

April 11, 2013

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

The mayor's proposed 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 Health¹ — totals \$3.25 billion in local and federal funding. This represents an 8.4 percent increase from FY 2013, after adjusting for inflation. (Unless otherwise noted, all figures are adjusted for inflation to equal FY 2014 dollars.) The proposed increase is largely due to increases within the Department of Health Care Finance from rising costs and enrollment in the Medicaid health insurance program. Alone, the Department of Health Care Finance accounts for 85 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 are proposed to increase from FY 2013 to FY 2014, rising by 6 percent and 11 percent, respectively.

Proposed local funding for health care agencies would rise by 4 percent, or \$43 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, the proposed 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.

Proposed local funding for the Department of Health Care Finance (DHCF) in FY 2014 is \$805 million, an increase of \$31million, or 4 percent,

KEY FINDINGS

MAYOR'S FY 2014 BUDGET PROPOSAL

- The Mayor's proposed gross funds budget for health care, which includes both local and federal funds, is \$3.25 billion, an increase of 8.4 percent from FY 2013, after adjusting for inflation.
- The majority of the increase is driven by rising costs and enrollment in Medicaid. Proposed gross funding for Medicaid is \$2.6 billion, a 9 percent increase from FY 2013, after adjusting for inflation.
- The proposed budget would generate \$13 million in fees on hospital providers to fund Medicaid outpatient services provided at hospitals. This would draw \$30 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, proposed funding would fall by \$2 million or 5 percent, to \$40 million, after adjusting for inflation.
- 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 mayor's 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.

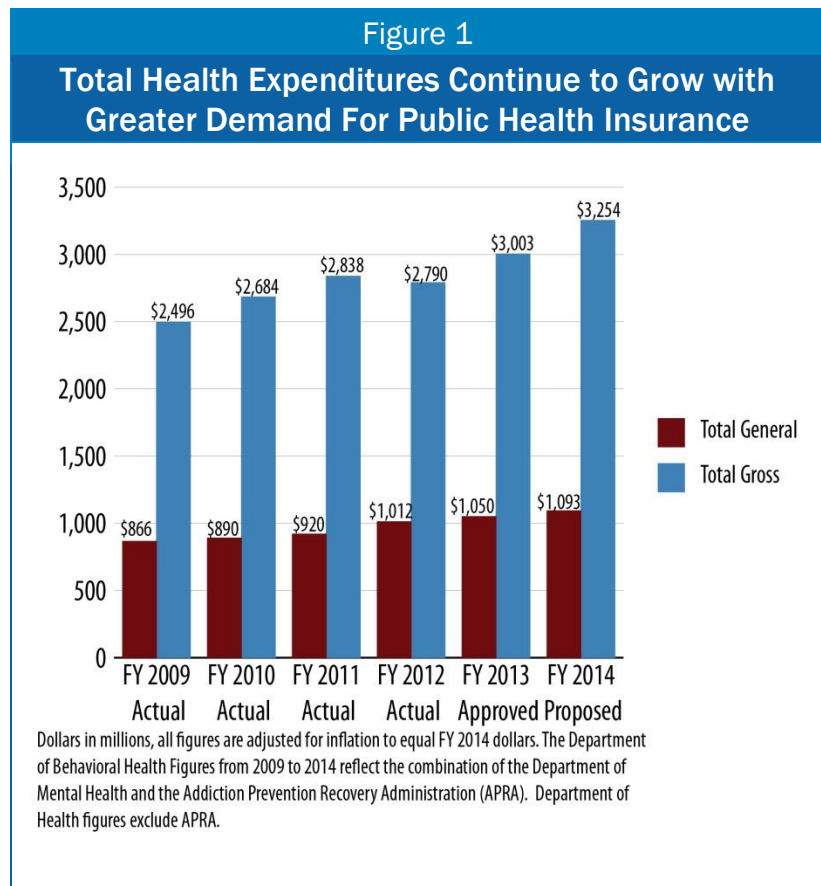
from FY 2013. The growth is largely driven by a \$34 million increase in Medicaid, which in turn is due to projected program enrollment and inflation in costs per service. The proposed DHCF budget also includes an increase in funding for program upgrades related to the Medicaid Management Information 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 proposed 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 proposed 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 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 proposed budget for the new department is \$207 million, 6 percent higher than spending on comparable services in FY 2013. The growth in the proposed 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 Alliance. The proposal 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.

