

On May 15 the Senate Ways and Means (SWM) Committee released its Fiscal Year (FY) 2014 budget proposal, and on May 23 the full Senate approved a version of the budget after two days of debate and amendment. The Senate budget proposes \$13.45 billion in FY 2014 funding for the Massachusetts Medicaid program (MassHealth) and other subsidized health coverage programs and related activities, slightly more than the amount included in the budget the House approved in April. The House and Senate budget proposals now move to a legislative conference committee that will reconcile differences between them and then send a final budget to the Governor, who has the power to veto or reduce individual items and to propose changes to budget language.

Like the Governor's House 1 budget proposal that preceded them, both the House and Senate budgets reflect significant changes that will occur when central provisions of the federal Affordable Care Act (ACA) take effect in January 2014, midway through the state fiscal year. Implementation of the ACA will lead to an expansion of the MassHealth program and the creation of Qualified Health Plans (QHPs) sold through the state's Health Connector. The Commonwealth Care program and some smaller

subsidized health coverage programs will end, and their enrollees either will move to the new MassHealth CarePlus program or will be eligible for federal tax credits and cost-sharing subsidies for QHPs, depending on income level and immigration status. The state will receive enhanced federal revenue for adults who are newly eligible for MassHealth, and will realize savings as some people transition from state programs to QHPs; together savings and new federal revenue are expected to yield about \$200 million in FY 2014. For more detail on the changes in eligibility and population shifts among programs, see [The Governor's FY 2014 House 1 Budget Proposal](#).

COMPARING THE HOUSE AND SENATE FY 2014 BUDGET PROPOSALS

The House and Senate budgets are similar in many ways. Both adopt the Governor's proposed new line item to fund costs associated with the MassHealth expansion that will occur under the ACA. Both budgets also provide state funding for "wrap" coverage to supplement federal tax credits and cost-sharing subsidies for people with incomes up to 300 percent

MASSHEALTH AND HEALTH REFORM (MILLIONS OF DOLLARS)

		FY 2013 Current Appropriations*	FY 2014 Governor	FY 2014 House	FY 2014 Senate
MassHealth (Medicaid)	MassHealth Programs	10,869.94	11,808.17	11,619.66	11,681.03
	MassHealth ACA Expansion	0.00	460.91	449.18	453.88
	MassHealth Administration**	92.63	99.40	94.89	95.95
	MassHealth Subtotal	10,962.57	12,368.48	12,163.72	12,230.86
Commonwealth Care Trust Fund	General Fund Transfer	740.27	470.64	467.35	340.08
	Tobacco Tax Transfer	120.00	120.00	120.00	151.27
	Adjustment for Off-Budget Revenue***	0.00	0.00	0.00	94.00
	CCTF Subtotal	860.27	590.64	587.35	585.35
Transfers to Other Trust Funds	Delivery System Transformation Initiatives Trust Fund	186.91	93.45	93.45	93.45
	Medical Assistance Trust Fund	565.01	392.00	392.00	394.00
	Health Insurance Technology Trust Fund	0.00	1.13	1.13	1.13
Other Health Finance & Safety Net Funding	Center for Health Information and Analysis & Other Health Finance	37.53	29.90	27.60	31.77
	Prescription Advantage	17.93	16.81	15.79	16.49
	HHS Information Technology	91.92	106.12	96.62	100.08
	Total Spending	12,722.13	13,598.52	13,377.65	13,453.12
	State Budget Total****	35,335.85	37,521.84	36,702.28	36,828.24

*FY 2013 Current Appropriations represent spending approved in the FY 2013 General Appropriations Act, supplemental spending approved through May 2013, and 9C spending reductions announced in December 2012.

**MassHealth Administration includes line items funding auditing, operations, and payment reform activities, as well as the main administrative line item (see table on last page for more detail).

***This adjustment accounts for the Senate's proposal to deposit \$94.0 million from an employer assessment directly in the CCTF; the Governor's and House budgets transfer this revenue to the General Fund and uses it to pay for on-budget costs, resulting in a higher General Fund transfer to the CCTF.

