

## **STATE BUDGET DEBATE BEGINS GOVERNOR RENDELL UNVEILS HIS PROPOSED BUDGET**

- Cut proposed for MH & D&A
- No cuts in Medical Assistance eligibility
- No major cuts in Medical Assistance services
- Increases proposed for HCBS for older adults & persons with disabilities
- Major expansion of AdultBasic proposed
- Legislature will consider greater cuts

Governor Edward G. Rendell unveiled his proposed 2009-10 Pennsylvania budget on February 4<sup>th</sup>. The budget presentation opens weeks of hearings in the House and Senate. A final package must be passed by July 1, the start of the fiscal year, or the state loses its ability to spend money. Already this proposed budget has created a debate mirroring that in Washington between State legislators who want to cut additional spending and the Governor who is seeking additional revenue sources. PHLP attended the Department of Public Welfare's budget briefing. Highlights of that briefing are outlined below.

### **Mental Health Funding**

\$4.5 million (2%) cut proposed in so-called "90/10 base funding" to county MH/MRs for community based MH services. This cut would continue the cut that had been made by the Governor to community based MH funds this current fiscal year. In addition, DPW proposes to limit HealthChoices behavioral health "risk & contingency" funds to the amount needed for 30 days worth of services and by capping unspent reinvestment money for an additional savings of \$35 million. However, no cuts will be made to services for individuals who are being discharged from Mayview State Hospital or who were discharged from Harrisburg State when that closed. There will be no new CHIPPS slots making it much more difficult to relocate long term residents of other state hospitals.

Behavioral Health Managed Care Organizations are slated to receive a 2% increase plus an additional .5% increase for meeting performance requirements.

### **Medical Assistance ("MA") Funding**

A 3% increase is proposed for the MA HMOs with an additional 2.5% increase for "pay for performance". The Federal Fiscal Stimulus is being counted on to provide enough additional federal match ("fmap") to avoid major cuts to Medical Assistance services although some cuts are being proposed. These cuts are:

- \$20 million in enhanced "anti-fraud" provisions including tougher rules for recipient lock-in;
- A \$20 million cut in hospital "supplemental" payments; and
- Enhanced "pharmacy management" under Access Plus.

No restrictions in MA eligibility are proposed as the current Democratic versions of the Federal Fiscal Stimulus package prohibit states from restricting eligibility for MA. However, the federal fiscal stimulus will probably only last 27 months so the political

debate in the General Assembly will be between finding other revenues to replace the eventual loss of federal fiscal stimulus (which the Governor is proposing) or cutting MA spending now in anticipation of the eventual loss of the additional federal funds.

The Governor proposes 2 main revenue enhancements:

- Managed Care Organization (“MCO”) Assessment
- Pharmacy Carve Out

*MCO Assessment*—DPW currently assesses the MA HMOs at 5.5% of their revenues which is then returned as enhanced MA payments. These assessments draw down an additional \$200 million in federal Medicaid match. However, this type of assessment will no longer qualify for federal Medicaid match starting October 2009. In order to obtain federal match on MCO assessments, the state must impose the assessment on all MCOs- including commercial HMOs that do not participate in MA. The Governor is proposing to do this which, at 2%, is projected to replace the \$200 million lost from the current MA HMO assessments during the coming fiscal year and bring in \$400 million in subsequent years, helping to fill in lost federal money when the federal fiscal stimulus ends. The 2% represents the current tax on health insurance premiums that some commercial insurers (but not the HMOs) are currently required to pay. However, it will be difficult if not impossible to find a means to return the assessment to non-MA HMOs (since the assessments are currently returned to MA-participating HMOs through enhanced MA rates which cannot be paid to non-MA HMOs). Imposing this assessment on all HMOs will probably require legislation which will be politically challenging as it would require non-MA HMOs to pay towards the cost of Medical Assistance.

*Pharmacy Carve Out*—Once again DPW is proposing to carve out pharmacy benefits from the HMOs in order to obtain the rebates from the pharmaceutical manufacturers. This year, the carve out is being called “Smart Pharmacy”. DPW projects \$54 million in additional revenues for the coming fiscal year and \$146 million additional revenues a year for subsequent years. This is up from the \$9 million in savings DPW projected in previous year’s budget proposals. Although DPW has been unsuccessful in getting the pharmacy carve out in previous years, there is a reasonable chance that Congress will amend the pharmaceutical rebate provisions to require pharmaceutical manufacturers to also pay the rebates to MA HMOs which would provide significant savings to MA without fighting the HMOs over pharmacy carve out.

### **Home & Community Based Services**

Several increases in HCBS services for older adults and adults with disabilities are proposed:

- *Mental Retardation*—A \$15.1 million increase is proposed for the MR waiver “for emergency diversions to prevent persons with mental retardation from requiring institutional care. It is not clear at this point how many persons will be served and whether counties will be able to use the additional funds to serve anyone currently in the “emergency” category of the waiting list.

- *Autism*—A \$7.7 million increase is proposed. However, that increase is needed to fully implement the autism waiver and the ACAP program rather than creating new programs.
- *Older Adults*—\$ 9.6 million increase to provide HCBS services for an additional 2000 older adults.
- *Adults with Physical Disabilities*—\$9.3 million to add 800 individuals to the CSPPPD waivers (OBRA, Independence & CommCare) + \$7.2 million to add 800 individuals to the Attendant Care waiver.

These increases will be subject to debate in the General Assembly where many legislators are opposed to any spending increases. These increases in home & community based services will also be questioned when the Governor is proposing cuts in community based mental health services.

**Adults on MA & Medicare**—\$1.9 million to develop the proposed Integrated Care initiative which would combine Medicare & MA funded services in special HMOs. Implementation would be pushed back to July 2010.

**PACE**—Although the Governor’s proposed budget shows a decrease of \$100 million in lottery funds for PACE, the Acting Secretary of Aging has stated that no reductions in coverage are anticipated and that the savings will be realized through reduced drug costs.

In addition to these funding increases, the Governor will ask a Member of the General Assembly to introduce legislation to merge the Department of Aging with the Office of Long Term Living.

**Expansion of AdultBasic**

Proposal to draw down federal Medicaid matching funds for AdultBasic by requesting a federal “§1115 waiver”. The federal funds would be used to add 50,000 individuals to AdultBasic and to add coverage of prescriptions and mental health services. This would require a separate legislative amendment to the AdultBasic statute. Once the changes were enacted, contracts for insurers who will administer the coverage will be rebid to ensure enrollees have a choice of insurer. Hospital representatives argue that the projected increase in persons covered under AdultBasic will require significant reductions in provider reimbursements. The program would sunset (expire) at the end of 4 years with the hope that there will be some form of national health insurance for the uninsured by then.

**Legal Services**--Would be level funded