



May 3, 2011

Contact: Anne Dunkelberg, dunkelberg@cphp.org

HOUSE VS. SENATE FINANCE COMMITTEE BUDGETS: HOW THEY COMPARE ON MEDICAID & SELECTED HHS ISSUES, AND WITH 2003 CUTS

The House's adopted budget and the Senate Finance Committee's approved budget (the full Senate has not yet voted on this bill) take significantly different approaches to allocating and cutting funding for Texas Medicaid and CHIP. Still, one important approach used by both chambers is a substantial under-funding of the program overall that is not associated with particular policy changes or program cuts. Since Medicaid is an entitlement, an underlying assumption is that the state will keep paying Medicaid and CHIP health providers for services every month as long as there is money available, and can cover the "unassigned" budget cuts with a supplemental appropriations bill in the 2013 session as long as funds do not "run out" before January 2013. This short *Policy Page* analysis compares some of the high-level differences between the chambers' approaches, and addresses how the proposed state General Revenue (GR) cuts for 2012-2013 compare to the cuts adopted in 2003 for the 2004-2005 budget.

Comparison of Selected Major Issues In Article II		
	House Budget	Senate Finance Committee Budget
Article II Overall	Funds Article II GR 16% <u>below</u> 2010-2011	Funds Article II GR 9.2% <u>below</u> 2010-2011 (see Table 7, p 11 LBB summary Senate CSHB1)
	<i>Note: These cuts are far deeper than the Art II cuts in the 2004-2005 budget, which funded Art. II GR at 0.1% below 2002-2003 levels. More about 2003 vs. 2011 below this table.</i>	
Medicaid Overview	House: <ul style="list-style-type: none"> Added \$1.8 Billion GR above the introduced bill for Medicaid (characterized as covering caseload & cost growth, plus an extra \$100 million GR), But kept 10% rate cuts for nearly all Medicaid and CHIP providers. <u>Both bills</u> also assume \$817 million GR reduction from Medicaid Managed Care and a list of smaller cuts and savings 	Senate: <ul style="list-style-type: none"> Started with \$1 billion GR deeper hole for Medicaid than House in introduced bill; But then added about \$4.5 billion GR above its introduced bill for Medicaid; This allowed smaller rate cuts (detail below) and lower GR shortfall <u>Both bills</u> also assume \$817 million GR reduction from Medicaid Managed Care and a list of smaller cuts and savings (HHSC riders 51, 58) Senate also adopted a rider that requires <u>another</u> \$700 million GR to be saved (HHSC rider 60); Senate did not fund caseload or cost increases, \$1.7 billion GR per LBB
Medicaid: Provider Rate Cuts	<ul style="list-style-type: none"> Assumes 10% across-the-board cuts for almost <u>all</u> Medicaid and CHIP providers. (These are <u>IN ADDITION</u> to rate cuts already taken in 2010-2011) 	(Rate cuts adopted total roughly \$900 mill-\$1B GR; see SP Art II rider 46) DADS: <ul style="list-style-type: none"> Nursing Homes: <u>No</u> additional cut (stay at