****State Budget Total includes all line item appropriations, operating transfers, and direct spending from statutorily designated taxes, as well as adjustments to account for municipal participation in the Group Insurance Commission and tuition retained by state universities and colleges; these adjustments allow for more accurate year-to-year comparisons.

of the Federal Poverty Level (FPL) who purchase insurance through the Connector. This wrap funding is intended to maintain the affordability of this coverage at the same levels as the current Commonwealth Care program (federal tax credits, but not wrap coverage, will be available for those with incomes between 300 percent and 400 percent FPL).

Both budgets reflect the revenue constraints under which legislative budget writers operated relative to the Governor's proposal, which included additional tax revenue for use across the budget. The new revenue allowed the Governor to use savings from the ACA to restore adult dental coverage in MassHealth and for other investments in health care. In contrast, both the House and Senate propose more limited new investments and fund some existing programs at lower levels than the Governor proposed. The result is lower overall appropriation levels for MassHealth programs and administration—\$12.23 billion in the Senate budget and \$12.16 billion in the House budget, in contrast to the Governor's proposal of \$12.37 billion. While the House and Senate budgets are largely similar, there are differences between them. Some of these are relatively minor—for instance, the two budgets propose slightly different appropriations for the main MassHealth administrative line item and some other programs—and others are more pronounced. The following section describes the key differences between the two budgets (for a complete list of appropriations, see the appendix on page 5).

HEALTH CARE FUNDING DIFFERENCES

ACA Implementation & Commonwealth Care	House	Senate	Senate minus House
ACA Expansion (4000-0940)	\$449,177,060	\$453,877,324	\$4,700,264

This new line item will fund \$436.9 million in costs related to expansion of MassHealth coverage in January 2014 for over 325,000 people with incomes up to 138 percent FPL, including about 240,000 people now enrolled in programs like MassHealth Basic, Essential, and Commonwealth Care that are slated to end.

Within this line item, the Governor's budget also included funding for several related investments. As in the Governor's budget, the House and Senate proposals both include funding (\$5.2 million) for standardizing MassHealth coverage for pregnant women. However, the House and Senate differ on other investments:

- The House includes funds (\$7.0 million) for extension of coverage terminations to the end of the month for individuals transitioning from MassHealth to the Connector; the Senate does not include this funding.
- The Senate funds the extension of ACA income eligibility criteria to disabled as well as non-disabled adults (\$5.9 million) and funds maintenance of state coverage for a small group of lawfully present immigrants (\$5.9 million); the House does not include this funding. These provisions would enable approximately 3,400 legal immigrants to continue, and 930 adults with disabilities to gain, MassHealth coverage.

	House	Senate	Senate minus House
Commonwealth Care Trust Fund	\$587,346,393	\$585,346,393	(\$2,000,000)
<i>GF Transfer to CCTF (1595-5819)</i>	<i>\$467,346,393</i>	<i>\$340,078,633</i>	<i>(\$127,267,760)</i>
<i>Tobacco Tax Transfer to CCTF</i>	<i>\$120,000,000</i>	<i>\$151,267,760</i>	<i>\$31,267,760</i>
<i>Employer Medical Contribution</i>	<i>\$0</i>	<i>\$94,000,000</i>	<i>\$94,000,000</i>

The two budgets include similar funding amounts to support the cost of the Commonwealth Care program through December 2013, and to provide wrap coverage for QHP enrollees with incomes up to 300 percent of FPL and pay for other operational costs starting in January 2014.

- Both budgets assume that employer assessment revenue that currently supports an off-budget program providing health coverage will be available to support health costs generally after that program ends (see the “Employer Assessments” section on page 3). The House budget would shift the revenue on budget to support subsidized health coverage generally; the Senate budget proposes to deposit the revenue directly in the CCTF.
- The Senate assumes that an increase in the tobacco tax in separate legislation currently awaiting reconciliation by a conference committee will yield \$31.3 million in new revenue for the CCTF, which receives a fixed percentage of total tobacco tax revenue.
- An amendment approved during the Senate debate added \$1.0 million to the Commonwealth Care Trust Fund for partial restoration of adult dental coverage. The House does not appropriate funds for this purpose but includes language that would authorize the use of any year-end tax revenue surplus for a similar restoration. At the same time, the Senate also assumes that the CCTF will end the year with a \$3.0 million surplus that can be used in FY 2014. Together, these two items account for the \$2.0 million difference between the two budgets in funding for the CCTF.

