

Budget Brief

August 2011

The Fiscal Year 2012 Budget: General Appropriations Act (GAA) After the Governor's Vetoes

On July 1, 2011, the legislative Conference Committee released its Fiscal Year 2012 (FY 2012) budget proposal, and on July 11 the Governor signed the budget, vetoing certain language within the bill. The Legislature may choose to override the Governor's vetoes, and has until the end of the calendar year to do so. The budget, or General Appropriations Act (GAA), is Chapter 68 of the Acts of 2011 and includes a total of \$11.8 billion in funding for MassHealth and other programs that support health care for the state's low- and moderate-income residents. Currently, MassHealth provides health care coverage for nearly 1.3 million residents, including more than 535,000 children; Commonwealth Care covers just under 160,000 residents; and Commonwealth Care Bridge currently covers 16,500 special status legal immigrants.

The FY 2012 budget includes \$10.4 billion for MassHealth — an increase of just \$155 million over current FY 2011 projected spending. The FY 2012 budget assumes significant constraints in the MassHealth program, and relies on significant cuts and savings, most of which were part of the Administration's original FY 2012 budget proposal. The Governor had originally proposed close to \$800 million in cuts and savings, but not all of these proposals were incorporated into the final version of the budget passed by the Legislature and signed by the Governor, and additional initiatives were included that had not originally been funded. All told, the FY 2012 GAA includes approximately \$770 million in cuts and savings to the MassHealth program. Cutting spending to such a large degree within one fiscal year will be very challenging, particularly as the MassHealth admin-

MassHealth and Health Reform (Millions of Dollars)

		FY 2011 Current*	FY 2011 Available for FY 2012	FY 2012 General Appropriation Act	FY 2012 Current*
MassHealth (Medicaid)	MassHealth	10,241.8	29.8	10,369.2	10,399.0
	MassHealth Administration	170.1		166.2	166.2
	Sub-Total	10,411.9	29.8	10,535.5	10,565.3
Health Reform and Health Safety Net	Prescription Advantage	31.5		21.6	21.6
	Div. of Health Care Finance & Other Health Finance	22.2	1.9	28.8	30.7
	Commonwealth Care Trust	842.0	17.0	848.0	865.0
	Health Insurance Technology Trust	0.0		0.5	0.5
	Medical Assistance Trust**	886.1		394.0	394.0
	Sub-Total	1,781.8	18.9	1,292.9	1,311.8
Total	12,193.7	48.7	11,828.3	11,877.0	
State Budget Total***	34,031.2	190.8	33,389.6	33,580.3	

For line item detail on the numbers included in this table, see Appendix.

*Including all enacted supplemental budgets as of July 11, 2011. Legislative language allows for some supplemental funds budgeted in FY 2011 to be available for use in FY 2012. These funds ("prior appropriations continued" or "PACs") are not included in the FY 2011 current total, and are instead included in the FY 2012 current total.

**Transfers into this fund are contingent on federal approval and consist primarily of federal matching funds. The Trust is an important source of additional funding for providers that care for low-income residents. With federal approval, additional funds may be transferred into this Trust during FY 2012.

***This total includes all line item appropriations, operating transfers, and direct spending from statutorily designated taxes, as well as a reduction to account for municipal participation in the state's Group Insurance Commission, and an adjustment to account for tuition retained by state universities and colleges. These adjustments allow for more accurate year-to-year comparisons.

istrative budget to implement such initiatives is also being cut. Furthermore, the federal maintenance of effort (MOE) requirement removes the ability to modify eligibility or cap enrollment as an option to addressing budget gaps, unless a hardship waiver is sought. This leaves provider and managed care capitation rate cuts and reductions in benefits as the main tools available to quickly achieve the large level of savings needed. Based on assumptions included in the Administration's original budget proposal, these savings are to be achieved primarily through new procurement strategies aimed at those currently enrolled in managed care as well as other controls on provider and managed care organization rates and payments. It is important to note that if MassHealth does not meet these savings targets, other significant program cuts might be necessary to stay within budget, or additional funding may need to be appropriated later in the year. The FY 2012 budget also includes \$822 million in funding for the Commonwealth Care program and provides \$42 million for the Commonwealth Care Bridge program (\$25 million from the FY 2012 budget, and \$17 million carried over from the FY 2011 budget).

