of CHIP spending in Texas is federally funded today, so Congressional reauthorization of both the program and of the current federal "mega-match" will be needed to keep Texas children out of danger.

CPPP acknowledges the budget analysis of the Texas Council for Developmental Disabilities for its very helpful detail on budget issues for Texans with disabilities. Read more here: http://www.tcdd.texas.gov/public-policy/texas-legislature/house-senate-budget-comparison/

Be sure to see the CPPP blog for all our recent work on the Texas budget, and especially this House v. Senate budget bill overview by Eva DeLuna Castro. https://forabettertexas.org/images/2017_04_LegeBudget_SidebySide.pdf

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