

October 28, 2011

## What's in the FY 2012 Budget for Health Care?

The FY 2012 budget for health care — which includes the budgets for the Department of Health Care Finance, the Department of Health, and the Department of Mental Health — totals \$2.64 billion in federal and local funds. The FY 2012 budget represents a four percent decrease over the FY 2011 budget of \$2.75 billion, after adjusting for inflation. The decrease is largely the result of three major elements: one, significant spending pressures and delayed savings initiatives that resulted in a jump in the FY 2011 budget midway through the fiscal year; two, a significant loss of federal Recovery Act funds in FY 2012 — which increased the federal share of Medicaid expenses in three quarters of 2011 — and third, significant cuts to programs such as the DC Health Care Alliance program — a program that provides health care insurance to low-income residents not eligible for Medicaid — in FY 2012.

Local funding for health care in FY 2012 is to be \$967 million, an increase of \$84 million, or nine percent. The increase in local funds reflects both the need to replace \$81 million of expiring Recovery Act funds, and \$30 million for an increase in managed care reimbursement rates for Medicaid and DC's Health Care Alliance program. Despite the increase in local funds the FY 2012 budget also includes some notable cuts in local funding for health care programs including a \$12 million reduction to DC's health care Alliance program.

### KEY FINDINGS

#### MAYOR'S BUDGET PROPOSAL

- The proposed FY 2012 budget for health care— which includes the Department of Health Care Finance (DHCF), the Department of Health, and Department of Mental Health (DMH), was \$2.6 billion of federal and local funds—a decrease of \$26 million, or less than one percent, over the FY 2011 budget, after adjusting for inflation.
- The proposed local budget for health care was \$913 million, a net increase of \$56 million, or 7 percent, over the FY 2011 budget. The increase reflected the need to replace \$81 million in expiring federal Recovery Act dollars, and a continued expected increase in enrollment in health care programs. At the same, the budget also reflects significant cuts to mental health services and to the DC Healthcare Alliance program—a program that provides health care insurance to low-income residents not eligible for Medicaid.

#### FINAL BUDGET VOTE, JUNE 14<sup>th</sup>

- The Council approved an increase in the tax on hospital beds, from \$2,000 per licensed bed to \$3,800 per licensed bed. The change would raise \$7 million in local funds and \$16 million in federal funds in FY 2012. The funds would be used to off-set a similar level of cuts made to Medicaid hospital reimbursement rates that will be implemented in FY 2012.
- During the final vote on the FY 2012 budget, funding for health care in FY 2011 and FY 2012 was significantly increased due to spending pressures in health care programs in FY 2011 and a re-negotiated health care contract that increased the reimbursement rates for managed care organizations.
- The spending pressures and re-negotiated contract added \$146 million in gross (local and federal) funds to the FY 2011 budget and \$49 million in gross funds to the FY 2012 budget.

Local funding for the Department of Health Care Finance (DHCF) in FY 2012 is \$707 million, an \$81 million increase — or 13 percent — over the FY 2011 budget of \$626 million, after adjusting for inflation. The increase in funds largely reflects the need to replace \$81 million in expiring federal Recovery Act funds, \$23 million for expected increases in enrollment in health care programs, and \$30 million for an increase in managed care reimbursement rates. On the other side, DHCF's budget also reflects significant cuts, most notably a proposal to achieve \$12 million in savings by requiring face-to-face re-certification interviews every six months for individuals enrolled in DC's Healthcare Alliance program. This will remove 5,000 people — or 20 percent — of the current caseload. It is unclear how many of those people would be moved into Medicaid or simply removed from the program.

The FY 2012 local budget for the Department of Health is \$98 million, an increase of \$10 million, or 11 percent, from the FY 2011 budget of \$88 million. This increase largely reflects additional funding to continue the school nurse health program which had previously been accounted for in the Department of Health Care Finance budget. On the other side, the FY 2012 budget also contains approximately \$2 million of cuts, largely from administrative savings.

