DC Fiscal Policy Institute

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Updated July 15, 2013

WHAT'S IN THE FY 2014 BUDGET FOR HEALTH CARE?

The Fiscal Year (FY) 2014 budget for health care — which includes the Department of Health, the Department of Health Care Finance, and the new Department of Behavioral Health[1] — totals $3.26 billion in local and federal funding. This represents an 8 percent increase from FY 2013, after adjusting for inflation. (Unless otherwise noted, all figures are adjusted for inflation to equal FY 2014 dollars.) The increase is largely due to increases within the Department of Health Care Finance from rising costs and utilization in the Medicaid health insurance program. Alone, the Department of Health Care Finance accounts for 84 percent of the growth in gross health care funding in FY 2014, but both the Department of Behavioral Health and the Department of Health budgets also increase from FY 2013 to FY 2014, rising by 6 percent and 11 percent, respectively.

Local funding for health care agencies would rise by 4 percent, or $45 million, to a total of $1.1 billion. The majority of the growth in local funding is driven by costs associated with maintaining current Medicaid services. In addition, the budget increases local funding for mental health service considerably. However, budget would continue the decline in local funding for the Healthcare Alliance program — a program that covers low-income, uninsured DC residents who are otherwise ineligible for Medicaid.

Local funding for the Department of Health Care Finance (DHCF) in FY 2014 is $804 million, an increase of $30 million, or 4 percent, from FY 2013. The growth is largely driven by a $20 million

SUMMARY OF THE FY 2014 BUDGET

- The gross funds budget for health care, which includes both local and federal funds, is $3.26 billion, an increase of 8 percent from FY 2013, after adjusting for inflation.
- The majority of the increase is driven by rising utilization costs and enrollment in Medicaid. Gross funding for Medicaid is $2.6 billion, a 9 percent increase from FY 2013, after adjusting for inflation.
- The budget would generate $13 million in fees on hospital providers to fund Medicaid outpatient services provided at hospitals. This would draw $30 million in federal Medicaid matching dollars.
- Local funding for the Healthcare Alliance continues to fall as enrollment declines, due in large part to restrictive recertification rules. For FY 2014, funding fell by $2 million, or 5 percent, to $40 million, after adjusting for inflation. The DC Council included a requirement for an audit of the recertification process in the Budget Support Act.
- The budget for the new Department of Behavioral Health substantially increases local funding for mental health services. The $9 million in additional funding allows mental health providers to meet increased utilization among low-income populations and adjusts reimbursement rates that have gone largely unchanged since 2001.

[1] The FY 2014 budget creates the new Department of Behavioral Health that combines the Department of Mental Health and the Addiction Prevention Recovery Administration formerly housed within the Department of Health.

net increase in Medicaid, which in turn is due to projected program utilization, enrollment, and inflation in costs per service. The DHCF budget also includes an increase in funding for program upgrades related to the Medicaid Management Information System, which processes Medicaid claims and stores claims data.

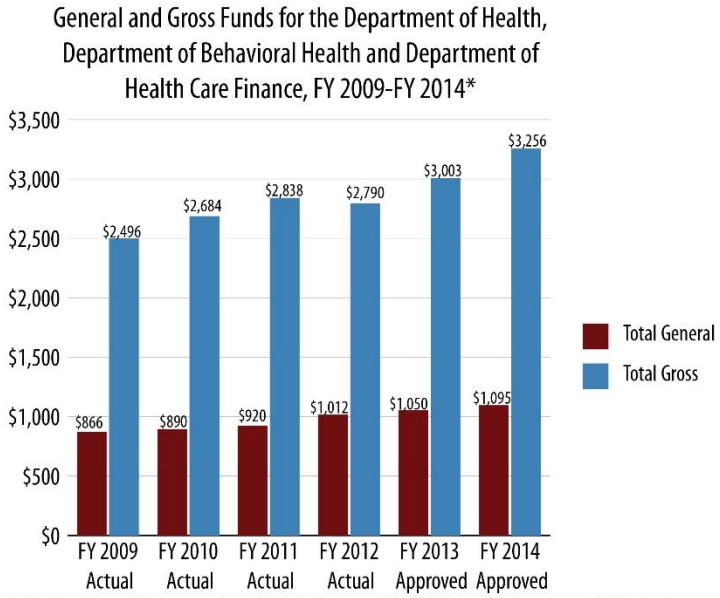
Funding for the DC Healthcare Alliance will decrease from $42 million to $40 million, or 5 percent over FY 2013 as enrollment continues to decline. Enrollment has been on a downward trend since the adoption in 2012 of a more restrictive eligibility process that requires all participants to come in every six months for a face-to-face interview for recertification. Alliance enrollment has fallen from 24,000 individuals in 2011 to 15,400 in FY 2013.