Other MassHealth Programs	House	Senate	Senate minus House
CommonHealth (4000-0430)	\$91,074,613	\$96,628,909	\$5,554,296
Managed Care (4000-0500)	\$4,500,411,804	\$4,538,960,913	\$38,549,109

- The House and Senate budgets propose different spending levels for managed care programs: The Senate budget appropriates \$14.0 million less than the Governor requested, based on updated information about FY 2013 spending. Language included in the Senate line item requires MassHealth to work with its actuary to develop managed care capitation rates that reflect increases in MassHealth rates for hospitals during FY 2014 and to report back on its methodology by October 1, 2013. If the report is not filed and rate increases are not accounted for, then capitation rates go up automatically to reflect increased hospital payment rates.
- The House has not provided information on its lower appropriation level; the lower level appears to reflect assumptions about lower

enrollment and utilization. House budget language earmarks \$1.0 million for inpatient behavioral health providers within this appropriation.

	House	Senate	Senate minus House
Senior Care (4000-0600)	\$2,861,335,505	\$2,903,835,505	\$42,500,000

The House and Senate budgets propose different spending levels for senior care programs:

- The Senate proposes \$7.5 million less than the Governor requested, because it assumes \$3.0 million in savings from expansion of a Department of Public Health Academic Detailing program to improve prescribing practices among MassHealth providers, and \$4.5 million in savings from a reduction in rates paid for beds that are held open during a patient's temporary absence from a nursing home.
- The House proposes \$50.0 million less than the Governor requested, a reduction that appears to be based on an assumption that MassHealth can use cash management strategies to realize additional savings beyond those already included in the Governor's budget. The administration has indicated it will be difficult to achieve the proposed spending level without affecting program services.

	House	Senate	Senate minus House
Nursing Home Supplemental Rates (4000-0640)	\$319,300,000	\$298,600,000	(\$20,700,000)

The House budget increases funding for supplemental rates paid to nursing facilities to a level slightly higher than the amount initially approved in FY 2013 (midyear budget cuts later reduced funding for rates), and it earmarks \$2.8 million for incentive payments for joint employee-management initiatives to improve quality of care at nursing homes. The Senate provides the same level of funding that the Governor proposed, which is lower than the level in the House budget.

	House	Senate	Senate minus House
Fee-for-Service (4000-0700)	\$2,159,099,061	\$2,145,226,061	(\$13,873,000)

Both budgets propose appropriation levels lower than the one the Governor proposed, and both fail to adopt the Governor's proposed \$68.8 million for a full restoration of adult dental coverage and \$10.0 million for enhanced payments to primary care providers as part of a payment reform initiative to better integrate care delivery and increase provider accountability. Beyond that, there are several differences between the two budgets:

- The Senate earmarks \$13.0 million for a partial restoration of adult dental coverage that would cover fillings in all teeth and directs MassHealth to determine a start date for the restoration. The House does not appropriate funds for restoration of adult dental benefits but instead includes language (section 74) authorizing the use of any year-end FY 2013 surplus revenue for a number of purposes, including \$17.2 million for MassHealth and Connector coverage of fillings.

- The House earmarks \$15.0 million for rate adjustments for hospitals serving high-risk pediatric patients; the Senate does not include funding for these rate adjustments.
- The House provides \$23.0 million for Infrastructure and Capacity Building Grants for hospitals and community health centers; the Senate allocates \$10.0 million.

	House	Senate	Senate minus House
Family Assistance (4000-0880)	\$222,766,943	\$227,161,472	\$4,394,529
HIV Plan (4000-1400)	\$18,744,723	\$23,693,667	\$4,948,944

The Senate budget appropriations for the MassHealth Family Assistance and HIV Plan programs are identical to the Governor's funding proposal for these programs; the lower House appropriation appears to be based on different assumptions concerning expenditure growth.