Typically the federal government reimburses Massachusetts for approximately half of its spending on the MassHealth program. This means that cuts in MassHealth spending result in reductions in federal revenues to the state. In recent years, the federal government provided substantial additional revenue as part of the federal stimulus funding. These federal stimulus dollars will no longer be available starting in FY 2012. This loss of federal revenue places a particular strain on the FY 2012 budget and contributes significantly to the state's budget gap.

Caseload

- Assumes **MassHealth** caseload will grow by approximately 4.6 percent over the course of the year, adding 19,000 children and 41,000 adults, for a total caseload of 1.36 million people in FY 2012.
- Assumes **Commonwealth Care** will add 13,000 members for an estimated 174,000 by the end of FY 2012, due in part to the expiration of extended federal unemployment benefits and companion Medical Security Program coverage.
- Includes funding for **Commonwealth Care Bridge** to maintain current caseload of roughly 16,500, yet continues the exclusion of over 24,000 legal immigrants from either Commonwealth Care or Commonwealth Care Bridge coverage (Section 166).¹

¹ The Bridge program has provided limited health care coverage to certain legal immigrants since they were excluded from Commonwealth Care eligibility in August 2009. During FY 2012, current policies related to coverage for legal immigrants in Commonwealth Care will likely be determined by the courts. The state Supreme Judicial Court ruled on May 6, 2011 that discrimination against legal immigrants must be judged under the same strict standard required for discrimination based on race or sex.

Benefits

- Cuts \$35 million from funding for the **adult day health** program (4000-0600). This program provides care to frail elders and adults with disabilities in community settings as a means to prevent hospitalization and, in some cases, to avoid or delay nursing home placement. How the agency will manage this reduction in funds will depend in part on further legislation regarding Section 203 of the budget, which the Governor returned with an amendment as discussed below. The budget also includes language that would prohibit changes in adult day health provider rates without 90-day advance notice (4000-0300). However, current eligibility and rates are expected to remain in effect through December 31, 2011.
- Continues a program for **nursing home pre-admission counseling** (4000-0600), but does not earmark funding for this program.
- Requires 90-day advance notice to the Legislature if the Administration determines that it needs to use authority granted in the budget to **restructure any optional MassHealth benefits** in order to manage the MassHealth program (Section 161).
- Continues to limit **adult dental** benefits for MassHealth and Commonwealth Care members (Section 163). In July 2010, restorative dental services (such as fillings) were eliminated from MassHealth coverage for adults (with the exception of those adults who are clients of the Department of Developmental Services — Section 162). Requires the Administration to file an annual report on the extent to which MassHealth members obtain dental care in hospital emergency rooms, community health centers, or dentists' offices (4000-0300).

Cost Sharing for Members

- Authorizes MassHealth to raise co-payment levels up to \$5 (Section 88). The Office of Medicaid plans to use this new authority to increase the current \$3 **pharmacy co-payments** to \$3.65 in accordance with upper limits set by the federal government.
- Authorizes the same co-payments for **Commonwealth Care** members with incomes at or below the federal poverty level as for MassHealth members (Section 90).

Provider and Managed Care Organization Rates

- Assumes **reduction in rates of payments to health care providers** resulting in total savings of approximately \$150 million, for a net savings to the state of approximately \$75 million. These cuts include: reducing payments to hospitals with higher than average "preventable" readmissions that occur within 30 days; reducing transition payments to certain hospitals; reducing hospital rate "add-ons" for hos-

pitals that serve a disproportionate share of publicly funded patients; eliminating special payments to community health centers to support increased dental capacity; and eliminating payments to nursing facilities to hold open a patient's bed for up to 10 days while the patient receives care in a hospital.

