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WHAT'S IN THE FY 2015 BUDGET FOR HEALTH CARE?

Overview of the FY 2015 Budget for Health Care

The fiscal year (FY) 2015 budget for health care — which includes the Department of Health, the Department of Health Care Finance, and the Department of Behavioral Health — totals $3.5 billion in local and federal funding. This represents a 6 percent increase from FY 2014, after adjusting for inflation. (Unless otherwise noted, all figures are adjusted for inflation to equal FY 2015 dollars.) The increase is largely attributable to growing costs and enrollment in the Medicaid health insurance program, as well as greater funding for mental health services. As was the case in FY 2014, the Department of Health Care Finance — which manages the District's Medicaid program — continues to account for almost 85 percent of the growth in gross health care funding. The Department of Behavioral Health accounts for another 15 percent of the growth with a significant increase in funds for mental health services.

The FY 2015 budget also establishes a government enterprise fund — a fund outside of the District's general operating fund — for the DC Health Benefit Exchange Authority (Exchange), which is not reflected in the totals above. The Exchange operates DC Health Link, the District's online portal for health insurance plans and financial assistance for those plans. In FY 2014, the Exchange was funded through federal start-up funds, which was reflected in capital and operating budgets of the Department of Health Care Finance. In FY 2015,

SUMMARY OF THE FY 2015 HEALTH CARE BUDGET

- Includes $3.5 billion in gross funds for health care, which includes both local and federal funds, an increase of 6 percent from FY 2014, after adjusting for inflation.
- Includes a 4.5 percent increase in Medicaid's gross funding for FY 2015. This reflects higher utilization costs in Managed Care and a 3 percent growth in enrollment.
- Maintains the scheduled sunset of two provider taxes– the Hospital Bed Tax and the Outpatient Provider Fee. To sustain hospitals' inpatient and outpatient rates for Medicaid and to maintain federal matching contributions, the FY 2015 budget replaces these dedicated revenue streams with $21 million in local funds.
- Includes a $10 million increase in provider payments in the Alliance – DC's public health insurance program for select groups of people who don't qualify for Medicaid - for a total budget of $50 million. As enrollment continues to decline, utilization costs among remaining enrollees are going up, as they tend to be older and have more serious health problems.
- Creates an enterprise fund to support operations of the authority that manages the DC Health Benefit Exchange, including the online portal to access health insurance plans. As federal funds to operate the Exchange expire at the end of FY 2014, the DC Council approved a dedicated assessment that will fund the Exchange's $29 million budget.

the DC Council approved a dedicated local funding stream through an assessment on the gross receipts of health insurance companies to fully fund the Exchange.

Local funding for health care will rise by 4 percent, or $49 million, to a total of $1.2 billion. The increase is largely due to modest projected enrollment growth and increasing costs associated with Medicaid managed care. The growth in local expenditures also reflects an expansion in mental health services, including investment in early childhood mental health consultations, school-based mental health clinicians, and independent community residential facilities. Enrollment in the Healthcare Alliance — DC's public health insurance program for select groups of residents who don't qualify for Medicaid — continues to decline, but only slightly over the end of FY 2013. Still, Alliance expenditures have risen since then, suggesting higher utilization among enrollees remaining in the program.

The local budget for the Department of Health Care Finance (DHCF) in FY 2015 is $837 million,[1] an $18 million or 2 percent increase from FY 2014. Projected enrollment growth and higher costs per service account for a $30 million increase in the Medicaid program, which is managed by DHCF. The budget also reflects increased payments for health reform initiatives, expansion of coverage for organ and tissue transplants, and greater utilization of children's health benefits under Medicaid's Early, Periodic, Screening, Diagnosis, and Treatment (EPSDT) program. The increase will be offset by $5 million in savings from the streamlining and shifting of long-term care staff from the Division of Healthcare Delivery Management to the new Long Term Care Division. Local funding also will fall as federal grants for health information technology, which required local matching contributions, expire at the end FY 2014.

The Healthcare Alliance program continues to see downward trends in enrollment as a result of the restrictive requirement to have face-to-face interviews every six months to remain eligible. Over FY 2013 and the first part of FY 2014, enrollment fell by 9 percent to about 14,500 people. Still, DHCF will increase provider payments by $10 million to cover increased per-member utilization costs.