Within DOH, funding for HIV/AIDS programs and addiction and prevention programs appear to be largely flat funded from FY 2011 to FY 2012. While there appears to be a reduction to HIV/AIDS supports and services, this reflects the fact that final federal awards have not been approved by Congress and thus could not be reflected in DC's budget. When federal awards are finalized, as expected, it is likely that funding for HIV/AIDS services will remain at the same level as in 2011. One notable cut is the reduction of \$750,000 for a Family Treatment Court program — a program run through the DC Superior Court that helps provide treatment and support for mothers who are addicted to drugs. It is unclear if this cut would eliminate the program or reduce the amount of services it would provide.

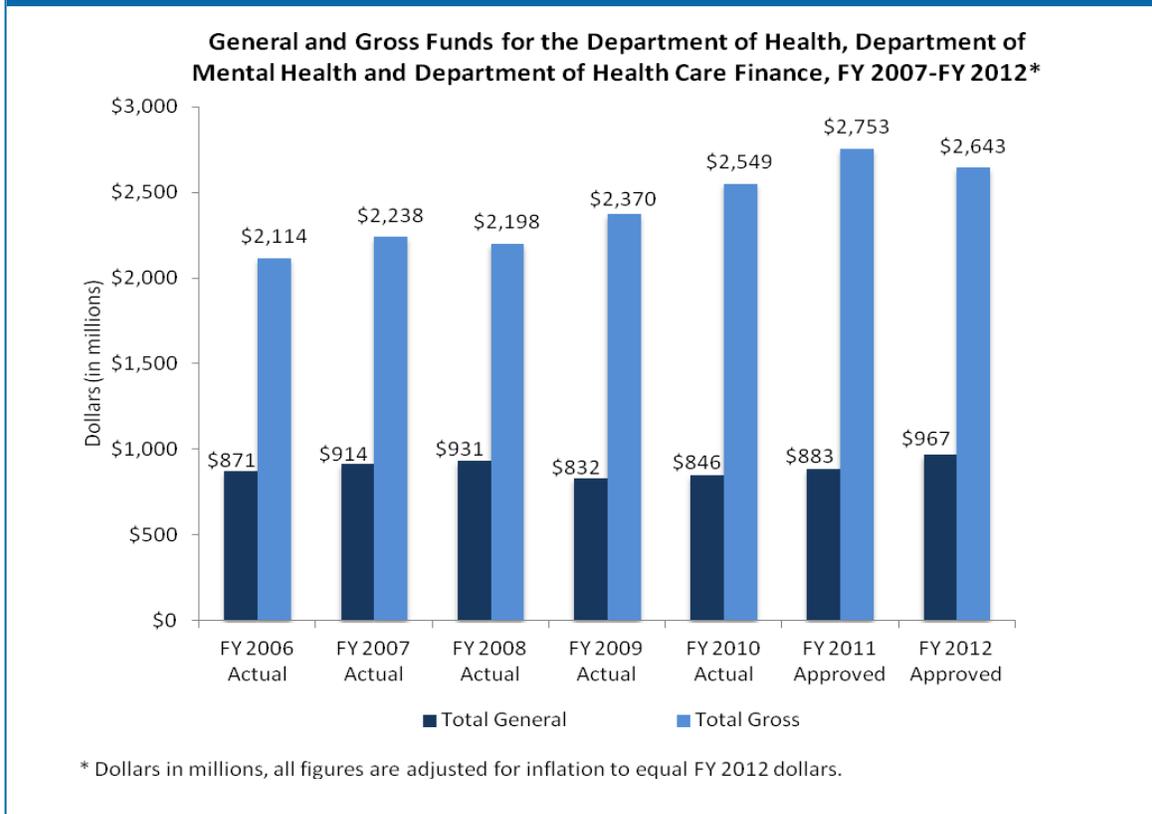
The FY 2012 local budget for the Department of Mental Health is \$161 million, which is an \$8 million reduction, or 5 percent, from the FY 2011 budget of \$169 million, after adjusting for inflation. The most notable cut in the FY 2012 budget is a \$2.1 million reduction in mental health benefits which would directly impact the mental health services provided to DC residents.

## **Analysis of the Health Budget**

The total budget for health care in the District comes from spending from the Department of Health (DOH), the Department of Mental Health (DMH), and the Department of Health Care Finance (DHCF). The DHCF is a relatively new agency that was created in FY 2009 to take over the previous duties from the Medical Assistance Administration and Health Care Safety Net programs that had been under DOH.