- **Assumes elimination of inflation increases** for managed care plan rates, for a projected savings of \$169 million (net state savings of approximately \$84 million). In addition, MassHealth may negotiate capitation rates below current levels to achieve even greater savings.
- Provides \$27 million in increased funding in FY 2011 for **nursing facility rates** to be spent in FY 2012, and includes \$2.8 million for a **nursing facility pay-for-performance initiative** in FY 2011 also to be spent in FY 2012 (Sections 139 and 140).
- Includes \$3.2 million to support **current provider rates for 90 days** for adult day health, adult day habilitation programs, adult foster care and adult group foster care (4000-0500). Also includes language requiring 90-day advance notice of changes in these rates (4000-0300).
- Includes \$3 million targeted to **infrastructure and capacity-building grants** and other support for hospitals, health centers and primary care physicians (4000-0700).
- Continues FY 2011 rates for **medical respite for the homeless**, and provides \$3 million for this program (4000-0500).

Service Delivery

- Presumes **aggressive contracting** of most state-administered health care programs: MassHealth, Commonwealth Care, the Group Insurance Commission (GIC) which purchases coverage for state employees, dependents and retirees, and the Medical Security Program for the unemployed. The Administration estimates total savings of \$351 million to the MassHealth program alone from competitive procurement of services for up to 800,000 of its members. It is not clear, however, whether the MassHealth savings target is realistic at this time. MassHealth is currently re-procuring its Primary Care Clinician Plan behavioral health vendor for the contract period starting March 2012. The GIC and Health Care Connector have completed FY 2012 procurements, and appear to be on target for projected savings.

Other Initiatives

- **Caseload Forecasting (1106-0064)**. Creates an independent caseload forecasting office within a new office of Commonwealth Performance, Accountability and Transparency within the Executive Office for Administration and Finance to improve the accuracy of projecting caseloads for MassHealth, as well as for state-subsidized childcare, tran-

sitional assistance benefits, emergency assistance and housing, and state employee health insurance (Sections 9 and 14).²

- **Report on Savings (4000-0300)**. Requires the Administration to report by Sept. 1, 2011 on anticipated FY 2012 MassHealth savings, to report by Feb. 1, 2012 on actual mid-year savings, and to provide 90 days notice of any expected deficiencies in MassHealth accounts.
- **MassHealth Audits (4000-0309)**. Provides \$1 million for new MassHealth auditing initiatives in order to reduce program fraud. The Administration estimates that these initiatives will generate \$3 million in funds.
- **All Payer Claims Database (4100-0061)**. Provides \$4 million in retained revenue for the Division of Health Care Finance and Policy's All Payer Claims Database, designed to provide more information about actual health care spending. This appropriation would be funded from fees paid for health data and from federal reimbursements.
- **Prescription Advantage (9110-1455)**. Cuts funding by \$10 million reflecting the fact that under federal health reform (the Patient Protection and Affordable Care Act) Medicare now covers more of the gap in prescription drug coverage — referred to as the “doughnut hole” — which Prescription Advantage previously filled.
- **Electronic Medical Records (1595-1069)**. Creates the Health Insurance Technology Trust to allow the state to leverage federal reimbursement from the federal government for the development of electronic health records within the MassHealth program (Section 21). Using \$500,000 of state “seed” money, Massachusetts could get full (100 percent) reimbursement from the federal government for the costs of developing such a system, and up to \$50 million could be available for providers to implement electronic health record systems in FY 2012.
- **Health Safety Net**. Requires the Division of Health Care Finance and Policy (DHCFP) to develop a claims adjudication system for the Health Safety Net with Medicare-like claims editing (Section 183), and conditions appropriations for the second half of FY 2012 on the establishment of a successful inpatient and outpatient claims adjudication system (4100-0059 and 4100-0060).
- **Fishing Partnership (Section 126)**. Directs DHCFP to provide \$1 million annually for 5 years to the Fishing Partnership to provide services to fishermen and fishing families and assist them in obtaining health insurance.³

² The funding for this office is not part of the health care totals included in this brief.

³ From 1997 through FY 2011, the Fishing Partnership was a DHCFP demonstration project that operated a subsidized insurance program covering approximately 2,100 members of fishing families. Starting in FY 2012, it will instead assist fishing families to enroll in other coverage.