The Department of Health's local funding will increase by 11 percent or $9 million from FY 2014, for total general funding of $89 million in FY 2015. Four major initiatives drive growth in the agency — $2 million to support teen pregnancy prevention, $2.5 million local contribution to Home Visiting Programs, $2 million for tobacco control, and a $3 million expansion of the school health program. These DOH budget also reflects replacement of one-time funds for chronic illness prevention with $500,000 in recurring dollars.

The Department of Behavioral Health's local budget for FY 2015 is $236 million, an increase of 11 percent, or $23 million, from FY 2014. The increase is driven by growth in the Mental Health Rehabilitation Services (MHRS), which are mental health services for Medicaid and Alliance populations, by $5 million. The increase reflects anticipated growth in utilization of services under the MHRS program and the transfer of Fee-for-Service day treatment clients from the Department Health Care Finance to DBH. Between FY 2012 and FY 2015, the Medicaid payments for MHRS services will almost double as a result of utilization and higher reimbursement rates. The budget also adds $3.3 million for salary increases across the Department and $470,000 to expand school-based

[1] For comparison, the FY 2015 Department of Health Care Finance figures include $51 million in local funding for the ID/DD waiver, which transferred to Department of Disability Services this fiscal year. No services were lost and the Federal match remains in the DHCF budget.

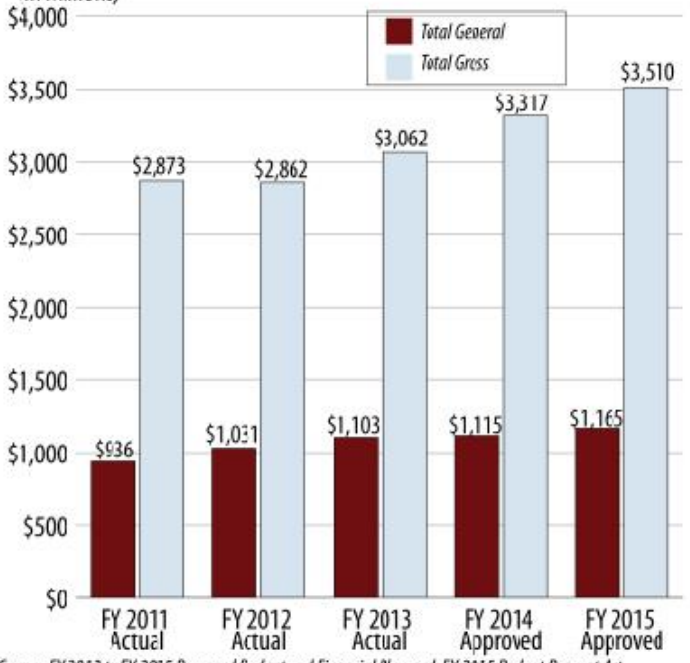
mental health services to six additional schools. Lastly, the budget includes $5.5 million to support Independent Community Residential Facilities, which are small group quarters with intensive services for people with serious mental illness.

Outside of the general fund expenditures on health care, the DC Council created a dedicated funding stream for the operation of the DC Health Benefit Exchange Authority. Through FY 2014, the Authority will be funded entirely by federal grants reflected in the operating and capital budget of Department of Health Care Finance. But those federal funds expire at the end of 2014. The Authority's FY 2015 budget is $29 million and will be contained in an enterprise fund outside of the District's general operating funds. The Exchange will be entirely financed through an assessment on the gross receipts of all health carriers operating in the District.

Figure 1

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

General and Gross Funds for the Department of Health, Department of Behavioral Health and Department of Health Care Finance, FY 2011-FY 2015 (In Millions)*



Source: FY 2013 to FY 2015 Proposed Budget and Financial Plan and FY 2015 Budget Request Act
All figures are adjusted for inflation to equal FY 2015 dollars. For comparison, the FY 2015 Department of Health Care Finance figures include $58 million in local funding for the ID/DD waiver, which transferred to Department of Disability Services this fiscal year. The Department of Behavioral Health figures from 2011 to 2013 reflect the combination of the Department of Mental Health and the Addiction Prevention Recovery Administration (APRA). Department of Health figures exclude APRA.

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). This analysis also includes information on the District's Health Benefit Exchange Authority, but funding is not included in overall health care totals, because it is an enterprise fund and operates outside of the District's operating budget.

The FY 2015 budget allocates $3.5 billion in local and federal spending on health care. That is $194 million, or 6 percent, higher than in FY 2014 after adjusting for inflation. (See **Figure 1**.). Total health expenditures have grown since FY 2011 as a result of higher enrollment in public health insurance programs, increased Medicaid reimbursement rates for services provided, and greater utilization of services. Consistent with FY 2014, gross funding increases in the Department of Health Care Finance, the agency that implements the Medicaid and Healthcare Alliance programs, account for about 85 percent or $162 million of the growth in health expenditures. Medicaid is a

health insurance program for low-income residents, with federal funds generally covering 70 percent of the expenditures.