Total health care expenses, including both local and federal funds, will be \$2.64 billion — a four percent decrease from the FY 2011 budget of \$2.75 billion, after adjusting for inflation (see Figure 1.) Total health care expenses started to rise sharply after FY 2008, largely as a result of the weak economy and more people enrolling in public health insurance programs. Gross funding for health care peaked in FY 2011 largely from the federal Recovery Act dollars that increased the federal share of Medicaid expenses in three quarters of 2011, and an additional \$146 million in gross funds for

**FIGURE 1: LOCAL FUNDING FOR HEALTH CARE IN FY 2012 WILL RISE LARGELY FROM THE DISTRICTS NEED TO REPLACE \$81 MILLION IN EXPIRING FEDERAL RECOVERY ACT FUNDS**



health care spending pressures realized mid-way through the fiscal year. These spending pressures resulted from savings initiatives that had been planned for FY 2011 but were not fully realized, as well as a re-negotiated health care contract that resulted in increased reimbursement rates for managed care providers.

Local funding for health care for these three agencies combined will be \$967 million in FY 2012, an increase of \$84 million, or 9 percent, over the FY 2011 budget. The increase reflects the need to replace \$81 million in expiring federal Recovery Act dollars used in the Medicaid program, increased reimbursement rates for managed care organizations, and a continued expected increase in enrollment in health care programs. The increase however is moderated by notable cuts to some health care programs.

### The Department of Health

The FY 2012 gross funds budget — which includes federal funds — for the Department of Health totals \$259 million, a decrease of \$21 million, or 8 percent, from FY 2011 (see figure 2). The large share of the decrease reflects a loss of roughly \$15 million in federal Recovery Act grants and reductions in other federal grant awards. The other major reductions come from the elimination or

removal of a number of contracts with other agencies for a family treatment court program, and a school immunization initiative.

The FY 2012 local budget for the Department of Health is \$98 million, an increase of \$10 million, or 11 percent, from the FY 2011 budget. The increase reflects \$12.5 million in funding to continue a school nurse health program which had previously been funded under the Department of Health Care Finance. Local funding for the remainder of the Department of Health will fall approximately \$2 million in FY 2012. This \$2 million reduction largely reflects administrative savings and not service cuts.