- **Alien Verification (Section 142).** Requires MassHealth to use a federal database, the Systematic Alien Verification for Entitlements (SAVE) system, to verify the status of certain eligible immigrants. Also permits the Administration to incorporate SAVE into common eligibility standards, and to report annually on its progress, starting in December 2011. The Governor says he will be seeking \$2.8 million for the costs of operating the SAVE program.
- **Outreach.** In previous years, MassHealth, the Connector Authority or the Massachusetts Health and Educational Facilities Authority provided funding for grants — totaling between \$2.5 to \$3.5 million depending on the year — to community organizations to assist with enrollment and maintaining coverage for persons eligible for publicly subsidized health programs. The FY 2012 budget does not include funding for outreach grants.

Provisions of the Conference Committee Budget Vetoed by the Governor

- **Senior Care Options/PACE Notice (Sections 87 and 204).** The Governor vetoed language requiring annual notice to MassHealth members age 65 and older of the option to enroll in certain voluntary managed care programs integrating Medicare and Medicaid benefits including Senior Care Options (SCO), and Program of All Inclusive Care for the Elderly (PACE), and the Frail Elder Home and Community Based Waiver program. He noted that the budget appropriations do not currently provide sufficient funding for this initiative.
- **Inspector General MassHealth Audit (Section 156).** The Governor vetoed language that allocated a portion of funds from the Health Safety Net for a MassHealth program audit

by the Inspector General. The Governor noted that he did not object to a program review by the Inspector General, but he did not want to use Health Safety Net funds for that purpose. Elsewhere in the budget there is funding for MassHealth oversight within the Auditor's office and in the office of the Attorney General.

- **Adult Day Health (Section 203).** The Governor disapproved language that would have: prevented MassHealth from changing clinical eligibility in the adult day health program or reimbursement to providers for six months for the program's basic and complex levels of care; eliminated the lowest level of care; and placed a moratorium on the approval of new providers, pending a study on licensure standards. The Governor offered the Legislature substitute language, which would require a feasibility study of implementing a moratorium on clinical eligibility or provider rates for basic and complex levels of care, and approval of new program providers. The Governor also proposes an assessment of the current manner of categorizing clients as basic or complex, and current and future adult day health needs. The study and assessment are to be completed by December 31, 2011. He also states the agency is currently developing licensure criteria.
- **Competition among MassHealth Managed Care Organizations (Section 203A).** The Governor vetoed language requiring the Office of Medicaid to develop regulations to increase competition, reduce the size of some provider networks, and reduce costs among MassHealth managed care organizations, saying that this requirement would interfere with current contracting efforts.

This budget brief describing the Fiscal Year 2012 (FY 2012) budget for MassHealth (Medicaid) and other health care programs is the last in a series of fact sheets published by the Massachusetts Medicaid Policy Institute (MMPI) and produced by the Massachusetts Budget and Policy Center in partnership with the Massachusetts Law Reform Institute. MMPI published budget fact sheets at each stage in the FY 2012 budget process; this fact sheet summarizes the enacted budget for FY 2012. Previous fact sheets are posted at www.massmedicaid.org.