The FY 2014 local budget for the Department of Health (DOH) is $82 million, or just over one percent higher than the $81 million FY 2013 budget, after adjusting for the transfer of the Addiction Prevention Recovery Authority to the Department of Behavioral Health (DBH). The growth in local funds is driven by an additional $2 million for school-based health centers in the DC Public School system and increased staffing within the Food Safety and Hygiene Inspection Services division. The DC Council significantly increased funding for prevention of cancer and other chronic diseases by $850,000, but also reduced personnel costs for lapsing positions by almost $800,000.

The FY 2014 budget creates a new Department of Behavioral Health, which encompasses the services currently provided by the Department of Mental Health and substance abuse services within the Department of Health. The local budget for the new department is $209 million, or 7 percent higher, than spending on comparable services in FY 2013. The growth in the budget is driven by an increase in local funding for Mental Health Rehabilitation Services, which are mental health services for Medicaid and Alliance populations, by $9 million. The increased funding reflects a projected increase in utilization of services and in anticipation of increases in provider reimbursement rates, which have gone largely unchanged since 2001. Higher reimbursement rates could increase the number of providers available to offer services to residents covered by Medicaid and the

Figure 1

Total Health Expenditures Continue to Grow with Greater Demand For Public Health Insurance



Dollars in millions, all figures are adjusted for inflation to equal FY 2014 dollars. The Department of Behavioral Health Figures from 2009 to 2014 reflect the combination of the Department of Mental Health and the Addiction Prevention Recovery Administration (APRA). Department of Health figures exclude APRA.
Source: FY 2012 to FY 2014 Proposed Budget and Financial Plan & Committee on Health Fiscal Year 2014 Committee Budget Report, FY 2014 Budget Support Act

Alliance. The budget also reflects funding for relocation of the new agency. These costs total $4 million.

Analysis of the Health Budget

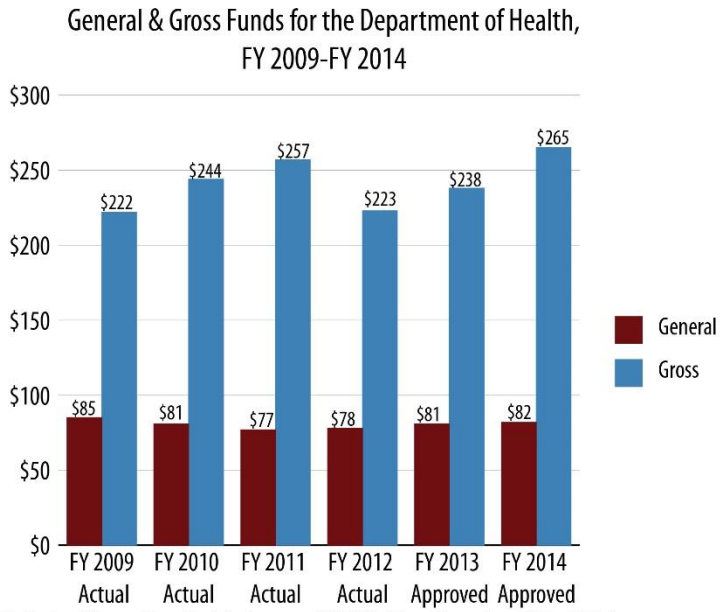
The three District agencies that make up the health budget are the Department of Health (DOH), the Department of Health Care Finance (DHCF), and the Department of Behavioral Health (DBH). The Department of Behavioral Health will be a new entity as of FY 2014, combining the Department of Mental Health and the Addiction Prevention Recovery Authority (APRA) that currently is within DOH.

The FY 2014 budget sets gross health care expenditures, both locally and federally funded, at $3.26 billion — a $253 million or 8 percent increase over FY 2013. Total health expenditures have steadily increased since FY 2009 as a result of the recession and greater need for public health insurance programs (**see Figure 1**, previous page). In FY 2014, increases in gross funding for DHCF, the agency that oversees the Medicaid program, account for $213 million or 84 percent of expenditure growth. Medicaid is a health insurance program for low-income residents that is funded with a combination of local and federal dollars. Federal funds cover 72 percent of DC's Medicaid expenditures.