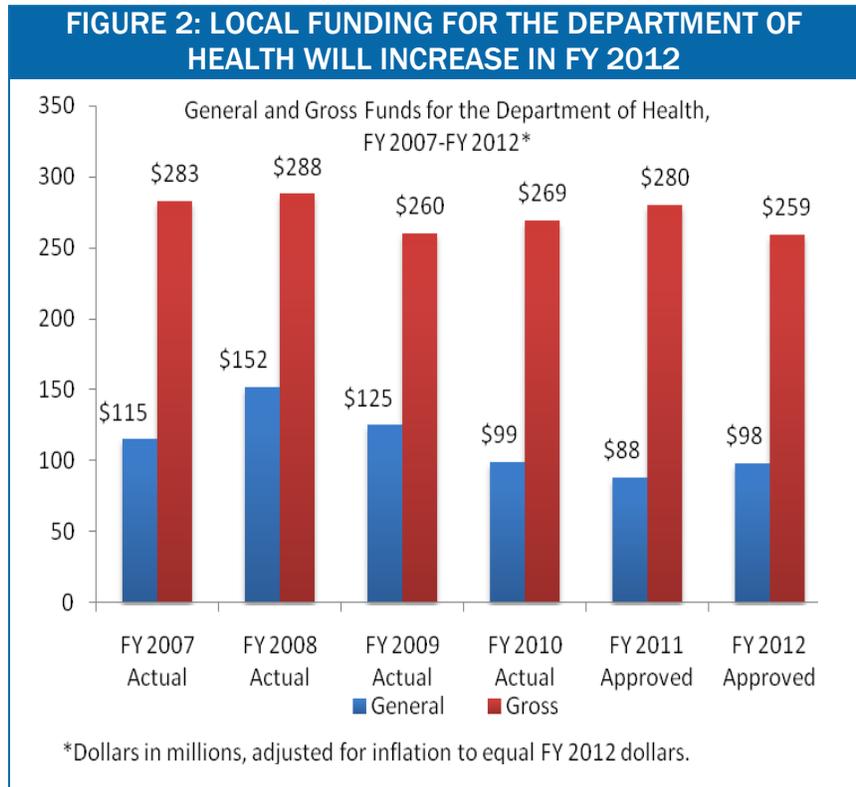
**HIV/AIDS, Hepatitis, STD, and TB**

**Administration (HASTA):** Gross funding for HASTA is \$80.5 million in FY 2012, a 6 percent reduction, or \$5 million, from the FY 2011 budget of \$85.3 million, after adjusting for inflation. Federal funds make up 86

percent of the total gross funds proposed in FY 2012. The reduction in funding doesn't necessarily represent a cut, but reflects the fact that final federal awards from the federal Ryan White Care Act grant have not yet been approved. It is important to note that if HASTA does not receive the intended federal funds, HIV/AIDS services would be cut by 22 percent, or \$8 million.

**Addiction, Prevention and Recovery Administration (APRA):** Gross funding for APRA is \$34 million, essentially flat from the FY 2011 budget, after adjusting for inflation. The local budget for APRA is \$21 million, an \$800,000, or 4 percent, reduction after adjusting for inflation. The decrease is in part from reducing addition and prevention services by \$750,000. According to APRA, this funding gap will be covered under additional federal funds the agency expects to receive in FY 2012. The FY 2012 budget would also eliminate \$750,000 that had previously been transferred from the Child and Family Services Agency to APRA for the Family Treatment Court program — a program run through the DC Superior Court that provides treatment and support for mothers who are addicted to drugs. It is unclear if the removal of the transfer would eliminate the program or reduce the amount of services it would provide.

**Community Health Administration (CHA):** CHA primarily supports programs that provide preventive health and social services to improve health outcomes for women, infants, and children and residents with chronic diseases. Gross funding for CHA in FY 2012 will be \$84 million, a decrease of 8 percent, or \$7 million, from the FY 2011 budget after adjusting for inflation. The



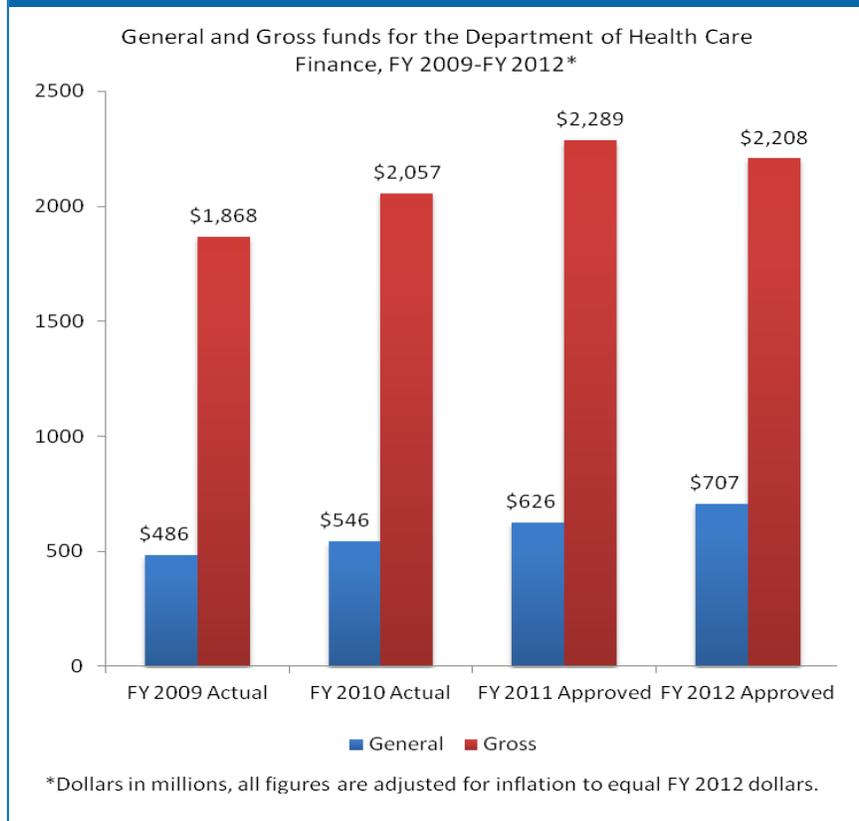
decrease is largely the result of proposals to maintain funding responsibility for several functions within the Department of Health Care Finance rather than transferring funds to DOH for these programs. The one exception is the school nurse health program which will be funded in CHA starting in FY 2012. Because of this, local funding for CHA in FY 2012 is \$24.5 million, an increase of \$12.3 million, due solely to \$12.5 million of funding being added for the school nurse health program.