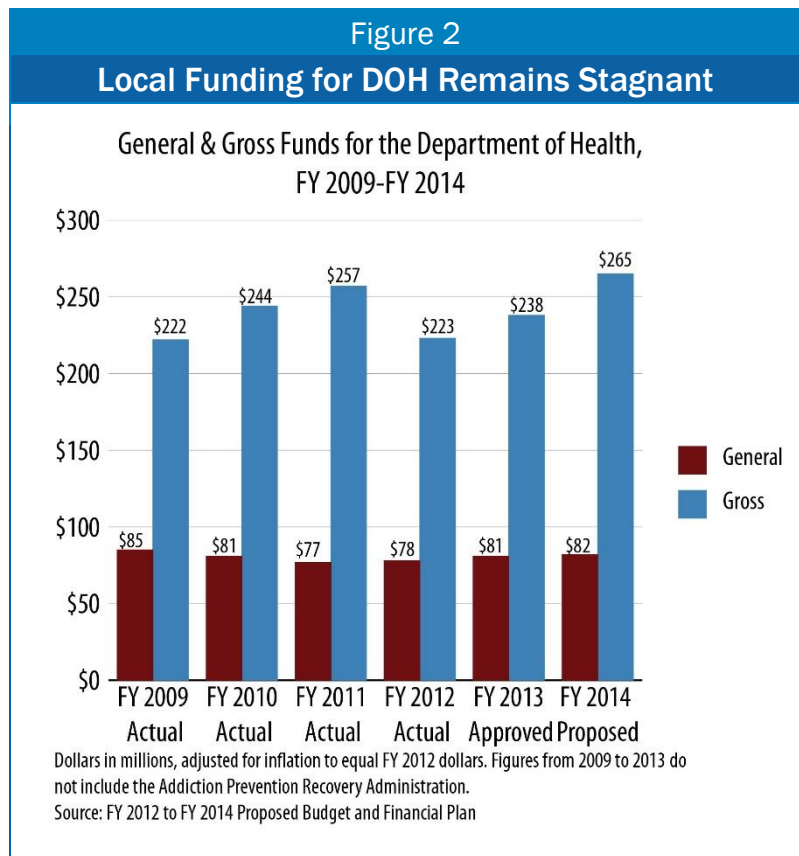
The mayor’s proposed FY 2014 budget sets gross health care expenditures, both locally and federally funded, at \$3.25 billion — a \$251 million or 8.4 percent increase over FY 2013. Total health expenditures have steadily increased since FY 2009 as a result of the recession and greater need for public health insurance programs (See Figure 1). In FY 2014, increases in gross funding for DHCF, the agency that oversees the Medicaid program, account for \$213 million or 85 percent of the proposed 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 70 percent of DC’s Medicaid expenditures.

Local funding for the three health agencies will grow to \$1.1 billion, an increase of \$43 million or 4 percent over FY 2013. The growth reflects increased costs for Medicaid, driven by climbing enrollment,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.

The Department of Health

The proposed 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 proposed 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, Hepatitis, STD, and TB Administration received a significant federal funding increase for HIV Support Services, as did the Community Health



