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
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.
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

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

<table>
<thead>
<tr>
<th>1) New Program Initiatives</th>
<th>State Funds</th>
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<tr>
<td></td>
<td>Annual Estimate</td>
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<td></td>
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<tr>
<td>Pharmacy Management</td>
<td>42,000,000</td>
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<tr>
<td>Program Integrity and Efficiency</td>
<td>16,900,000</td>
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<td>Resource Enhancement</td>
<td>13,400,000</td>
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<tr>
<td></td>
<td>11,700,000</td>
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<thead>
<tr>
<th>2) Passport Contract Negotiation Savings</th>
<th>State Funds</th>
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<tbody>
<tr>
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<td>Annual Estimate</td>
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<tr>
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<td>8,500,000</td>
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<tr>
<th>3) Resources from Ongoing Management Efforts</th>
<th>State Funds</th>
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<tr>
<td></td>
<td>Annual Estimate</td>
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<tr>
<td>(State Funds: Clawback $22 M; Drug Rebate $10 M; and Other $4 M)</td>
<td>36,000,000</td>
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<thead>
<tr>
<th>FY 2011 Program Efficiencies</th>
<th>State Funds</th>
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<td></td>
<td>Annual Estimate</td>
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<td>86,500,000</td>
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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
HB 305 Improves the Structural Imbalance of the General Fund by $166.5 million

<table>
<thead>
<tr>
<th>One-Time Resources or Expenditure Deferrals</th>
<th>FY 2010 Revised</th>
<th>FY 2012 Enacted</th>
<th>FY 2012 HB 305</th>
<th>Impact of HB 305</th>
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<tr>
<td>Beginning Balance</td>
<td>$ 39.5</td>
<td>$ 281.1</td>
<td>$ 114.6</td>
<td>(166.50)</td>
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<td>Stimulus-General Fund Replacement:</td>
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<td>State Fiscal Stabilization Fund</td>
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<tr>
<td>Medicaid</td>
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<td>Debt Restructuring</td>
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<td>$ 167.5</td>
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<td>$ 130.0</td>
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<td>$ 123.0</td>
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<td>$ 72.0</td>
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<td>$ 72.0</td>
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<tr>
<td>Total One-Time Resources or Expenditure Deferrals</td>
<td>$ 1,042.5</td>
<td>$ 565.8</td>
<td>$ 399.3</td>
<td>(166.50)</td>
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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
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
Required Medicaid Spending Reductions

FY 2011

- February: $600 M

FY 2012

- $425 M

Immediate Drastic Cuts OR Planned and Managed Reductions
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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