MassHealth Administration	House	Senate	Senate minus House
Administration (4000-0300)	\$88,785,816	\$88,247,730	(\$538,086)
Operations (4000-1602)	\$1,333,756	\$2,333,756	\$1,000,000

Both House and Senate budgets appropriate less than the \$3.4 million the Governor requested for the operations line item, which was created in FY 2013 to address backlogs in processing MassHealth applications and prolonged call-waiting times. The Governor's request would have supported 31 additional benefit eligibility review workers to address processing delays and call-waiting times that as of December 2012 averaged 20 minutes. The lower Senate and House proposals will likely result in fewer hires.

	House	Senate	Senate minus House
Health Care System Reform (4000-1604)	\$349,766	\$949,766	\$600,000

LANGUAGE DIFFERENCES

Employer Assessments

Both House and Senate budgets adopt the Governor's proposal to repeal one health-related employer assessment and to revamp a second assessment. Language included in both budgets repeals the Fair Share Contribution, created in the 2006 Massachusetts health reform law. This assessment on employers who do not provide health insurance will be replaced by a federal penalty under the ACA. Separate language creates an Employer Medical Assistance Contribution to replace an existing assessment that funds the Medical Security Program (MSP), which will end, as its enrollees become eligible for either MassHealth or QHPs available through the Connector under the ACA. The House budget proposes that revenue from the repurposed assessment be deposited in a new fund—the Medical Assistance Trust Fund—and directs the transfer of revenue from this fund to MassHealth and the Connector to support subsidized health insurance for low-income residents. The

Senate budget proposes to deposit the assessment revenue directly into the Commonwealth Care Trust Fund. As in the Governor's proposal, both budgets assume that this assessment, which begins in January 2014, will produce \$94.0 million in the second half of FY 2014.

Bureau of Program Integrity

The House budget creates a Bureau of Program Integrity under the auspices of the Inspector General and charges it with monitoring the "quality, efficiency and integrity" of HHS programs, including MassHealth, at an added cost of \$350,000. The Senate does not add to the existing oversight bodies, which include the auditor, the inspector general, and EOHHS agencies' own program integrity units. Both the House and Senate more than double the funding for the MassHealth auditing and utilization review account. Another section of the House budget, not included by the Senate, authorizes the Department of Revenue to provide tax information to other agencies for the purpose of assessing the eligibility of program applicants.

Distressed Hospital Fund

Health care payment reform legislation approved in 2012 (Chapter 224) created a one-time surcharge on hospitals and insurers designed to raise \$225.0 million over four years, with \$135.0 million allocated to

a Distressed Hospital Trust Fund. The Senate budget directs the Health Policy Commission to provide \$40.0 million from the fund in FY 2014 to pay for 5 percent increases to inpatient and outpatient payments for disproportionate share hospitals—hospitals that rely heavily on government payments. Hospitals would be required to detail how these increases helped them meet efforts to contain health cost growth. The House budget does not include this provision but does include language specifying that a commission set up by Chapter 224 to examine public payer rates and rate methodologies include methodologies for inpatient and outpatient payments to these hospitals.

Healthcare Payment Reform Fund

Both the House and Senate budgets tap an off-budget Healthcare Payment Reform Fund to pay for some FY 2014 health costs. This fund, which was created in 2011 legislation legalizing casino gambling and further defined in 2012 payment reform legislation, will receive revenue from casino licenses and from a one-time assessment on hospitals. As in the Governor's budget proposal, the Senate uses \$20.0 million from the fund for hospital rate increases. The House proposes to use about \$32 million from the fund for rate increases and for some additional hospital payments.

OTHER MASSHEALTH PROPOSALS & RELATED HEALTH SPENDING

Aside from the differences outlined above, the House and Senate budgets share some new policy proposals, and both take the same approach to funding some health care items that are separate from, but related to, MassHealth.

Inspector General Audit — Both budgets contain language that has been included in previous budgets authorizing the Inspector General to conduct audits of spending on the Health Safety Net program, and both also add new language further authorizing the Inspector General to study and review aspects of MassHealth programs, including eligibility, utilization, and claims administration.