### The Department of Health Care Finance

The Department of Health Care Finance was established in FY 2009 and manages the funds for Medicaid and the DC Healthcare Alliance (Alliance), a locally funded program for low-income residents who are uninsured and ineligible for Medicaid or other public insurance. DHCF took over the previous duties from the Medical Assistance Administration and Health Care Safety Net programs that had been under DOH. The DHCF budget represents the largest source of funding for health care in the District.

The FY 2012 local budget for DHCF is \$707 million, an \$81 million increase — or 13 percent — over the FY 2011 budget of \$626 million, after adjusting for inflation (see Figure 3). The net increase is the result of needing to add \$81 million in local funds to cover expiring federal Recovery Act funds that were available in FY 2011 but not in FY 2012. The budget also adds \$23 million for increased growth in the number of residents enrolled in health care programs and \$30 million for an increase in managed care reimbursement rates. Yet the budget also proposes to reduce expenses by \$12 million by implementing a requirement for face-to-face re-certifications for Alliance enrollees every six months. Currently, Alliance enrollees have to recertify on an annual basis.

**FIGURE 3: LOCAL FUNDING FOR THE DEPARTMENT OF HEALTH CARE FINANCE WOULD RISE SIGNIFICANTLY IN FY 2012 LARGELY FROM THE NEED TO REPLACE EXPIRING FEDERAL RECOVERY ACT FUNDS**



One major change the Council made to the Mayor’s proposed budget was to add an increase in the tax on hospital beds, from \$2,000 per licensed bed to \$3,800 per licensed bed. This increase

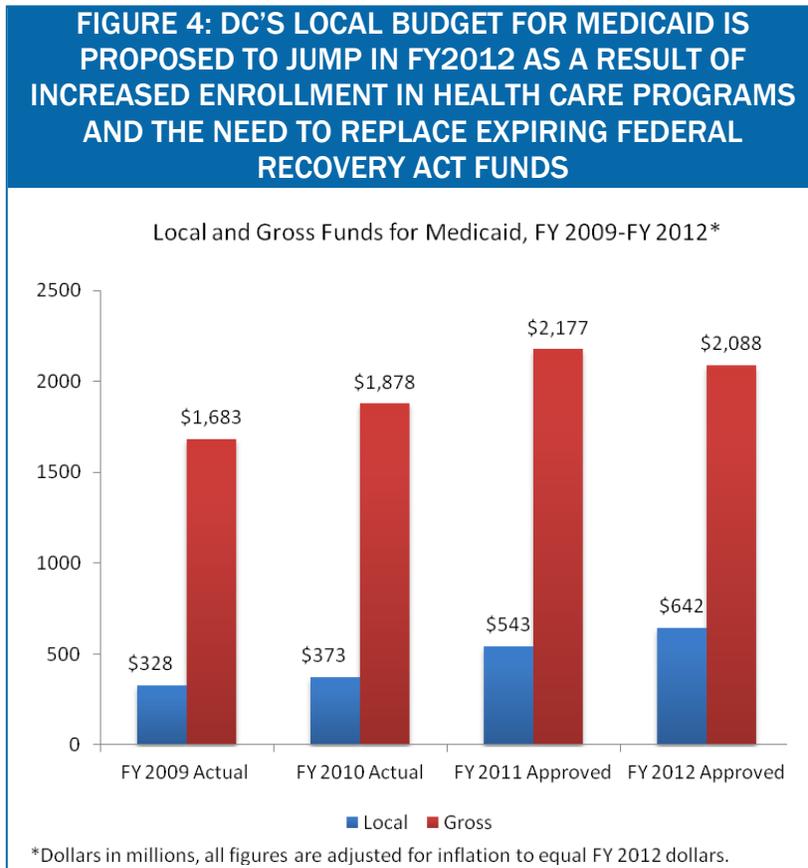
came at the request of the Hospitals which were facing cuts to Medicaid hospital payments that would begin in FY 2012. The increase in the bed tax would raise \$7 million in local funds and \$16 million in federal funds in FY 2012 and would be used to off-set the similar level of cuts made to Medicaid hospital reimbursement rates.

