

Overview: 2016 Fiscal Year for Department of Community Health

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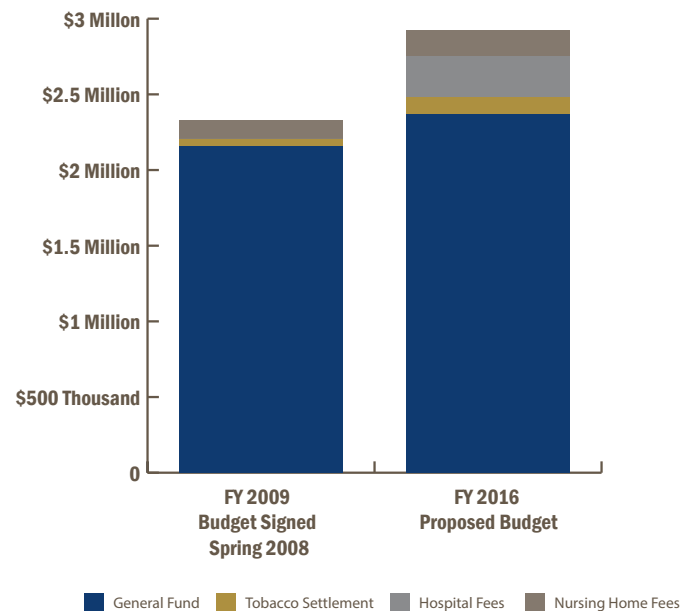
The governor's proposed 2016 budget directs \$2.45 billion to the Department of Community Health, not including money for agencies attached for administrative purposes. That is a \$22.8 million decline from the 2015 budget approved last spring. The department operates nine programs, although more than 96 percent of general fund spending, or about \$2.36 billion, is for health care services for Medicaid and PeachCare patients.

The proposed budget reduces general fund spending directed to Medicaid and PeachCare by \$25.6 million compared to the 2015 budget. The reduction is fueled by a substantial increase in federal funding that directly offsets state spending for Medicaid and PeachCare in 2016. The budget also adds state and federal funds for projected enrollment growth in Medicaid and PeachCare, the restoration of savings included in the 2015 budget, but now deemed unachievable, and the anticipated launch of a case management program for some Medicaid patients.

The proposed 2016 budget also directs \$110 million in Tobacco Settlement Funds to Medicaid and PeachCare, along with \$168 million in nursing home provider fees and \$272.3 million in hospital provider fees, which is \$8.3 million more than in the 2015 budget approved last spring. Nearly 64 percent of the state spending growth for Medicaid and PeachCare since 2009 is in the form of fund sources other than the general fund. The general fund now accounts for 81 percent of total state spending on Medicaid and PeachCare in 2016, which is down from 93 percent in the 2009 budget that took effect July 1, 2008.

More than 1.9 million Georgians got health coverage through either Medicaid or PeachCare at the beginning of 2015, including more than 1.2 million children. Medicaid and PeachCare grew by about 134,000 enrollees combined from October 2013 to August 2014. Children accounted for nearly 93 percent of those new enrollees. The proposed 2016 state budget assumes Georgia's Medicaid and PeachCare programs will continue substantial growth over the next 18 months.

General Funds a Shrinking Share of Medicaid and PeachCare



Health care spending is the second largest share of Georgia's budget, behind only education. While health coverage through Medicaid and PeachCare grew substantially since the Great Recession, state spending for those programs increased a small amount as a share of total spending. The 2009 state budget that took effect July 1, 2008 allotted about 11.3 percent of general fund spending to Medicaid and PeachCare. Georgia created a hospital provider fee in 2010, which helps limit Medicaid and PeachCare spending proposed in the 2016 budget to just 12.3 percent of the general fund.

Medicare and PeachCare Highlights in Georgia's Proposed 2016 Budget

New Federal Money

The 2016 state budget uses \$153.9 million in new federal money to directly offset state general fund spending. About \$93.6 million of this savings results from a substantial increase in the federal match rate for Georgia's PeachCare for Kids program. The Affordable Care Act (ACA) includes this match-rate increase to ensure states can maintain robust coverage for low-income children. The remaining \$60.3 million in new federal funds for Medicaid is an annual adjustment in the Federal Medical Assistance Percentage that defines the federal share of costs. Georgia's share in 2016 will be 33 percent, so about two-thirds of Georgia's Medicaid program is funded with federal money.