Mental Health Parity — Both budgets contain language that requires the Division of Insurance (DOI) and MassHealth to implement regulations under which insurers and MassHealth would certify and explain how they are in compliance with federal and state mental health parity laws. The regulations would also require these carriers to notify consumers of their right to file grievances, and set a process for review of complaints by DOI and MassHealth.

SCO and PACE Program Notice — Both budgets contain language that would amend state law to require that MassHealth provide beneficiaries over age 65 with an annual notice of options for enrolling in the Senior Care Options (SCO) program, the Program for All-inclusive Care for the Elderly (PACE), and other community-based programs. The language also requires MassHealth to work with providers and stakeholders to alleviate barriers to enrollment in such programs. A similar provision was included in the FY 2012 General Appropriations Act but vetoed by the Governor.

Health Safety Net — The budgets assume that \$350.0 million (\$320.0 million from an off-budget assessment on hospitals and insurers and \$30.0 million from a transfer of General Fund revenue via the Commonwealth Care Trust Fund) will be available to reimburse hospitals for a portion of the costs of care provided to uninsured patients through the Health Safety Net (HSN). Because the funding level for the HSN has remained fixed, when uncompensated care costs rise hospitals receive reimbursement for a smaller portion of costs. As more people become eligible for MassHealth and other coverage under the ACA, however, demand on the HSN is expected to decline, and the gap between total costs for uncompensated care and the amount available to reimburse those costs is expected to decline as well.

Health Information Technology Trust Fund — The budgets include \$1.1 million for a Health Information Technology (HIT) Trust Fund that was created in 2011. Funding will support the ongoing operations of a state Health Information Exchange (HIE) that allows electronic health information to be shared among providers. The majority of the funding needed to support the operations of the HIE, expected to total \$17.0 million per year when fully phased in, will come from federal and private sources.

Medical Assistance Trust Fund (MATF) & Delivery System Transformation Initiatives (DSTI) Trust Fund — Both budgets fund these two trust funds that provide grants to hospitals with high proportions of uninsured and publicly insured patients. Funding provided through the Medical Assistance Trust (MATF) is supported fully by federal reimbursements and assessment revenue. The Delivery System Transformation Initiatives (DSTI) Trust Fund receives more than half its revenue from federal reimbursements. The proposed transfer to the DSTI fund is \$93.5 million, which is half the total amount (\$186.9 million) expected to be available to support FY 2014 costs (the second installment will be made after the close of the 2014 fiscal year).