**Medicaid:** The FY 2012 gross funds budget for Medicaid, which includes local and federal funds, is \$2.1 billion, a 4 percent decrease over the FY 2011 budget of \$2.2 billion (see figure 4). The local budget for Medicaid is \$642 million, an 18 percent, or \$99 million increase, after adjusting for inflation. The increase in local funds is largely a result of three factors:

- **Expired Federal Recovery act funds.** The federal Recovery Act helped the District reduce the local share of Medicaid costs in FY 2009, FY 2010, and part of FY 2011.

Normally, the District is responsible for 30 percent of Medicaid costs. Under the federal Recovery Act, the District’s share of Medicaid expenses was reduced from FY 2009 through the first three quarters of FY 2011. DC’s share of Medicaid expenses during that period was approximately 21 percent, with the federal government covering the remainder.<sup>1</sup> In FY 2012, the federal recovery act funds have expired, and the District had to add \$81 million in local funds to keep the Medicaid program whole.

- **Enrollment Growth.** Enrollment in health care programs grew significantly in the last three years as a result of the Great Recession and weak economy. With unemployment expected to

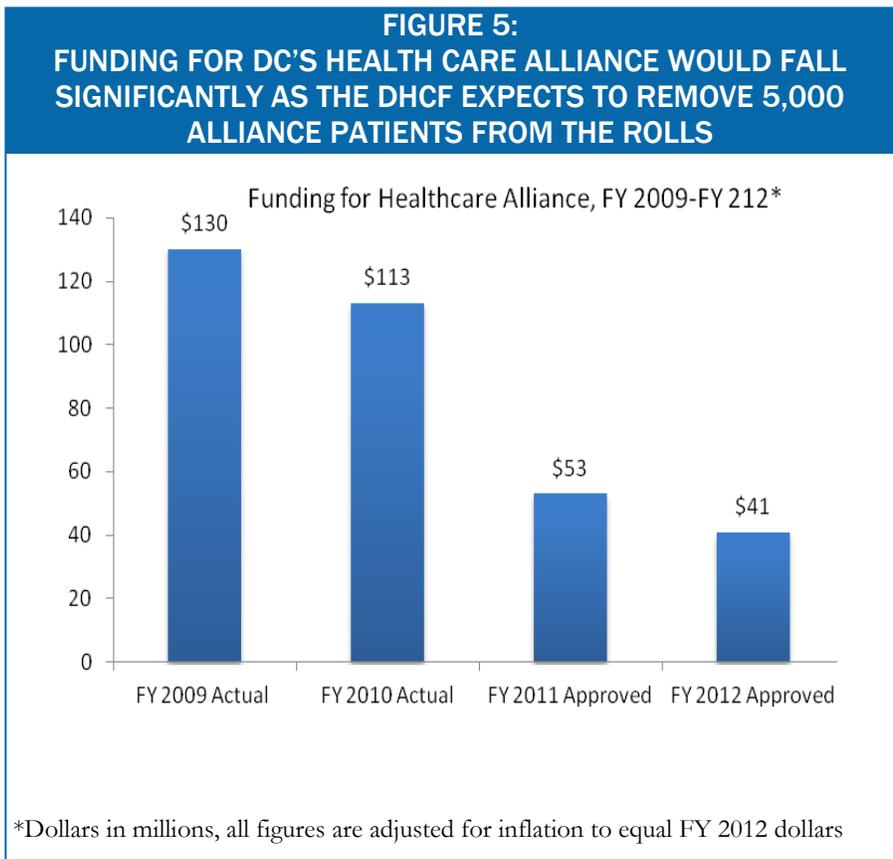


<sup>1</sup> The federal Recovery Act reduced the share of Medicaid expenses by 6.2 percentage points for DC and all states and reduced a states local contribution even further based on a state’s unemployment rate. The reduction to a state’s FMAP based on unemployment is determined by examining how much a state’s unemployment rate increased during the last consecutive three-month period for which data is available, by comparing that figure to a base period. The base period is the lowest three-month average unemployment rate for any consecutive three-month period since January 1, 2006. If the unemployment rate was at least 1.5-2.5 percent higher than the base period, the state’s local contribution would be reduced by 5.5 percent; if unemployment was at least 2.5-3.5 percent higher than the base period, the state’s local contribution would be reduced by 8.5 percent; and if the state’s unemployment rate was at least 3.5 percent higher than the base period, then the state’s local contribution would be reduced by 11.5 percent. Reductions are determined on a quarterly basis.

remain above pre-recession levels in FY 2012, it is expected the enrollment in Medicaid will continue to grow in FY 2012, but not as quickly as in the previous two fiscal years. The FY 2012 budget added \$23 million for increased enrollment in the Medicaid, including residents served under the Home and Community Based Services Waiver.