	<ul style="list-style-type: none"> This cuts \$1.6 Billion GR, which loses another \$2.2 billion federal match, for total loss of \$3.8 billion 	<p>3% cut already taken 2010-2011)</p> <ul style="list-style-type: none"> ICF-MR: 2% additional rate cut (added to current 3% cut taken 2010-2011) HCS waiver: 1% additional rate cut taken (2% cut in 2010-2011) Other community care: No cuts, but Senate proposals still under consideration <u>could</u> cut attendant rates in the CBA program by \$1.29/hour. <p>HHSC:</p> <ul style="list-style-type: none"> Physicians, dentists, and professionals: No additional cuts (2% cut in 2010-2011) Hospitals: 8% additional? cut; (2% cut in 2010-2011) <ul style="list-style-type: none"> Exempted children's hospitals from inpatient, but not outpatient portion LBB summary does not clarify total cumulative cut; rider 46 Art II spec. prov says 10% total. Durable Medical Equipment, Labs: 10.5% additional cut; (2% cut in 2010-2011)
Medicaid GR Shortfall* NOT associated with any program cut	\$4.2 billion GR shortfall	LBB identifies \$1 billion GR Shortfall ; however, Senate bill also leaves \$1.7 billion GR in unfunded cost/caseload and \$700 million GR in added "uncertain reductions" in HHSC rider 60. Total= \$3.4 billion GR
<p>*This "shortfall" is money the Legislature expects Medicaid to need, but simply left out of the budget. <u>Put simply, even with the provider rate cuts, the state will still have to appropriate more money before the budget cycle ends to continue paying its Medicaid bills.</u> The final budget needs to include at least enough money to cover the bills until the Legislature comes back to town and can approve supplemental funds (i.e., January-February 2013).</p>		
Reductions through Medicaid Managed Care Medicaid Riders and reductions	<ul style="list-style-type: none"> \$367 million GR reduction for Medicaid Managed Care (HHSC rider 52) \$450 million GR reduction (HHSC rider 61) 	<ul style="list-style-type: none"> \$367 million GR reduction for Medicaid Managed Care (HHSC rider 51) \$450 million GR reduction (HHSC rider 61) \$700 million GR reduction "Federal Flexibility" rider (Art II SP rider 46)
Mental Health	<ul style="list-style-type: none"> Retains all cuts from introduced budget, <u>except</u> restores crisis funding. <p>Cuts include:</p> <ul style="list-style-type: none"> 20% cut for adults' mental health services, 9% cut for children's mental health services (transfers made thru House floor amendments), NorthSTAR Behavioral Health Waiver 10%, MH state hospitals, 4%, MH community hospitals 3%, repair and renovation of mental health facilities 86%. <p>Total cuts are more than \$239 million.</p>	<ul style="list-style-type: none"> Restores funding for all DSHS MH strategies to current 2010-2011 funding levels.
Family Planning	<ul style="list-style-type: none"> House <u>reduces</u> family planning by \$61 million from the amount in introduced budget; leaving just \$38 million, or a 66% reduction from current 2010-2011 funds. 	<ul style="list-style-type: none"> Senate stays at amount in introduced budget; Introduced bill <u>reduces</u> family planning to \$99.6 million for 2012-2013, which is

		\$11.9 million below the 2010-2011 funding level, or 11% lower.
Public School funding: Foundation School Program (FSP)	FSP \$7.8 billion (18%) below the current-law amount needed for schools, even after \$2 billion added to public education.	FSP: \$4 billion (9%) below the current-law amount needed for schools, even after adding \$5.3 billion above introduced.

¥ Another roughly \$360 million GR was added to Article II for non-Medicaid programs.

How Would Total State Spending Compare to 2010-2011?

The House budget appropriates about \$78 billion GR, while the Senate Finance Committee bill is at \$85.9 billion GR (Note: this Senate total includes \$5.1 billion in contingent appropriations from Article IX riders 10.9, 10.10, 10.11 total). **Both the House and Senate proposals are still well below the \$90 billion GR Texas actually budgeted for 2010-2011** (see table 7 on p. 11 of the LBB summary of Senate CSHB1), so when population and inflation growth are considered, even the higher-funded Senate bill still represents major cuts.