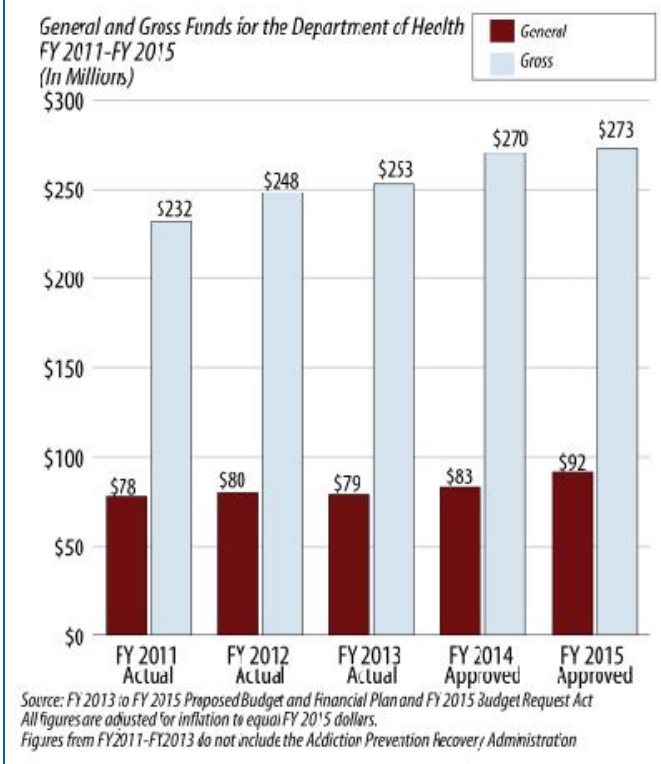
Local funding for the three health agencies will grow to $1.2 billion, an increase of $49 million, or 4 percent, over FY 2014. The growth reflects increased funding for mental health services, greater local investment in childhood and student health initiatives within the Department of Health and Department of Behavioral Health, and some projected growth in enrollment and utilization within the Medicaid program.

The Department of Health

The FY 2015 gross funds budget for the Department of Health, which includes both local and federal dollars, is $273 million — a $3 million, or 1 percent, increase over FY 2014. (See **Figure 2**.) The change reflects declines in federal funding for health care services across the HIV/AIDS, Hepatitis, STD, and TB Administration and the Community Health Administration, but increases in local funding for community health programming and chronic disease prevention. For example, the budget will replace $2.5 million in expiring federal funds for the DC Home Visiting program with an increase of the same amount in local funds.

Figure 2

Local Funding for DOH Increasing As Federal Funds Stagnate



Source: FY 2013 to FY 2015 Proposed Budget and Financial Plan and FY 2015 Budget Request Act
All figures are adjusted for inflation to equal FY 2015 dollars.
Figures from FY2011-FY2013 do not include the Addiction Prevention Recovery Administration

The local budget for DOH will grow by $9 million or 10 percent, with a total general fund budget of $92 million. The increase includes $2 million in one-time support for teen pregnancy prevention, $2 million for tobacco control efforts, $2.5 million in local replacement for the DC Home Vising Program, and a $3 million increase to the school health program. The budget also reflects the replacement of lapsing one-time funds for chronic disease prevention with $517,000 in reoccurring investment.[2]

HIV/AIDS, Hepatitis, STD, and TB Administration (HAHSTA): HAHSTA supports prevention, intervention, and treatment of HIV/AIDS and other sexually transmitted diseases. Total funding for HASTA is $88 million, a $3 million decrease, or 3 percent, from FY 2014. This reflects

[2] The one-time money was a result of savings projected from decreases in personal services and salary.

decreases in federal grants for Housing Opportunities for People with Aids, the HIV prevention project, and tuberculosis control.