- **Increased in managed care reimbursement rates.** In June, the DHCF announced that new reimbursement rates had been set for managed care organizations that contract with the District to provider medical services to those enrolled in DC’s Medicaid and Health Care Alliance programs. The new rates resulted in a \$30 million increase to the FY 2012 budget.

The FY 2012 local budget also continues reductions or freezes in reimbursements made to health care providers in FY 2011. In FY 2011, rather than receiving increases due to health care inflation, reimbursement rates remained unchanged for Medicaid and Health Care Alliance managed care organizations, intermediate care facilities, and nursing facilities. The FY 2012 budget will continue to keep rates flat. In addition, the Medicaid reimbursements rates for physicians and adult dental services were cut in FY 2011, and the FY 2012 budget keeps those rate cuts in place.



**Healthcare Alliance:**

Unlike Medicaid, the budget for the Healthcare Alliance program is solely funded with local dollars. For FY 2012, proposed budget for Healthcare Alliance is \$41 million, a decrease of \$12 million, or 23 percent, from the FY 2011 budget of \$53 million, after adjusting for inflation (see figure 5).

The budget includes a total of \$20 million in reductions to the Alliance program. The large majority comes from a \$12 million reduction from a requirement to implement six month face-to-face re-certification interviews for those enrolled in the Alliance program. The savings estimate means that the DHCF expects to remove about 5,000 participants— or 20 percent of the current caseload— off of the Alliance program. DHCF assumes that some of the Alliance patients will move into Medicaid although DHCF currently has no estimates of how many that would be. The remainder would simply be removed from the program.

The remainder of the reduction comes from carrying forward a reduction in provider rates from FY 2011. This will reduce the Alliance budget by \$8 million in FY 2012. The total \$20 million cut is somewhat offset by a \$10 million increase in reimbursement rates for managed care companies that provide services to Alliance patients.

### The Department of Mental Health

The FY 2012 local budget for the Department of Mental Health is \$162 million, which is a \$7 million reduction, or 4 percent, from the FY 2011 budget of \$169 million, after adjusting for inflation (see figure 6). More than half of the reduction, \$5.5 million, comes from a reduction in staff and fixed costs resulting from a planned relocation of DMH. However, the budget also includes \$1.5 million in reductions in mental health services.

**Saint Elizabeth’s Hospital:** Local funding for St. Elizabeth’s Hospital, DC’s psychiatric hospital, will be \$78 million in FY 2012, an increase of less than 1 percent from the FY 2011 budget of roughly \$78 million.