Local funding for the three health agencies will grow to $1.1 billion, an increase of $45 million, or 4 percent, over FY 2013. The growth reflects increased costs for Medicaid, driven by climbing enrollment and utilization,[2] increased investment in mental health services, and new dedicated tax revenue that will be used as a local match for providing outpatient hospital services to Medicaid recipients.

Figure 2

Local Funding for DOH Remains Stagnant



Dollars in millions, adjusted for inflation to equal FY 2012 dollars. Figures from 2009 to 2013 do not include the Addiction Prevention Recovery Administration.
Source: FY 2012 to FY 2014 Proposed Budget and Financial Plan & Committee on Health Fiscal Year 2014 Committee Budget Report , FY 2014 Budget Request Act Report

The Department of Health

The FY 2014 gross funds budget, for the Department of Health which includes both local and federal dollars, is $265 million, a $27 million, or 11 percent, increase from FY 2013 (**see Figure 2**). The FY 2014 gross budget for DOH would continue on an upward trend that began in FY 2012, largely due to $18 million of increased funding for the District's Medicaid drug benefits. The HIV/AIDS,

[2] February and April 2013 DC Medicaid and Alliance Enrollment Report, Medical Care Advisory Committee, Department of Health Care Finance.

Hepatitis, STD, and TB Administration received a significant federal funding increase for HIV Support Services, as did the Community Health Administration for school health services, including an additional $2 million for school-based health centers in DC Public Schools.

The FY 2014 budget transfers the Addiction, Prevention, and Recovery Administration (APRA) from DOH to the newly formed Department of Behavioral Health. The transfer removes $40 million in local and federal funds and 75 full time employees from DOH and places them under DBH. All comparisons in this toolkit adjust for the switch by removing the budget for APRA from DOH in prior years.

After adjusting for inflation, the FY 2014 local budget for DOH is about the same as in FY 2013, growing by just one percent to $82 million. The increase includes $2 million in increased support for four existing school-based health centers, which provides primary care and preventive services to limit school absenteeism, and $850,000 to support cancer and chronic disease prevention. The DC Council also voted to allow the salaries for some DOH open positions to lapse, creating almost $800,000 in savings.

HIV/AIDS, Hepatitis, STD, and TB Administration (HASTA): HASTA supports prevention, intervention, and treatment of HIV/AIDS and other sexually transmitted diseases. Total gross funding for HASTA is $90 million, up $3.4 million or 4 percent from FY 2013. Federal funding for HASTA, which represent 88 percent of the total funding in FY 2014, would increase by 5 percent to $79 million for FY 2014. Local funds for HASTA would remain level at $11 million from FY 2013 to FY 2014.

Community Health Administration (CHA): The Community Health Administration oversees programs that improve health outcomes and address social determinants of health through prevention and intervention, focusing on women, infants, and children. These programs include providing parents with early childhood development curriculum, home visits, health and domestic violence screenings, and immunizations. The FY 2014 gross funding for CHA is $113 million, a $24 million increase, or 27 percent, over the FY 2013 budget. The local funds budget for CHA would increase by 10 percent in FY 2014, to $28 million. The budget reflects a substantial increase, $18 million, in gross funding for the purchase of pharmaceuticals for Medicaid participants

The budget also would increase funding for the Child, Adolescent, and School Health program by $2 million in local funds to enhance four existing school-based health centers. In addition, the budget includes a $1 million cut in gross funding for perinatal and infant health services, which will reduce services in the Healthy Start program — services that improve early childhood health outcomes such as case management and health education of pregnant and parenting mothers. The CHA budget maintains $3.2 million in federal grants to sustain evidence-based home visiting programs. Home visiting programs help ensure children enter school ready to learn, improve early mental and physical development, and increase utilization of needed health services and immunizations. The budget projects 90 families will receive early childhood visits directly from DOH – ten more than in FY 2013.

The Council voted to add $850,000 in support for preventing and monitoring cancer and other chronic illnesses such as asthma, diabetes, obesity, cancer, and heart disease. Some funding was found both externally and within CHA to increase the budget for farmers' market incentive program by $200,000, a program that provides a $10 bonus subsidy for SNAP and WIC recipients who