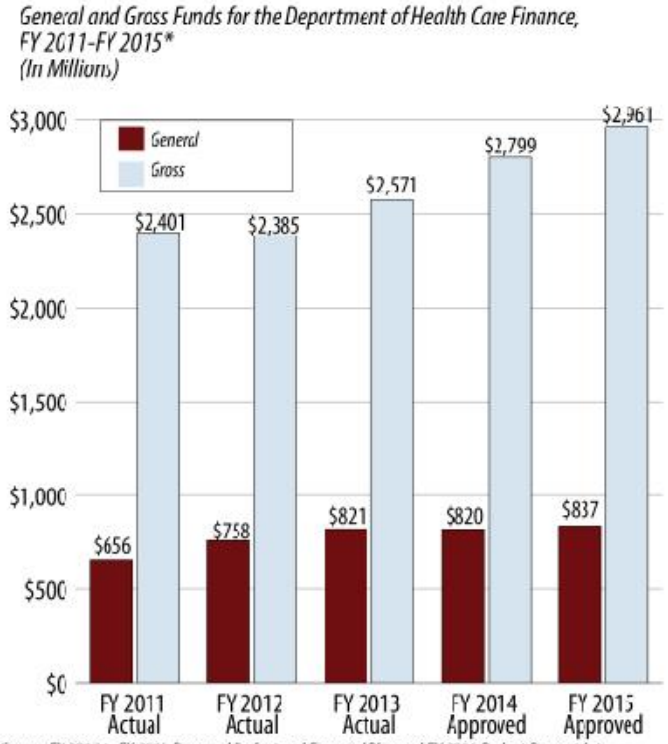
Community Health Administration (CHA): The Community Health Administration oversees programs that improve health outcomes and address social determinants of health through prevention and intervention, focusing on women, infants, and children. These programs include providing parents with WIC nutrition supplements, early childhood development curriculum, home visits, health and domestic violence screenings, and immunizations. The gross funds budget for CHA is $73 million, a 37 percent, or $40 million, decrease over FY 2014. However, all of that decrease can be explained by a $46 million shift out of this division of the pharmaceutical procurement and distribution services for DOH, Medicaid, and the Healthcare Alliance. There is no change in those services.

The FY 2015 budget includes $9.5 million for several CHA initiatives including:

- $2 million in one-time support for operation of the District's tobacco quit-line and expansion of tobacco control and education efforts;
- $2 million in one-time funds for teen pregnancy prevention to support organizations providing teen interventions and education that recently lost private and federal grant funding;
- $3 million to increase the number of school nurses in DC Public Charter Schools to bring the numbers more in line with DC Public Schools;
- $375,000 for school-based health centers that provide medical services to students on location at some DC high schools; and
- $2.5 million to replace federal funds awarded in FY 2013 to implement evidence-based home visiting models — programs that improve early childhood health and development through home-based interventions. As those federal grants begin to expire in FY 2015, the District is sustaining the program through local funding sources.

Figure 3

Health Care Finance Funding Continues to Grow As Medicaid Costs Increase



Source: FY 2013 to FY 2015 Proposed Budget and Financial Plan and FY 2015 Budget Request Act
All figures are adjusted for inflation to equal FY 2015 dollars. For comparison, the FY 2015 Department of Health Care Finance figures include $53 million in local funding for the ID/DD waiver, which transferred to Department of Disability Services this fiscal year.

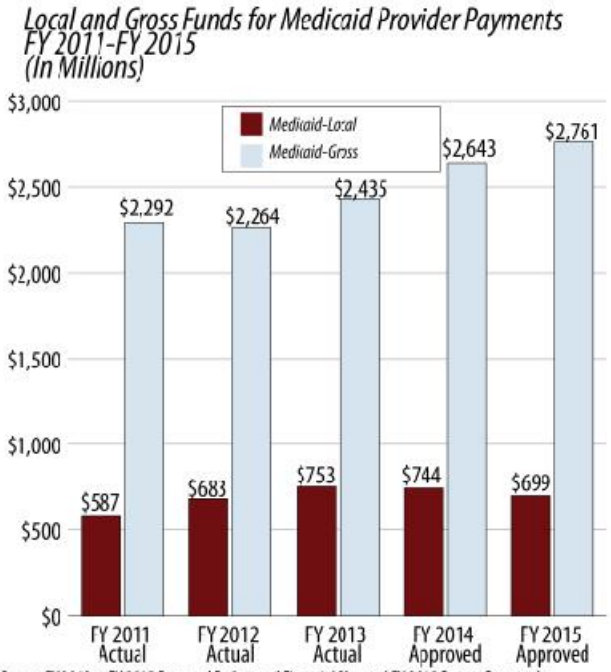
The Department of Health Care Finance

The federal and local funding for the Department of Health Care Finance is $3 billion in FY 2015, an increase of $162 million or 6 percent over FY 2014. (See **Figure 3**.) Local funding for the agency is $837 million, an increase of $18 million, or 2 percent, while federal funding will grow faster.[3] The Department of Health Care Finance (DHCF) has seen growth in expenditures as enrollment in Medicaid continues to rise and as payment rates for services increase. Average monthly managed care expenses per-member have grown by 6 percent annually since 2008.[4]

Medicaid: The gross funding for Medicaid, including both local funds and the federal match, is $2.8 billion, accounting for 95 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 2015 and 2016, 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.

