

HB 305

Amendment to 2010-12 Executive Branch Budget

**Presentation to Senate Appropriations and
Revenue Committee**

February 17, 2011

HB 305 Includes Two Budget Amendments

- Meet Federal Maintenance of Effort to receive \$134.9 million Federal Funds for K-12 Education
 - Requires adjustments to Postsecondary Education Appropriations
 - Rebalance the Medicaid Budget
 - Neither requires additional funds over the biennium
-

**\$134.9 Million Education Jobs
Fund Federal Grant
Higher Education Maintenance of Effort**

- The federal Education Jobs Fund was enacted in August, 2010. Kentucky received \$134.9 million that has been allocated to Kentucky school districts through the SEEK formula
 - To receive the \$134.9 million, each state must meet two FY 2011 maintenance-of-effort requirements:
 - one for K-12 Education,
 - and one for public Institutions of Higher Education.
 - Each state must maintain state funding in FY 2011 at either FY 2006, 2009, or 2010 levels
-

**\$134.9 Million Education Jobs
Fund Federal Grant
Higher Education Maintenance of Effort**

- Kentucky meets the K-12 requirement. Kentucky does not meet the Higher Education maintenance-of-effort requirement under any of the available options
 - To meet the Higher Education requirement, the FY 2011 General Fund appropriations for the nine postsecondary education institutions must be increased by \$18,943,800
 - These funds will bring the share of FY 2011 General Fund Higher Education funding from 11.25% to 11.47%, the Higher Education percentage of FY 2010 General Fund spending
-

**\$134.9 Million Education Jobs
Fund Federal Grant
Higher Education Maintenance of Effort**

- Shifts \$18,943,800 of General Fund appropriations from FY 2012 to FY 2011
 - Budget neutral, no impact to other state programs
 - The intent is for the institutions to spend the additional General Fund in FY 2011 and reserve a similar amount of this year's tuition and fee funds to replace the decreased General Fund in FY 2012
-

**\$134.9 Million Education Jobs
Fund Federal Grant
Higher Education Maintenance of Effort**

- **The reduction in FY 2012 General Fund budgets is not intended to be a permanent base budget reduction**
 - The Governor and the 2010 General Assembly also ensured that the depletion of federal State Fiscal Stabilization Funds in FY 2011 did not result in a \$57.3 million reduction in their General Fund base budgets for FY 2012
 - The allocation of the \$18,943,800 across the nine postsecondary education institutions is based on each institution's proportionate share of FY 2012 General Fund appropriations
-

Medicaid Biennial Budget Gap State Funds

	millions		Biennial Total
	FY 2011	FY 2012	
Budgeted Cost Containment Measures	\$ (125.5)	\$ (83.6)	
Lower Enhanced FMAP			
Budgeted Enhanced FMAP	\$ (238.0)		
Enhanced FMAP Approved by Congress	<u>\$ 138.0</u>		
Remaining Gap Due to Lower Enhanced Match Rate	\$ (100.0)	\$ -	
Total Medicaid Reductions Needed to Balance	\$ (225.5)	\$ (83.6)	
Management and Cost Containment Measures Taken and Planned to Date	\$ 86.5	\$ 80.2	
Remaining State Funds Gap	\$ (139.0)	\$ (3.4)	\$ (142.4)

Cost Containment and Program Management Measures Underway

- **\$86.5 million FY 2011 \$80.2 million FY 2012**

- Initiated programs and management practices to realize pharmacy savings;
- Reduce unnecessary use of medical services, treatments and ER visits;
- Eliminate the ability of some patients to “doctor-shop” in order to obtain unnecessary drugs;
- Increase efforts to collect payments from liable third parties for Medicaid services provided;
- Stop paying hospitals for hospital acquired infections and errors;

Cost Containment and Program Management Measures Underway

- Recoup payments to providers by partnering with the Department of Revenue;
- Increase efforts to identify fraud and abuse
- Negotiate contract savings within the Passport region