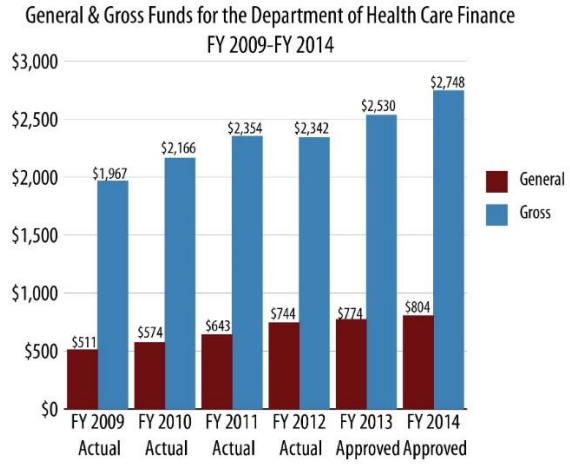
purchase food at farmers' markets. The Council also reduced CHA's budget for nutrition and physical fitness activities by $200,000 to increase support wildlife rehabilitation services. It is unclear if the cut effects service levels.

The Department of Health Care Finance

The FY 2014 gross budget for the Department of Health Care Finance, which includes both local and federal funds, is $2.7 billion, an increase of $213 million or 8 percent over FY 2013 **(See Figure 3).** Local funding grew by $30 million, or 4 percent, to $804 million. Funding for DHCF has been on a gradual upward trend since 2009, as the recession and slow economic recovery have driven a growing need for public health insurance. The FY 2014 budget includes notable increases in Medicaid and savings from lower enrollment in the Healthcare Alliance program.

Figure 3

DHCF Funds Continue to Grow as Medicaid Costs Rise

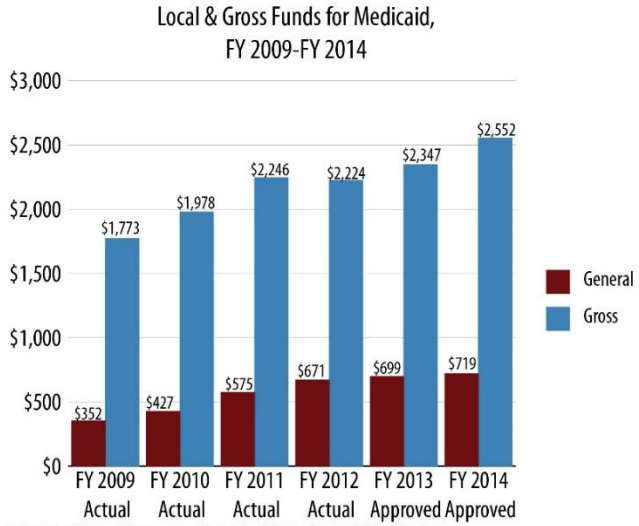


Dollars in millions, adjusted for inflation to equal FY 2014 dollars.
Source: FY 2012 to FY 2014 Proposed Budget and Financial Plan & Committee on Health Fiscal Year 2014 Committee Budget Report, FY 2014 Budget Request Act Report

Medicaid: Medicaid accounts for 93 percent of DHCF's budget. Normally, the District is responsible for 30 percent of Medicaid costs, while the federal government pays for the other 70 percent. In 2014, the federal government will pay 100 percent of the Medicaid costs for groups of DC residents who became eligible for Medicaid as a result of the federal Affordable Care Act, such as childless adults with incomes up to 200 percent of the federal poverty line. As a result, overall Medicaid expenditures will grow faster than the local share. The gross funding for Medicaid, including both local funds and the federal match, is $2.6 billion, an increase of 9 percent over FY 2013 (**see Figure 4**). The FY 2014 local budget for Medicaid will increase 3 percent over FY 2013. The growth in Medicaid funding was sparked by two policy initiatives and growth in local Medicaid costs:

Figure 4

Medicaid Funding Is Increasing as Enrollment Grows



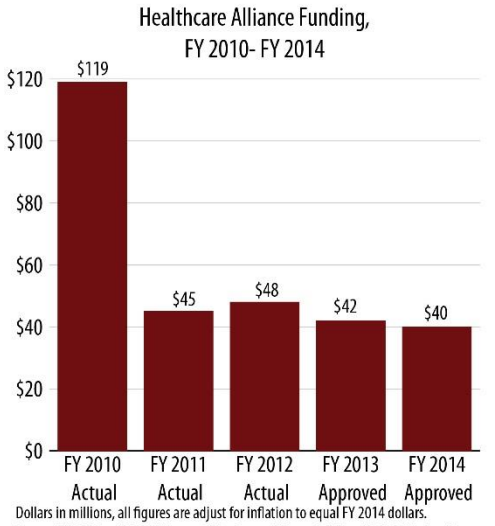
Dollars in millions, all figures are adjusted for inflation to equal FY 2012 dollars.
Except FY 2014, Medicaid Local is the Subsidy and Transfer general fund total (Comptroller Source Code 50) for Health Care Finance (5000) found in the 2011 through 2014 Operating Appendices Schedule 40-PBB net of Alliance Provider Payments. FY 2014 reflects the proposed general contribution of Medicaid Public and Private provider payments
Source: FY 2012 to FY 2014 Proposed Budget and Financial Plan & Committee on Health Fiscal Year 2014 Committee Budget Report, FY 2014 Budget Request Act Report