APPENDIX

Line Item	Name	FY 2013 Current Appropriations*	FY 2013 Estimated Spending*	FY 2014 Governor	FY 2014 House	FY 2014 Senate
MassHealth Programs & Administration**						
4000-0300	EOHHS & MassHealth Administration (A)	88,144,888	88,144,889	90,598,693	88,785,816	88,247,730
4000-0301	MassHealth Auditing and Utilization Reviews (A)	1,736,313	1,736,313	4,416,519	4,416,519	4,416,869
4000-0309	MassHealth Field Auditing Taskforce (A)	1,000,000	1,000,000	-	-	-
4000-0315	Bureau of Program Integrity (A)	-	-	-	-	-
4000-0320	MassHealth Recoveries (RR)	225,000,000	225,000,000	225,000,000	225,000,000	225,000,000
4000-0430	MassHealth CommonHealth Plan	73,165,557	88,421,954	96,628,909	91,074,613	96,628,909
4000-0500	MassHealth Managed Care	4,081,345,376	4,257,117,147	4,552,960,913	4,500,411,804	4,538,960,913
4000-0600	MassHealth Senior Care	2,756,130,662	2,756,696,960	2,911,335,505	2,861,335,505	2,903,835,505
4000-0640	MassHealth Nursing Home Supplemental Rates	303,600,000	303,989,967	298,600,000	319,300,000	298,600,000
4000-0700	MassHealth Fee-for-Service Payments	1,941,722,476	1,819,111,138	2,247,826,061	2,159,099,061	2,145,226,061
4000-0870	MassHealth Basic Coverage	178,759,689	172,080,738	180,437,109	180,437,109	180,437,109
4000-0875	MassHealth Breast and Cervical Cancer Treatment	5,248,099	5,248,099	5,725,199	5,725,199	5,725,199
4000-0880	MassHealth Family Assistance Plan	213,894,591	216,175,150	227,161,472	222,766,943	227,161,472
4000-0890	MassHealth Premium Asst & Insurance Partnership	30,481,392	30,797,377	33,877,115	30,877,115	30,877,115
4000-0895	Healthy Start Program	15,850,244	15,850,244	14,439,991	14,439,991	14,439,991
4000-0940	ACA Expansion Populations	-	-	460,907,878	449,177,060	453,877,324
4000-0950	Children's Behavioral Health Initiative	221,549,097	179,743,708	203,237,576	203,200,101	203,200,101
4000-0990	Children's Medical Security Plan	13,298,695	13,298,695	13,214,180	13,214,180	13,214,180
4000-1400	MassHealth HIV Plan	18,744,723	19,744,723	23,693,667	18,744,723	23,693,667
4000-1405	MassHealth Essential	505,998,456	466,755,623	489,878,244	489,878,244	489,878,244
4000-1420	Medicare Part D Phased Down Contribution	285,153,027	285,913,499	284,153,027	284,153,027	284,153,027
4000-1602	MassHealth Operations (A)	1,000,000	1,000,000	3,386,727	1,333,756	2,333,756
4000-1604	Health Care System Reform (A)	750,000	750,000	999,843	349,766	949,766
Commonwealth Care Trust Fund***						
1595-5819	Commonwealth Care Trust Fund (operating transfer)	740,272,286	661,249,148	470,637,393	467,346,393	340,078,633
PB4	Commonwealth Care Trust Fund (tobacco tax)	120,000,000	120,000,000	120,000,000	120,000,000	151,267,760
Transfers to Other Trust Funds***						
1595-1067	Delivery System Transformation Initiatives Trust	186,907,667	186,907,667	93,449,470	93,449,470	93,449,470
1595-1068	Medical Assistance Trust Fund	565,006,556	565,006,556	392,000,000	392,000,000	394,000,000
1595-1069	Health Information Technology Trust Fund	-	-	1,125,000	1,125,000	1,125,000
Center for Health Information and Analysis & Other Health Finance**						
1599-2004	Health Care Cost Containment Reserve	1,654,509	1,654,509	-	-	-
1599-2007	Health Care Cost Containment Reserve	2,949,889	3,000,000	-	-	-
4100-0060	Center for Health Information and Analysis	21,809,221	21,809,221	24,800,000	22,500,000	26,667,824
4100-0061	All Payer Claims Database	3,960,000	4,000,000	4,000,000	4,000,000	4,000,000
4100-0082	Health Safety Net Claims Migration (RR)	5,955,471	6,000,000	-	-	-
4100-0360	Health Care Quality & Cost (RR)	99,000	100,000	-	-	-
7006-0029	Health Care Access Bureau Assessment	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
Prescription Advantage						
9110-1455	Prescription Advantage	17,925,869	17,925,869	16,808,368	15,789,821	16,488,368
HHS Information Technology						
4000-1700	Health and Human Services Information Tech Costs	91,917,894	94,282,975	106,121,424	96,616,423	100,081,424

*FY 2013 Current Appropriations represent spending approved in the FY 2013 General Appropriations Act, supplemental spending approved through May 2013, and 9C spending reductions announced in December 2012. FY 2013 Estimated Spending reflects the administration's expectations (as of January 2013) about final actual FY 2013 expenditures.

**In these categories (A) denotes line items that fund MassHealth administration costs and (RR) denotes a retained revenue account that authorizes an agency to retain and spend funds from a particular source.

***Funding for the Commonwealth Care Trust Fund and other Trust Funds reflects operating transfers made from the General Fund into each fund and not actual spending from the fund. In addition to a transfer from the General Fund (1595-5819), the Commonwealth Care Trust Fund receives a direct transfer of tobacco tax revenue that would otherwise go to the General Fund and that is included here.