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

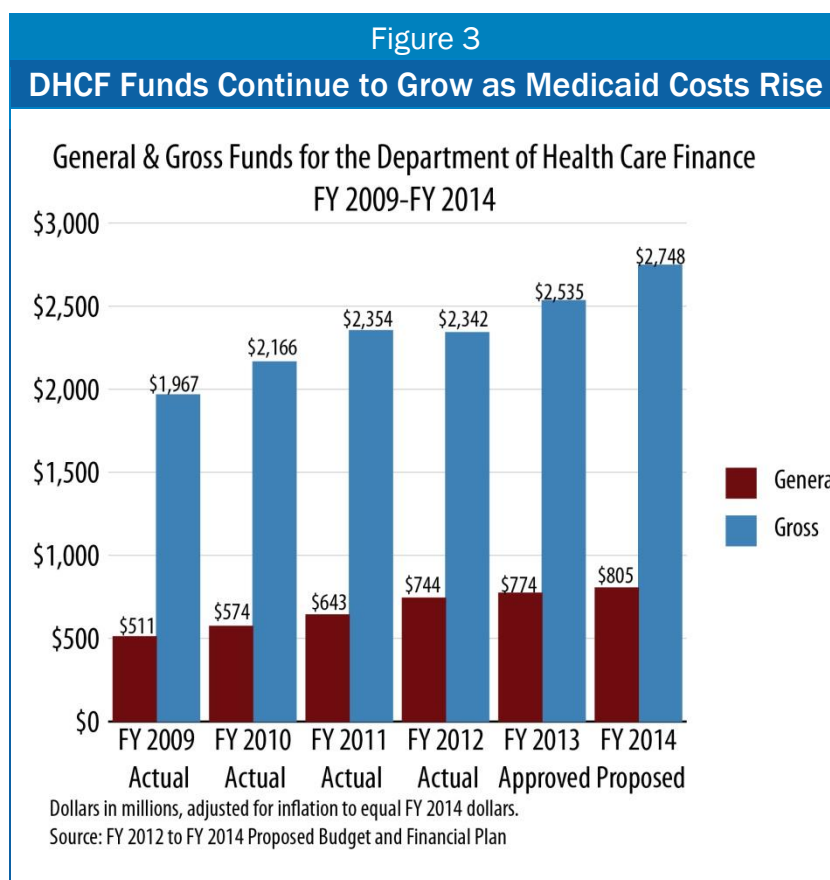
Administration for school health services, including an additional \$2 million for school-based health centers in DC Public Schools.

The FY 2014 proposed 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 proposed 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.

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, is proposed to increase by 5 percent to \$79 million for FY 2014. Proposed 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. Proposed FY 2014 gross funding for CHA is \$113 million, a \$24 million increase, or 27 percent, over the FY 2013 budget. The proposed 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