CAVEAT: Medicaid's Promissory Note

A major working assumption of both chambers and the Legislative leadership is that most of the "Medicaid GR Shortfall NOT associated with any program cut" (see chart above) is assumed to be covered in 2013 in a supplemental appropriation. That is, except to the extent that specific program cuts are adopted (pared-down benefits and rate cuts), Texas HHSC is on the hook to pay the Medicaid and CHIP bills regardless of the exact appropriated amounts in the budget bill, and the state will make good on that shortfall. This is very important to recognize, but there are also some grey areas. To illustrate, the **Senate Finance committee's** bill includes three broad categories of spending reductions:

- 1) **True spending reductions:** The Senate's Medicaid rate cuts which are in the \$900 million -\$1 billion GR range are real reductions in spending, as are the \$450 million GR in HHSC rider 58 reductions and \$367 million in Medicaid managed care reductions in HHSC rider 51.
- 2) **Under-funding expected to be made good thru supplemental appropriations:** \$1.7 billion GR for caseload and cost growth, \$1 billion in ARRA used as GR not replaced.
- 3) **Grey Area:** \$700 million GR HHSC rider 60 due to "flexibility" not currently allowed under federal law. This rider does not say what happens if Texas does not get federal approval of these changes thus cannot save this large sum. If that happens, this could result in program cuts (losing also the \$1.67 billion federal match), or it could be something the state makes good on through supplemental appropriations.

Trusting in the "making it good later" category in #2 via supplemental appropriations in 2013 does require a bit more faith in 2011 than routinely adopting very low caseload and inflation assumptions did in past years, given the current wholesale push in Texas and DC toward capping and block granting Medicaid.

Compared to 2003?

Is the Senate Finance Committee bill "better" for Article II than the 2003 Legislature's budget was? The committee staff distributed a table comparing the current House and Senate bills with the 2004-2005 budget on a number of measures. The handout accurately shows that the Senate's programmatic cut decisions are more thoughtful and less damaging to vulnerable Texans in the aggregate than the 2003 bill. The Senate avoided most of the worst decisions

the legislature made in 2003: (e.g., cutting CHIP, taking away seniors and adults with disabilities' mental health and vision Medicaid benefits, reducing Medicaid maternity coverage). It is fair to say that policy-wise, the Senate's bill is superior in most ways than the 2003 budget—for *Article II*.

What the policy comparison does not reveal, however, is how much deeper the current Senate proposed cuts are as a percentage of the state budget compared to 2003. And this is where the assessment of Medicaid and Article II's treatment in the Senate budget bill is highly dependent on the "promissory note" approach described above.

- The LBB reports the full 2012-2013 Senate budget would appropriate \$9.6 billion GR below 2010-2011 levels, a 10.7% reduction (see table 7 on p. 11 of LBB summary of Senate CSHB1 (http://www.lbb.state.tx.us/Bill_82/3_Senate/Senate%20CSHB%201%20complete.pdf). But, with the Article IX contingencies considered, the GR reduction would be \$4.5 billion, or 5% less than in 2010-2011.
- The 2004-2005 budget was funded 4.3% GR below 2002-2003. But, with the delay of funding for the FSP that was taken in that budget, the effective GR impact was ultimately reduced to a 2.8% reduction.
- Total GR appropriations for 2004-2005 for Article II were just **0.1% below 2002-2003 levels**, compared to Senate Finance CSHB1 which funds Article II for 2012-2013 at **9.2% below 2010-2011 funding**.
- If you only consider "true spending reductions" (provider rate cuts, Medicaid Managed Care savings, and Rider 51 "savings" (i.e., do not consider the lack of funding for enrollment and inflation, the \$1 billion in unreplaced GR shortfall, or the \$700 million GR in uncertain federal flexibility funds to be true cuts), then the aggregate GR Medicaid reduction in the Senate bill would be pretty close as a percentage of total projected Medicaid costs to the 2003 Legislature's cuts. But, of course, Medicaid is not the only issue in this budget, or even in Article II.

Budget Cuts are Not Limited to Health Care

While significant portions of the current Medicaid shortfall will likely be funded through supplemental appropriations in 2013, other budget cuts—cuts to K-12 education funding in the FSP, for example—will result in deep reductions to public services if they are adopted. The Senate Finance committee's bill clearly does far less harm to services Texans rely on than the House bill, but its cuts will still be felt in every corner of the state.

Senior Fiscal Analyst Eva De Luna also contributed to this Policy Page.