HB 305
Amendment to 2010-12 Executive Branch Budget

Presentation to House Appropriations and Revenue Committee

February 8, 2011
HB 305 Includes Two Budget Amendments

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

### State Funds

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

- $86.5 million FY 2011       $80.2 million FY 2012

- 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;
- Manage pharmacy costs more effectively;
- Increase efforts to collect payments from liable third parties for Medicaid services provided;
- Stop paying hospitals for hospital acquired infections and errors;
- Recoup payments to providers by partnering with the Department of Revenue; and
- More aggressively identify fraud and abuse.
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
Additional Cost Containment Measures Planned

- 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
- Evaluate options to reduce costs
Consequences of Not Adopting Budget Amendments

- 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
Required Medicaid Spending Reductions

FY 2011
Feb Mar Apr May Jun

FY 2012
Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun

$600 M

$425 M

Immediate Drastic Cuts OR Planned and Managed Reductions
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.