Figure 4

Medicaid Provider Increasing with Enrollment and Utilization Growth



Source: FY 2013 to FY 2015 Proposed Budget and Financial Plan and FY 2015 Budget Request Act
Medicaid Local is 'the Subsidy and Transfer general fund total' (Comptroller Source Code 50) for Health Care Finance (5700) found in the 2013 through 2015 Operating Appendices Schedule 40-PBB net of Alliance Provider Payments. The FY 2015 payments is net ID/DD waiver payments.
All figures are adjusted for inflation to equal FY 2015 dollars

Moreover, in FY 2015, the local funding of some Medicaid programs is reported within the budgets of agencies which administer the funds, not DHCF, while federal matching dollars remain in DCHF's budget.[5] As a result, federal Medicaid expenditures within DHCF appear to grow much faster than the local share.

Gross funding for Medicaid provider payments grew by 4.5 percent or $118 million over FY 2014 (See **Figure 4**). This accounts for most of the increase in DHCF's budget. However, *local* funding for provider payments within DHCF will fall $44 million from FY 2014, but this is not due to a reduction of services. Instead, it reflects a shift

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[3] For comparison, the FY 2015 Department of Health Care Finance figures include $51 million in local funding for the ID/DD waiver, which transferred to Department of Disability Services this fiscal year. No services were lost and the Federal match remains in the DHCF budget.

[4] Department of Health Care Finance, DHCF Budget Presentation for FY 2015 at Medical Care Advisory Committee Meeting, April 2014. Pages 30.

[5] For example – the local funding for the ID/DD waiver, which helps residents with intellectual and developmental disabilities with services and supports in their home, moved to the Department of Disability Services.

from the DHCF budget to the budget of the Department of Disability services of $51 million in local spending for services to residents with intellectual and developmental disabilities.

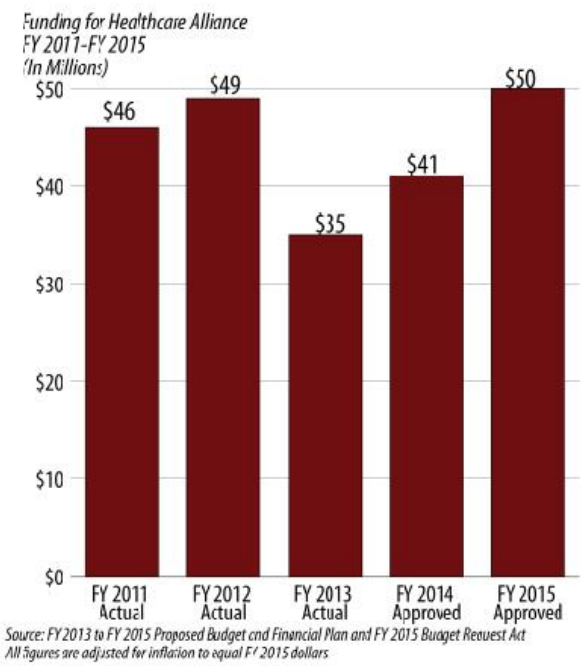
Utilization costs are contributing to expenditure growth in the Medicaid program. Enrollment has grown steadily at nearly 3 percent per year since 2011. Medicaid utilization costs also are rising as the costs of services per enrollee are rising. Average per-member per month managed care costs continue to rise about 6 percent a year. This rapid growth partly reflects high rates of hospital re-admissions, which indicates a need for a stronger level of case coordination and management by the Managed Care Organizations.[6]

The FY 2015 budget introduces several initiatives that will increase local funding to the Medicaid program.

- **Replacement of the Hospital Tax and Outpatient Provider Fee:** During the Great Recession, as District tax collections fell, the District instituted a hospital bed tax in FY 2012 to generate local revenues for Medicaid services, which would draw federal Medicaid matching funds. This allowed inpatient hospital reimbursement rates under Medicaid to be set at 98 percent of cost, a very high level. Similarly, the FY 2014 Budget Support Act enacted an outpatient hospital provider fee which allowed the outpatient hospital reimbursement rate to rise. Both of these dedicated revenue streams are set to expire at the end of FY 2014. To maintain current reimbursement rates, the FY 2015 budget replaces the two dedicated taxes with $21 million in general District-raised funds.