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Appendix

Line Item	Name	FY 2011 Estimated Spending*	FY 2011 Current**	FY 2011 Funding Available for FY 2012***	FY 2012 General Appropriation Act	FY 2012 Current**	Cat. ****
1599-2004	Health Care Cost Containment Reserve			1,900,000		1,900,000	F
1599-2009	Hale Hospital Reserve				2,400,000	2,400,000	F
4000-0300	Executive Office of Health and Human Services and MassHealth Administration	87,336,613	86,970,271		83,484,473	83,484,473	A
4000-0301	MassHealth Auditing and Utilization Reviews	1,736,425	1,736,425		1,736,425	1,736,425	M
4000-0309	MassHealth Field Auditing Taskforce				1,000,000	1,000,000	A
4000-0320	MassHealth Recoveries Retained Revenue	225,000,000	225,000,000		225,000,000	225,000,000	M
4000-0430	MassHealth CommonHealth Plan	130,439,637	112,492,813		130,439,637	130,439,637	M
4000-0500	MassHealth Managed Care	3,772,835,669	3,941,366,922		3,879,010,669	3,879,010,669	M
4000-0600	MassHealth Senior Care	2,495,602,264	2,456,505,228		2,515,602,264	2,515,602,264	M
4000-0640	MassHealth Nursing Home Supplemental Rates	288,500,000	288,500,000	29,800,000	288,500,000	318,300,000	M
4000-0700	MassHealth Indemnity	2,026,206,633	1,984,041,224		2,029,206,633	2,029,206,633	M
4000-0870	MassHealth Basic Coverage	157,016,626	161,149,680		157,016,626	157,016,626	M
4000-0875	MassHealth Breast and Cervical Cancer Treatment	4,770,999	4,770,999		4,770,999	4,770,999	M
4000-0880	MassHealth Family Assistance Plan	218,925,814	217,106,647		218,925,814	218,925,814	M
4000-0890	MassHealth Premium Assistance and Insurance Partnership	58,181,956	58,181,956		58,181,956	58,181,956	M
4000-0895	Healthy Start Program	13,800,000	13,800,000		13,800,000	13,800,000	M
4000-0950	Children's Behavioral Health Initiative	214,743,708	214,743,708		214,743,708	214,743,708	M
4000-0990	Children's Medical Security Plan	12,600,000	12,600,000		12,600,000	12,600,000	M
4000-1400	MassHealth HIV Plan	18,541,135	18,078,571		18,541,135	18,541,135	M
4000-1405	MassHealth Essential	389,757,408	320,372,298		389,757,408	389,757,408	M
4000-1420	Medicare Part D Phased Down Contribution	211,370,985	211,370,985		211,370,985	211,370,985	M
4000-1700	Health and Human Services Information Technology Costs	83,197,047	83,112,075		81,762,075	81,762,075	A
4100-0059	Division of Health Care Finance and Policy				10,578,754	10,578,754	F
4100-0060	Division of Health Care Finance and Policy	20,957,507	20,957,507		10,578,753	10,578,753	F
4100-0061	All Payer Claims Database Retained Revenue				4,000,000	4,000,000	F
4100-0360	Health Care Quality and Cost Council Retained Revenue	100,000	100,000		100,000	100,000	F
7006-0029	Health Care Access Bureau Assessment	1,100,000	1,100,000		1,100,000	1,100,000	F
9110-1455	Prescription Advantage	31,542,765	31,542,765		21,602,546	21,602,546	Rx
1595-1068	Medical Assistance Trust Fund (operating transfer)	870,601,088	886,101,088		394,025,000	394,025,000	T
1595-1069	Health Insurance Technology Trust Fund (operating transfer)				500,000	500,000	T
1595-5819	Commonwealth Care Trust Fund (operating transfer)	722,011,822	722,011,822	17,000,000	728,011,822	745,011,822	T
	Commonwealth Care Trust Fund (cigarette tax transfer)	120,000,000	120,000,000		120,000,000	120,000,000	T

* Estimated FY 2011 Spending provided by the Secretariat of Administration and Finance, January 2011. These figures are not final. Line-item amounts may change as MassHealth received transferability authority from the Legislature to reconcile surpluses and deficiencies among accounts.

** Current budget totals include funding in the General Appropriation Act, as well as supplemental funding as budgeted over the course of the year as of July 11, 2011. Legislative language allows for some supplemental funds budgeted in FY 2011 to be available for use in FY 2012. These funds ("prior appropriations continued" or "PACs") are not included in the FY 2011 current total, and are instead included in the FY 2012 current total.

*** Chapter 52 of the Acts of 2011 and Chapter 68 of the Acts of 2011.

**** "Cat." refers to the category in the chart on page 1 of this brief. M= MassHealth; A=MassHealth Administration; F=Div. of Health Care Finance & Other Health Finance; Rx=Prescription Advantage; T=Trusts