Medicaid and PeachCare Growth

About \$89 million is included in the budget plan to cover projected Medicaid and PeachCare growth in 2016 due to health care inflation and new enrollment. That growth generates a \$171 million federal match for Georgia's health care system. Both recent and projected enrollment growth is in part attributed to Medicaid applications increases spurred by the federal health insurance marketplace rollout, as well policy changes required by the ACA. Enrollment growth is driven when low-income Georgians apply for subsidized coverage on the new insurance marketplace and discover they, or more often their children, are eligible for Medicaid or PeachCare instead. New rules that require states to re-confirm family Medicaid eligibility every 12 months instead of the current six-month time frame also increase average monthly enrollment. The federal health law also increases a hospital's ability to presumptively determine eligibility for some patients who show up seeking care. That could also increase the number of people covered by Medicaid.

Other Medicaid and PeachCare Changes

The proposed 2016 budget includes several other notable additions over last year:

- \$22.8 million to cover projected costs for new class of Hepatitis C drugs
- \$12.1 million for the planned implementation of a new, voluntary case management program for patients in the Aged, Blind, and Disabled portion of Medicaid
- \$8.7 million to update cost reports for nursing homes with new operators since Jan. 1, 2012, as directed by the 2015 budget
- \$225,000 to replace Tobacco Settlement Funds transferred out of the Medicaid budget in the 2015 budget
- \$9.4 million to restore reductions now considered "unachievable savings" included in the 2015 budget

The 2016 proposal also reduces the following budget items:

- \$4.8 million is removed from the 2015 budget approved spring 2014 to cover projected "run out" claims to transition foster care children to a new Care Management Organization contract
- \$1.1 million is taken out with the expiration of a federally-funded increase in the payment rates made to primary care providers serving Medicaid patients
- \$8 million is transferred to the Georgia Board for Physician Workforce Development's Morehouse School of Medicine Grant program.

Payments for Primary Care Services Set to Decline in 2016 without State Action

The Affordable Care Act provides federal funding to temporarily increase primary care rates paid by state Medicaid programs to match Medicare rates. Federal funding to pay all costs of the increase expired Jan. 1, 2015. Federal funds will still cover more than 67 percent higher rate costs, but Georgia needs to pay for the rest to maintain the intended Medicaid primary care rate.

Continuing the higher payment rates for primary care providers costs \$60.7 million in state money in 2016, which unlocks \$125.5 million in federal funds, according to state health department officials.

Other Department of Community Health Budget Highlights

State Health Benefit Plan

The Department of Community Health administers the State Health Benefit Plan. The plan covers active and retired state employees, teachers and other non-certified school district employees, such as bus drivers and cafeteria workers. More than 600,000 Georgians receive health coverage through the state plan. About 75 percent are teachers, other school district employees, or their dependents. Annual benefit spending is appropriated as “other funds” in the state budget, although the general fund is used to finance the plan as state agencies make payments for their employees. The proposed 2016 budget implements plans already approved by the department’s board, for the most part, and does not include wholesale premium increases for members.

The exception is the governor’s budget proposes to eliminate plan coverage for non-certified school district workers who work less than 30 hours per week. This appears to eliminate coverage for approximately 11,500 school workers and up to 10,000 of their dependents. Department officials report this move saves the plan \$2.6 million, while school districts could save a total of nearly \$79 million.

The change creates a modest short-term budget gain to the plan, but the proposal is related to a larger financial challenge for the health plan and the school districts with non-certified employees covered by the plan.

The state dramatically scaled back and then eliminated substantial funding for the plan to help pay for school districts’ non-certified employees during recession-era budget cutting. The state contributed as much as \$279 million in the 2008 fiscal year, but slashed that to less than \$30 million in 2010 before cutting support entirely in 2012. Plan officials increased the monthly charges to the school districts to \$596.20 per employee from less than \$200 per month in 2010. A planned increase to \$746.20 was delayed in the original 2015 budget approved spring 2014 and is again delayed in the governor’s proposed 2016 budget.