Figure 5

Funding for the Alliance Highest Since Medicaid Expansion



Source: FY 2013 to FY 2015 Proposed Budget and Financial Plan and FY 2015 Budget Request Act
All figures are adjusted for inflation to equal FY 2015 dollars

- **Expanded Coverage of Transplants:** The budget adds $2.5 million in local funding to cover provider reimbursement for lung and autologous bone marrow transplants.

- **Increased Funding for EPSDT:** Local funding for the Early Periodic Screening, Diagnosis, and Treatment (EPSTD) program, the children's health benefit for Medicaid, will increase by $866,000 as a result of higher utilization among children. DHCF is currently streamlining the documentation and billing of the benefit in order to coordinate services and ensure that providers can more easily connect children to the treatment they need.

[6] Department of Health Care Finance, DHCF Budget Presentation for FY 2015 at Medical Care Advisory Committee Meeting, April 2014. Pages 27-33.

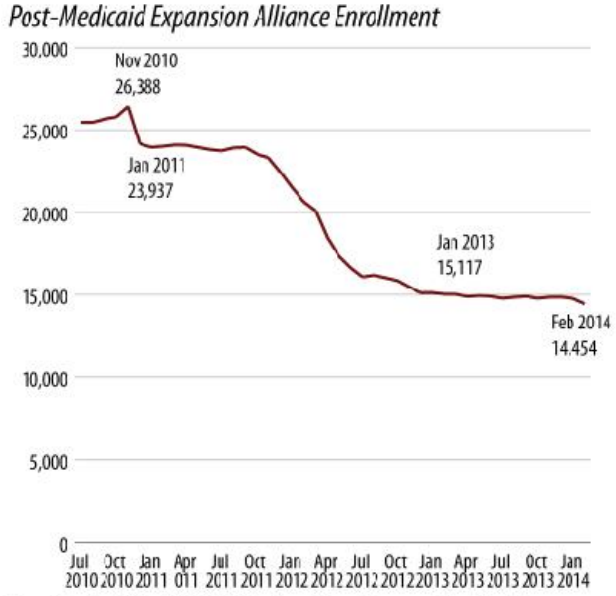
- **Funding of Health Reform Initiatives:** The budget includes a $3 million increase to the three Managed Care Organizations that provide the District's Medicaid managed care services. The funds will be used to offset the 1 percent gross receipts tax on District health insurers that will fund the operations of the District's health exchange.

Healthcare Alliance: Funding for the program in FY 2015 is $50 million, an increase of $9.6 million from FY 2014. (See **Figure 5**.) The 24 percent funding increase results from higher utilization costs for the population currently in the program. Because the increase is not related to enrollment, it suggests that the Alliance membership includes a large number of older residents and other residents with serious health problems.

Despite the funding increase, enrollment in Healthcare Alliance has been on the decline since FY 2010 and there is no expectation that it will grow in 2015.[7] (See **Figure 6**.) At the beginning of FY 2012, the Department of Healthcare Finance instituted a six-month, in-person interview as part of the program's recertification process. Since the policy was implemented, enrollment has fallen dramatically — to about 14,500 residents as of January 2014.

Figure 6

Alliance Enrollment Continues to Decline Under Interview Requirements



Source: November 2010 to April 2014 MCAC Enrollment Reports, Department of Health Care Finance
Figure for May 2011 unavailable. For continuity, May 2011 enrollment reflects the average of April and June enrollments

The intent of the six-month recertification was to discourage ineligible people from applying for the Alliance, but evidence among legal service provider cases and data analysis by the Department of Health Care Finance suggest that it is creating a barrier for *eligible* enrollees to maintain coverage under the program. Since January of 2013, between half and 67 percent of monthly Alliance re-certifications were never completed.[8] Moreover, wait-times for Alliance recipients seeking to re-certify at a service center are twice the wait-times for Medicaid recipients[9] – reflecting the language and case-management needs of the Alliance population. Anecdotal evidence suggests that the wait-times at the service centers have increased in FY 2014, as a result of health reform outreach and changes to Medicaid processes increasing client traffic at service centers.

[7] Medicaid expansion in 2010 shifted 32,000 residents from the Alliance Program to Medicaid. However, after a period of stable enrollment, caseloads begin to decrease after a six-month, in-person recertification began in FY 2012.