- **Growth in Local Medicaid Costs:** Since the beginning of FY 2012 Medicaid enrollment increased in from 148,000 enrollees in managed care (the bulk of the Medicaid program) to 155,000.[3] Furthermore, utilization in high cost services and among high-cost beneficiaries, especially in the fee-for-service and Medicaid state-waiver populations, has increased. Continued utilization growth and rising cost of services will increase local funds going toward the program.

- **DC Medicaid Management Information System:** The District is in the process of updating its Medicaid Management Information System, which processes Medicaid claims and stores claims data to meet federal compliance. In FY 2014, the project is expected to cost an additional $4 million in local funding and $5 million in Federal match.

Figure 5

Funding for the Alliance Continues to Decrease as Enrollment Declines



Dollars in millions, all figures are adjust for inflation to equal FY 2014 dollars.
Source: FY 2012 to FY 2014 Proposed Budget and Financial Plan, FY 2014 Budget Request Act Report

- **The Hospital Provider Tax:** The FY 2014 budget will create a new fee on hospitals, based on patient revenues, which will go into Hospital Provider Fund. The fee will generate $13 million and draw $30 million in federal matching funds, and these resources will be used to fund outpatient hospital care to Medicaid recipients.

While these initiatives did raise costs, DC Council found significant local Medicaid savings of nearly $800,000. The majority of the savings was found in the Medicaid Health Services for Children with Special Needs program. The program provides case management and care coordination for SSI eligible children and young adults. The savings found reflect lower service rates negotiated through the contracting process, and do not result in lower levels of services. The overall savings did not affect federal match payments.

Healthcare Alliance: Funding for the program in FY 2014 is $40 million, a decrease of $2 million or 5 percent over FY 2013 (**See Figure 5**).[4] The funding decline correlates with a steady fall in enrollment. Medicaid expansion through the Affordable Care Act in 2010 resulted in more than 32,000 enrollees leaving the Alliance and enrolling in Medicaid, leaving the Alliance with 25,000 participants as of July 2010. Alliance enrollment remained relatively flat until September of 2011,

[3] Ibid.

[4] While the District's published budget documents indicate an $8 million cut in funding for the Alliance, this does not reflect a reduction in services. It instead reflects a significant downward adjustment to projected enrollment between the time when the budget was first being put together (Fall 2012) and when it was finalized (Spring 2013).

when the District implemented a requirement of face-to-face interviews every six months for recertification, instead of annual certification that did not require an in-person interview (**See Figure 6**). The requirement was designed to deter participation among people who are not eligible, particularly non-DC residents, with expected enrollment declines of 5,000 participants. However, the program has shed 8,500 enrollees since September 2011 — a decline of 35 percent — and projections of enrollment continue to fall. This raises concerns that the six month recertification process may be deterring eligible residents from the program.

Figure 6

Enrollment Fell 35% Since Sept. 2011

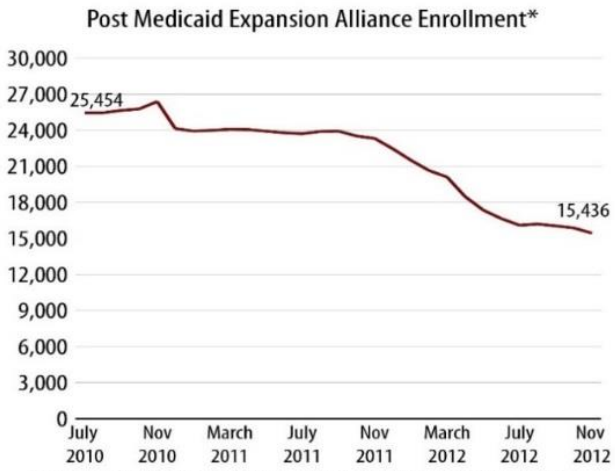


*Figure for May 2011 unavailable. For continuity, May 2011 enrollment reflects the average of April and June enrollments
Source: November 2010 to April 2013 MCAC Enrollment Reports, Department of Health Care Finance