Georgia’s school districts save \$102.8 million in the 2016 fiscal year with this delay, yet it comes at the expense of the plan as a whole. The plan’s annual balance is expected to shrink to just \$214.5 million at the end of the 2016 fiscal year from its \$369.4 million balance at the end of 2014. The department predicts that expenses will exceed revenue by \$92.2 million in 2017.

Other Department of Community Health Programs

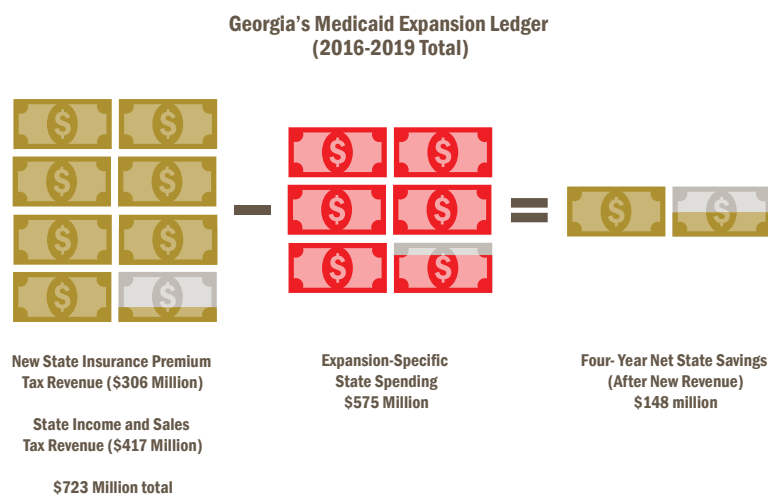
Modest changes are proposed for other community health programs in 2016. Six programs besides Medicaid, PeachCare and the State Health Benefit Plan account for just 3.5 percent of the department’s spending from the general fund and about 6 percent of its total budget, which includes federal and other state money. The programs in line to get a total of \$2.6 million in new funding in 2016 are Administration & Program Support, Health Care Access & Improvement, Healthcare Facility Regulation, the Indigent Care Trust Fund and the Boards of Dentistry and Pharmacy. The new money is largely a statewide adjustment to account for increased employee retirement costs and statewide small pay raise.

Missed Opportunity to Extend Health Coverage to More Georgians

Georgia is home to the fifth most residents without health coverage of any state according to 2013 data, the latest available. Despite this poor ranking, Georgia's leaders continue to refuse new federal funding to close Georgia's coverage gap. Accepting this money could extend health coverage to as many as 500,000 uninsured Georgians, while pumping billions of dollars into the state's health care system.

Georgia first missed the opportunity in 2014 to take advantage of new federal money to extend Medicaid eligibility to adults with income below 138 percent of the poverty level, which is about \$16,200 for an individual or about \$27,700 for a family of three. Adults in families with children are now eligible only when their income falls below about 38 percent of the poverty level, or about \$7,600 for a family of three. Childless adults are ineligible for Medicaid at any income level. Nearly half of Georgia's adults under age 65 with income below this new eligibility threshold went without health coverage in 2013.

New Revenues Exceed State Costs to Close Coverage Gap



Source: GBPI calculations based on state expenditure estimates released in 2012 and "The Economic Impact of Medicaid Expansion in Georgia," William S. Custer, Feb. 2013

New federal funding could pay all the costs to cover newly-eligible Georgians through the end of 2016 and would cover at least 90 percent of such costs in the future. This remarkably high match rate ensures Georgia could extend coverage up to one-third of its uninsured residents with a modest investment of about \$575 million over the next four years. This modest increase of about 5 percent or less in state Medicaid spending could be fully offset by new state revenue generated by the increased health care spending. When Georgia's share of new spending reaches a peak of 10 percent in 2020, annual state spending for newly-eligible Georgians would amount to about 1 percent of the total state budget.

Accepting new federal money to cover uninsured Georgians also generates savings in state-funded programs that now serve patients who can't pay for health care. Experiences in other states indicate substantial savings could exist in programs that provide mental health services, inmate health care services and public health services, although Georgia has not produced a savings estimate.¹

¹Savings in four highlighted states ranged from \$78 million to \$100 million, as compiled by The Commonwealth Institute for Fiscal Analysis, Richmond Va. http://www.thecommonwealthinstitute.org/wp-content/uploads/2014/11/rx_for_an_ailing_virginia.pdf