[8] Department of Health Care Finance, DHCF Budget Presentation for FY 2015 at Medical Care Advisory Committee Meeting, April 2014. Pages 46-47.

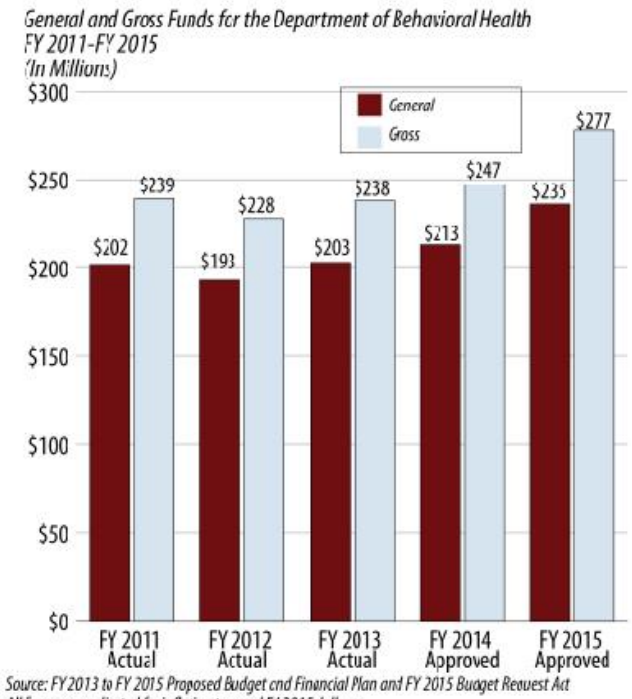
[9] Ibid.

The Department of Behavioral Health

The Department of Behavioral Health's (DBH) budget is funded primarily through local funds, with only a portion of mental health services drawing a Federal Medicaid match. The FY 2015 gross funds budget for DBH is $277 million, an increase of $30 million or 12 percent from FY 2014.[10] (See **Figure 7**.) The increase is largely driven by increased utilization and changes to the mental health rehabilitation services (MHRS), expansion of school-based mental health services, salary increases across divisions, and investments in Saint Elizabeth's Hospital and Independent Community Residential Facilities.

Figure 7

Mental Health Expenditures Continue to Rise



Source: FY 2013 to FY 2015 Proposed Budget and Financial Plan and FY 2015 Budget Request Act
All figures are adjusted for inflation to equal FY 2015 dollars
Figures from FY2011-FY2013 are a combination of the General and Gross Funds for Department of Mental Health and the Addiction Prevention Recovery Administration

The local budget for DBH is $235 million, an 11 percent or $23 million increase over FY 2014. Higher utilization of mental health rehabilitation services (MHRS) will result in an increase of $600,000 in Medicaid provider payments. The increase in 2015 is part of a recent trend in higher utilization and increases in provider rates, which has led to a near doubling of Medicaid mental health funding since FY 2012. (See **Figure 8**.)

The increase in local funds also reflects the transfer of fee-for-service day treatment services for adults with mental health needs from the Department of Health Care Finance to MHRS — adding $4 million to non-Medicaid MHRS.

The budget adds $8 million in local funding to cover equipment costs at Saint Elizabeth's hospital, but some of that increase will be offset by Hospital staff reductions. The DBH budget for 2015 includes $5 million in funding for affordable housing that currently is included in the capital budget. The program provides supportive housing for people with mental health issues and other chronic conditions or disabilities. The funding is now reflected in the operating budget because the program provides services tied with the affordable housing, and that makes it more appropriate to be shown as an operating expense rather than a capital expense. The budget adds another $5 million to support existing independent community residential facilities — small group homes with intensive

