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# **HB 305**

# **Amendment to 2010-12**

# **Executive Branch Budget**

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**Presentation to Senate Appropriations and  
Revenue Committee**

**February 17, 2011**

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# 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
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# **\$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
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# **\$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
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# **\$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
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# **\$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
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# Medicaid Biennial Budget Gap

## State Funds

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

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

	State Funds	
	Annual Estimate	First Six Months
		Percent of Annual
<b>1) New Program Initiatives</b>	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%
<b>2) Passport Contract Negotiation Savings</b>	8,500,000	4,300,000 51%
<b>3) Resources from Ongoing Management Efforts</b> (State Funds: Clawback \$22 M; Drug Rebate \$10 M; and Other \$4 M)	36,000,000	36,000,000 100%
<b>FY 2011 Program Efficiencies</b>	<b>86,500,000</b>	<b>56,900,000 66%</b>

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# 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
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# 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
<b>One-Time Resources or Expenditure Deferrals</b>				
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	-
<b>Total One-Time Resources or Expenditure Deferrals</b>	<b>\$ 1,042.5</b>	<b>\$ 565.8</b>	<b>\$ 399.3</b>	<b>(166.50)</b>

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# 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
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# 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
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# Consequences of Not Adopting Budget Amendment

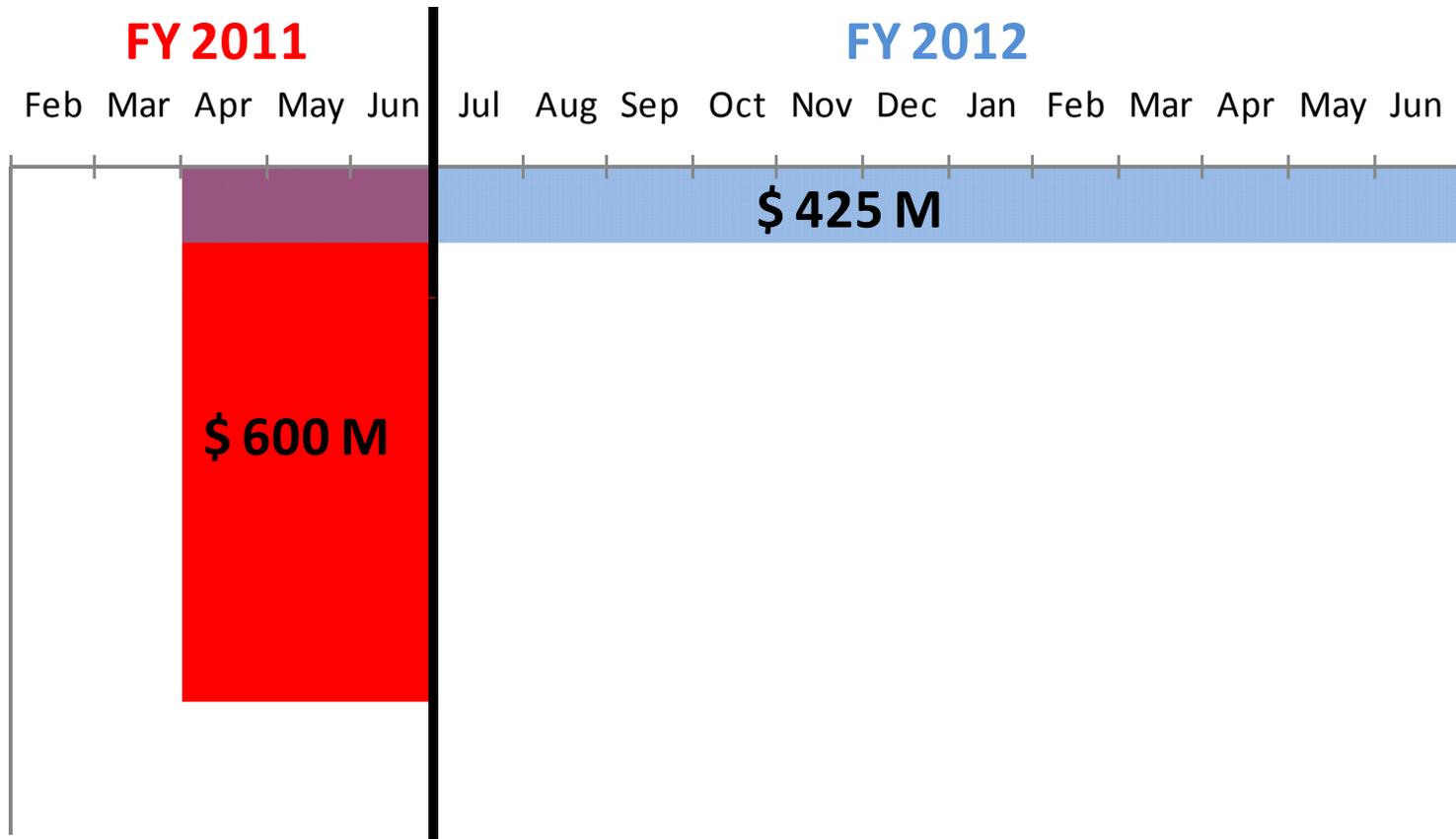
- Approximately \$600 million would have to be cut from the Medicaid program before June 30, 2011:
    - Federal Maintenance of Eligibility requirements prohibit reductions to eligibility
    - Cuts would have to come from provider reimbursement rate reductions (approximately 30% reduction) or by eliminating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



■ Immediate Drastic Cuts OR ■ Planned and Managed Reductions

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# Rebalancing the Medicaid Budget is not Optional

- Costs must and will be reduced in Medicaid
  - “How” and “When” is the question
  - Should other state programs be impacted?
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