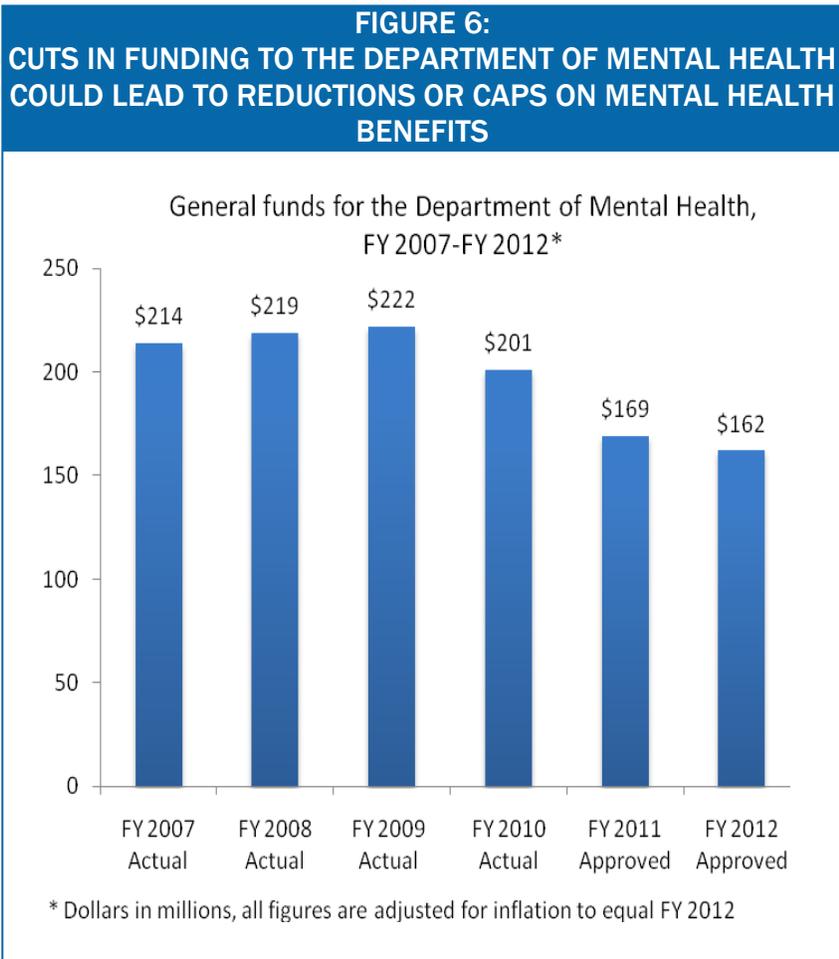
#### Mental Health

**Authority:** The major function of the Mental Health Authority is to plan, develop, and coordinate mental health services in DC. However, the division still supports some direct services. The FY 2012 local budget will be \$6.2 million, a decrease of \$1.4 million, or 18 percent from the FY 2011 budget of \$7.6 million, after adjusting for inflation. The decrease is largely attributed to a \$1.2 million reduction in acute care services that are now covered under Medicaid.

#### Mental Health Services and Supports:

The Mental Health Services and Supports (MHSS) division contains the majority of direct services that DMH provides for children, youth,

adults, families, and special populations. The FY 2012 local budget is \$49 million, an increase of 2 percent from the FY 2011 budget of \$48 million, after adjusting for inflation. The FY 2012 budget



added \$1.2 million to add 100 new housing vouchers for supportive housing, as well as \$1.3 million to help provide services to youth in the District's foster care system. On the other hand, the FY 2012 budget also included cuts to administrative expenses and includes a \$235,000 reduction for services in supported independent living. The Mayor's proposed FY 2012 budget had included a \$300,000 cut for court ordered assessments services for children. These assessments provide the Courts with critical information about a child's well-being including mental and physical health. The Committee on Health restored those funds during the mark-up process.

**Mental Health Financing:** Mental Health Financing provides the funding for mental health treatment. The FY 2012 local budget will be \$16.5 million, a decrease of \$3 million, or 16 percent, from the FY 2011 budget of \$19.1 million, after adjusting for inflation. The reduction in funds will result in a reduction or cap on mental health benefits. DMH has not yet determined how it will limit the current benefit package to achieve the \$2.1 million reduction in funds.

The Mayor's FY 2012 proposed budget included the elimination of a \$2.5 million transfer from the Child and Family Services Agency (CFSA) that supports a variety of critical, evidence based supportive mental health services for children in foster care. The Committee on Human Services directed \$500,000 from CFSA to DMH to partially restore the cut.