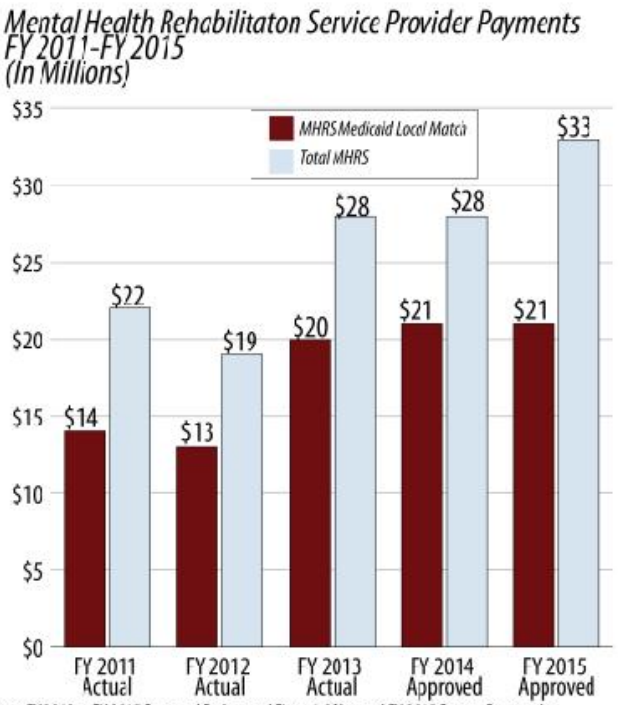
[10] The Department of Behavioral Health (DBH) combines the former Department of Mental Health (DMH) and the Addiction, Prevention, and Recovery Administration (APRA) that was under the Department of Health (DOH) until FY 2014. In this toolkit, comparisons to years prior to FY 2014 adjust for the transfer by removing funding for APRA from DOH and adding it to the budget for DMH.

supports for people with severe mental illness. Finally, $3.3 million is available to support salary increases for new and existing staff across the agency.

The budget increases federal funding to support four additional staff for early childhood mental health consultations and screenings. The Department also adds about $480,000 to support six additional mental health clinicians for the school-based mental health program. Currently, the program has funding for mental health professionals in 72 District schools in order to provide prevention, intervention, and treatment services for students. Since the program's inception in 2012, mental health professionals have performed over 20,000 counseling sessions and the program carries an average annual caseload of 629 students. The South Capitol Street Memorial Act calls for a clinician in every school by the 2016-2017 school year. The budget allows services to reach a total of 78 schools.

Figure 8

Provider Payments for Mental Health Services in FY 2015 Are Nearly Double the Payments in FY 2012



Source: FY 2013 to FY 2015 Proposed Budget and Financial Plan and FY 2015 Budget Request Act
All figures are adjusted for inflation to equal FY 2015 dollars

Finally, gross funding for Addiction Prevention and Recovery Administration (APRA) is $41 million in FY 2015, a $1.5 million increase from FY 2014. The budget includes $250,000 increase for tobacco cessation efforts and nicotine replacement therapy, as well as funding for eight additional treatment and prevention staff. APRA also adds $65,000 to fund treatment services for eligible families in the Temporary Assistance for Needy Families program.

The DC Health Benefit Exchange Authority

The DC Health Benefit Exchange Authority (Exchange) operates DC Health Link, the District's online portal for health insurance plans and financial assistance for those plans. Through 2014, the budget for the Authority is funded through federal implementation grants within the operating and capital budget of the Department of Health Care Finance. However, those federal grants expire at the end of FY 2014, and the FY 2015 budget creates an enterprise fund — a fund that operates outside of the District's general operating fund and is funded by a dedicated funding stream — to maintain funding for the Exchange.

For FY 2015, the Exchange's operations will be fully funded through an assessment on the gross receipts of all health insurers operating in the District.[11] For FY 2015, this assessment is expected to be 1 percent, and will support an Exchange budget of $29 million. The Exchange's budget is concentrated on information technology (IT) build-out and maintenance, and consumer assistance. With respect to IT, the Authority's budget includes $5 million to support the customer service call-center, a consumer assistance tool that received 84,000 calls in FY 2014's open enrollment period.

In partnership with the Economic Security Administration (ESA) within the Department of Human Service, the Exchange will add $2 million for case-management staff for ESA service centers. The staff will assist Medicaid and Exchange enrollees with identity proofing and complex eligibility cases. The Authority's budget also includes $1.5 million in funds for consumer assistance and outreach — including production of outreach materials, advertising and the funding of two Navigator positions at the DC Primary Care Association. Navigators will help consumers through the eligibility and enrollment process for private health plans on DC Health Link and Medicaid.

Federal funding for 35 in-person assister organizations will expire at the end of FY 2014, but some funding could be extended to 11 of these organizations through the end of the second open enrollment period in February 2015. In-person assisters help people apply and enroll into private market health plans and Medicaid, and are located at community-based organizations where residents receive other services — such as tax preparation centers, libraries, health clinics, and churches. If funding ceases for assister organizations, the breadth of DC Health Link's consumer assistance network could be threatened.

[11] This refers to any health insurer with gross receipts of $50,000 or more — including insurers inside and outside of the exchange, Managed Care Organizations, and insurers offering supplemental products such as indemnity plans and disability and long-term care products.