Medicaid on Target to Achieve Announced Savings – 66% Realized in First Six Months

	State Funds		
	Annual Estimate	First Six Months Amount	Percent of Annual
1) New Program Initiatives	42,000,000	16,600,000	40%
Pharmacy Management	16,900,000	7,500,000	44%
Program Integrity and Efficiency	13,400,000	2,600,000	19%
Resource Enhancement	11,700,000	6,500,000	56%
2) Passport Contract Negotiation Savings	8,500,000	4,300,000	51%
3) Resources from Ongoing Management Efforts (State Funds: Clawback \$22 M; Drug Rebate \$10 M; and Other \$4 M)	36,000,000	36,000,000	100%
FY 2011 Program Efficiencies	86,500,000	56,900,000	66%

Medicaid Rebalancing Plan

- Budget neutral - no impact to other state programs
- Shifts \$166.5 million of Medicaid General Fund appropriation from FY 2012 to FY 2011
 - \$139 million will provide the state match necessary to fund FY 2011 anticipated expenditures
 - \$27.5 million will allow Medicaid to process payments within FY 2011 at the highest possible federal match rates
- Adjusts federal funds in each year accordingly
- Recognizes new managed care initiatives and other efficiencies to balance FY 2012
- Improves structural balance of General Fund budget by \$166.5 million

HB 305 Improves the Structural Imbalance of the General Fund by \$166.5 million

	FY 2010 Revised	FY 2012 Enacted	FY 2012 HB 305	Impact of HB 305
One-Time Resources or Expenditure Deferrals				
Beginning Balance	\$ 39.5	\$ 281.1	\$ 114.6	(166.50)
Stimulus-General Fund Replacement:				
State Fiscal Stabilization Fund	\$ 383.2			
Medicaid	\$ 329.3			
Debt Restructuring	\$ 167.5	\$ 130.0	\$ 130.0	-
Fund Transfers > \$40M	\$ 123.0	\$ 82.7	\$ 82.7	-
Defer Final FY 12 Payroll		\$ 72.0	\$ 72.0	-
Total One-Time Resources or Expenditure Deferrals	\$ 1,042.5	\$ 565.8	\$ 399.3	(166.50)

Savings in Second Year to be Achieved through Increased Managed Care Principles

- Initiate innovative cost containment strategies employed by other states to achieve savings and improve health:
 - Performance-based managed care – medical and dental
 - Physician incentive plans
 - Performance-based pharmacy program
 - Long-term care coordination for institutional and community-based care
 - Radiology and imaging management
- Increase anti-fraud initiatives
- Continue to evaluate options to reduce costs

Savings in Second Year to be Achieved through Increased Managed Care Principles

- Many states are expanding managed care to improve health outcomes for citizens and realize savings for taxpayers
 - On average, 46% of Medicaid caseloads in the nation are under managed care
 - 13 states expanded managed care in FY 10
 - 20 more states expanded managed care in FY 11

Consequences of Not Adopting Budget Amendment

- Approximately \$600 million would have to be cut from the Medicaid program before June 30, 2011:
 - Federal Maintenance of Eligibility requirements prohibit reductions to eligibility
 - Cuts would have to come from provider reimbursement rate reductions (approximately 30% reduction) or by eliminating optional services to Medicaid beneficiaries.
 - Washington red tape makes benefit reductions difficult to implement by June 30
-

Consequences of Not Adopting Budget Amendment

- 30% reimbursement rate cuts to healthcare providers impact employers throughout the state:
 - Hospitals
 - Pharmacies
 - Nursing Homes
 - Community Mental Health Centers
 - Physicians
 - All healthcare providers who provide care to the 800,000 beneficiaries in the program
 - Many are in rural areas
-

HB 305

**Amendment to 2010-12
Executive Branch Budget**

**Presentation to Senate Appropriations and
Revenue Committee**

February 17, 2011