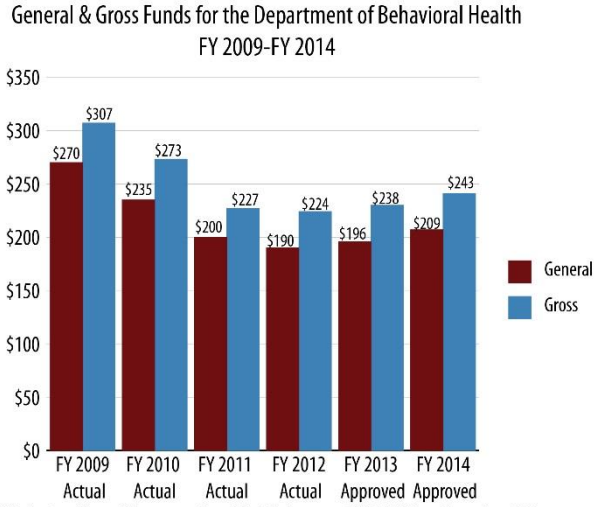
DC Council voted on language in the Budget Support Act that will require that DHCF work with DC's Department of Human Services (DHS) to report on the implementation of the recertification process (which is managed by DHS), and determine solutions or alternatives if the current process if it is determined that it discourages eligible persons from enrolling.

The Department of Behavioral Health

Newly created in fiscal year 2014, the Department of Behavioral Health (DBH) combines the former Department of Mental Health (DMH) and the Addiction, Prevention, and Recovery Administration (APRA) that is now within the Department of Health (DOH). All comparisons in this toolkit adjust for the switch by removing the prior-year funding for APRA from DOH and adding it to the budget for DMH. The DBH budget is funded primarily through local funds, with only a portion of mental health services drawing a Federal Medicaid match. The FY 2014 gross funds budget for DBH, which includes both local and federal funds, is $243 million, an $13 million or 5.5 percent increase over FY 2013 (**See Figure 7**), largely driven by changes in local funding for mental health services.

Figure 7

Increase in Local Funding for Mental Health Services Drives Expenditure Growth in FY 2014



* Dollars in millions, all figures are adjusted for inflation to equal FY 2014 dollars. Figures from 2009 to 2013 are a combination of General and Gross Funds for Department of Mental Health and the Addiction Prevention Recovery Administration.
Source: FY 2014 Budget Support Act

The FY 2014 local budget for DBH is $209 million, a 7 percent increase from FY 2013. The budget increases local funds by $7 million for reimbursements to mental health providers serving Medicaid recipients, and it would increase local funding by $2 million for mental health services reimbursement for the non-Medicaid eligible population. The increases will allow mental health providers to meet projected increases in utilization. The funding will also allow for an increase in reimbursement rates —substantially improving providers' ability to provide mental health services as reimbursement rates have largely remained flat since 2001.

Funding for other services within DBH remain fairly flat when compared with FY 2013. Gross funding for Saint Elizabeth's hospital will remain at around $83 million, although the budget added almost $1 million for 11 nursing positions. Gross funding for supportive housing remains around $8 million in the FY 2014 budget.

One exception is that funding for school-based mental health services will grow by $2 million in FY 2014 to fund an expansion of services for 19 additional schools. School-based mental health clinicians already operate in 53 DC Public Schools and DC Public Charter Schools, and offer a range of on-site services — from prevention and early intervention to treatment of more severe issues.

Gross funding for APRA is $39 million in FY 2014, an 11 percent increase from FY 2013, with local funding growing by $3 million. This includes a $1 million increase for prevention services such as public health education and awareness. The DC Council also amended the FY 2014 Budget Support Act to dedicate cigarette tax revenue to smoking cessation efforts, including the cigarette "quit-line." In fiscal years 2014 through 2017, the amendment dedicates cigarette tax revenues collected in excess of the FY 2013 revenue projections to cessation efforts. In FY 2018 and beyond, 10 percent of all cigarette tax revenue will be dedicated to cessation. Currently, the District collects about $35 million in cigarette tax per year, meaning if revenue collections remain steady, cessation funding will increase by $3.5 million in FY 2018. At this point it is unclear if any additional funds will be collected above FY 2013 projected levels, making it difficult to predict if additional monies will be available for smoking cessation efforts until FY 2018.

The FY 2014 Budget Support Act will also require reporting on the progress and implementation of mental health screenings among children receiving Medicaid, and assessing pediatricians' success in identifying children with mental health needs in multiple settings, including schools.