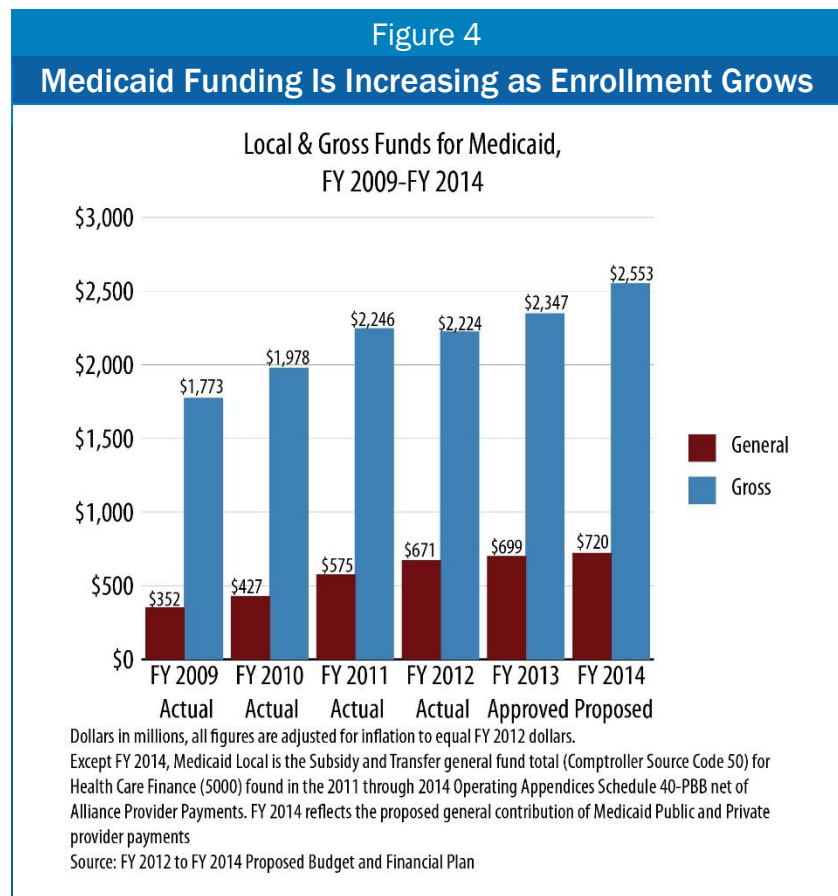


The budget also would increase funding for the Child, Adolescent, and School Health program by \$2 million in local funds to enhance four existing school-based health centers. The proposal includes a \$1 million cut in gross funding for perinatal and infant health services, which will reduce services 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 proposal projects 90 families will receive early childhood visits – ten more than in FY 2013.

The Department of Health Care Finance

The proposed 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 is proposed to grow by \$31 million, or 4 percent, to \$805 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 a cut in the locally funded Healthcare Alliance program.

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 proposed 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:



- **Growth in Local Medicaid Costs:**

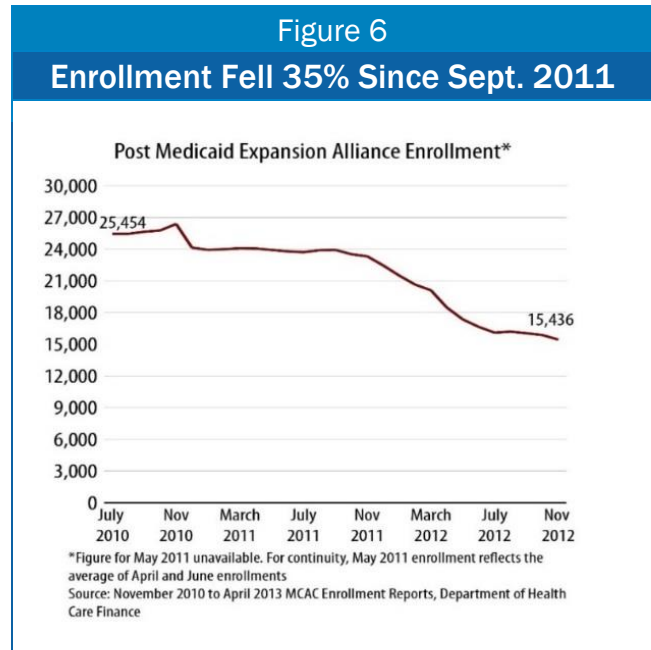
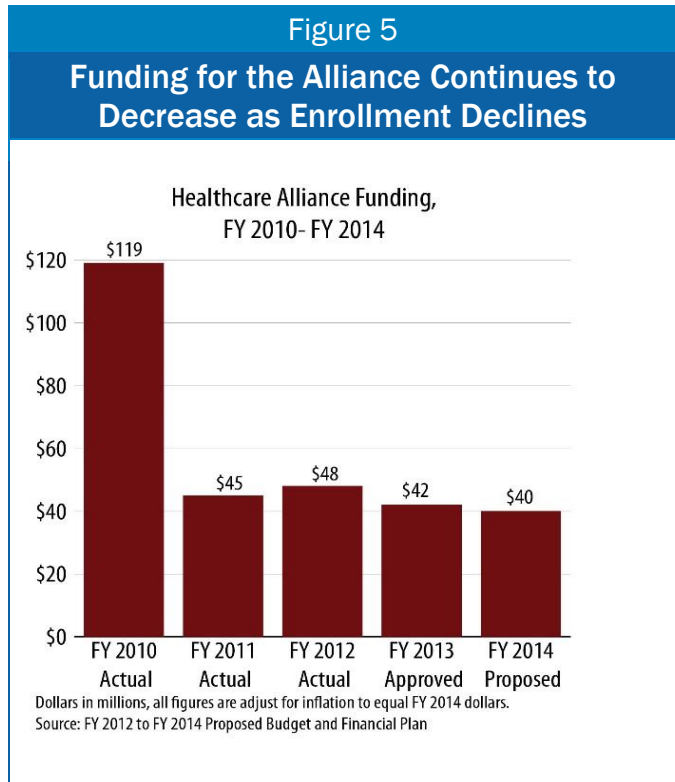
Since the beginning of FY 2012 Medicaid enrollment increased in from 148,000 enrollees in managed care (the bulk of the Medicaid program) to 155,000.³ Continued enrollment growth and rising cost of services will increase local funds going toward the program.

- **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.

- **The Hospital Provider Tax:** The proposed FY 2014 budget will create a new fee on hospitals, based on patient revenues, that 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.

Healthcare Alliance: Proposed 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, when the District implemented a requirement of face-to-face



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).

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.

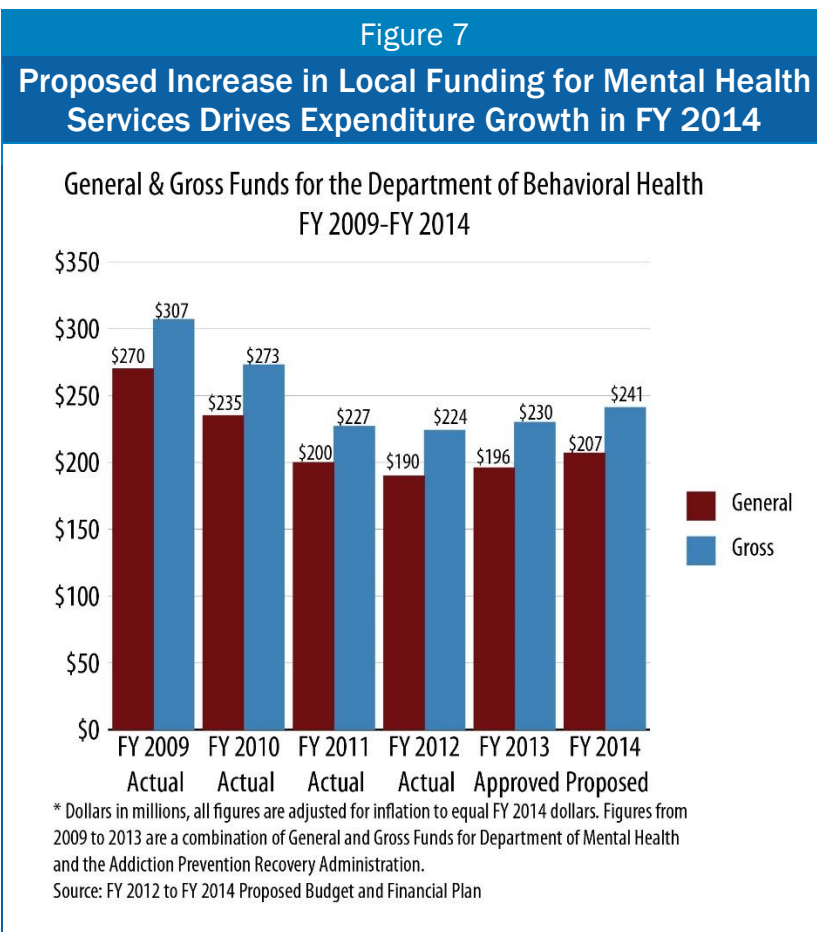
The Department of Behavioral Health

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 proposed FY 2014 gross funds budget for DBH, which includes both local and federal funds, is \$241million, an \$11 million or 4.6 percent increase over FY 2013 (See Figure 7), largely driven by changes in local funding for mental health services.

The proposed FY 2014 local budget for DBH is \$207 million, a 5.5 percent increase from FY 2013. The proposed budget would increase funding by \$7 million in local funds 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. Proposed gross funding for supportive housing remains around \$8 million in the FY 2014 budget.

Gross funding for APRA is proposed to be \$39 million in FY 2014, an 11 percent increase from FY 2013, with proposed local funding growing by \$3 million. This includes a \$1 million increase for prevention services such as public health education and awareness.

The mayor's proposed budget includes a "contingency priority list" of items that will get funded if the city's revenue collections improve, including one health item. The fourth item on the list is \$1.9 million to provide school-based mental health services to 19 additional schools, beyond the services already provided in 53 DC Public Schools and DC Public Charter Schools.