

■ Overview: 2018 Budget for Department of Community Health

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Governor Nathan Deal proposes a 2018 budget of \$2.57 billion in state general funds for the Department of Community Health. This is a decrease of \$85.7 million from the 2017 fiscal year, mostly due to an increased rate for federal matching funds in the Medicaid program. Federal funding for the department is \$7.6 billion in the 2018 fiscal year that begins July 1, 2017. The proposed state budget also allots \$594.4 million from a tobacco industry legal settlement, nursing home provider fees and hospital provider fees. The budget includes another \$4 billion from the State Health Benefit plan and a one-time payment from a legal settlement agreement with Tenet Healthcare Corporation.

■ Millions of Georgians Get Health Coverage through Medicaid and PeachCare

The majority of the department's budget is spent on Medicaid and PeachCare. These two programs provide more than 2 million Georgians with the ability to see a doctor. Ninety-five percent of state funds and 92 percent of federal funds in the proposed 2018 department budget are allocated to Medicaid and PeachCare.

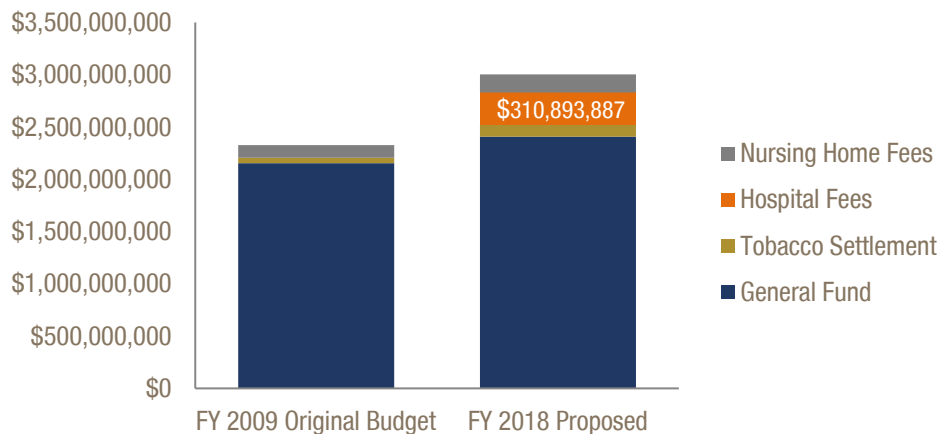
The governor's proposed 2018 budget includes adjustments for enrollment growth, increased provider reimbursement rates and higher Medicare payments to cover rising prescription drug prices for low-income, elderly Georgians eligible for both Medicaid and Medicare. Compared to last year's budget, these changes include:

- \$38.4 million from Tenet's 2016 settlement of federal fraud charges and \$82.9 million in new federal money for projected Medicaid enrollment growth
- \$17.9 million from the Tenet settlement and \$39.1 million in new federal money to increase reimbursement rates for primary care and OB/GYN services
- \$11 million from the Tenet settlement and \$23.9 million in new federal money for a projected increase in Medicare prescription payments
- \$20.7 million from the Tenet settlement and \$44.8 million in new federal money to cover behavioral health services for children under 21 diagnosed with autism
- \$1.3 million in state general funds and \$1.3 million in federal funds to reduce the waiting list for the Community Care Services program, which provides medically fragile older adults with services to help them remain in their homes and communities

2018 Budget Relies on Provider Fee Renewal

The Georgia hospital provider fee, or Medicaid assessment, expires June 30, 2017 unless it is renewed in the 2017 legislative session. The proposed 2018 budget assumes extension of the fee, which would bring in almost \$311 million in the 2018 fiscal year, or 10 percent of the state contribution to the Medicaid and PeachCare programs. The share of Medicaid and PeachCare spending from general funds dropped from 93 to 80 percent from fiscal year 2009 to 2018. The \$26.9 million projected increase in provider revenue leverages an additional \$58 million federal contribution to the 2018 budget. Total state and federal money from the provider fee delivers more than \$900 million of critical revenue to support the Medicaid program.

Hospital Provider Fee Fills Medicaid Funding Gap as Program Costs Increase



Tenet Settlement Helps Offset Rising Medicaid Costs, Hospital Charity Care

Georgia's 2016 settlement with Tenet Healthcare Corp. to resolve fraud charges is a little more than \$110 million. That is split between \$92.3 million in the department's 2018 budget and \$18.4 million in the department's amended 2017 budget. The settlement money is proposed to cover Medicare cost increases in the 2017 amended budget and provide a match for Disproportionate Share Hospital payments which help hospitals pay to care for the uninsured. The proposed 2018 budget uses the Tenet settlement money to comply with federal Hepatitis C treatment access requirements, expand autism coverage and behavioral health services for children, account for enrollment growth and rising Medicare costs, and increase primary care reimbursement rates. The state needs to raise new revenue to replace non-recurring Tenet settlement money in the 2019 budget.

2018 Budget Includes Additional Federal Medicaid Money

The 2018 community health budget includes \$295.8 million more in federal money than the prior year. State general fund contributions for Medicaid are reduced by \$46.9 million from last year after an increase in the federal share for 2018. Medicaid's financing system creates this reduction because the amount of federal money for the program adjusts each year based on each state's average per capita income relative to the national average.

The future of Georgia's Medicaid budget will depend largely on federal changes. If federal officials change the underlying structure of Medicaid, Georgia stands to lose this ability to gain additional federal dollars that help offset state spending. With significantly less federal funding to cover rising enrollment and health care costs, future state budgets would need increased contributions from the state.

The federal government is considering switching from percentage-based Medicaid contributions to state budgets to fixed amount block grant. Federal block grants are often based on historical spending, which would saddle Georgia with less money per Medicaid enrollee. Georgia ranks 49th among the states in Medicaid spending per enrollee. A block grant system won't adjust for Medicaid enrollment and population growth or increases in demand due to an economic downturn. This would shift costs to the state and force the department to resort to cutting services, reducing reimbursement rates or denying health coverage to eligible Georgians.

Setting per-capita caps is another plan under consideration, which would assign a fixed amount of money for each enrollee based on factors such as age or disability status. This allows for adjustments as enrollment numbers change but this does not account for the tendency of health care costs to outstrip inflation. It also shifts costs to states in the event of epidemics or the need to introduce new medical treatments. Maintaining the current Medicaid funding structure is critical to sustain reliable federal funding for the state's health care system.

State Health Benefit Plan and Other Department Programs

The department also oversees the State Health Benefit Plan, the Indigent Trust Fund, the Dentistry and Pharmacy Boards, Health Care Access and Improvement, Healthcare Facility Regulation, and administration.

State Health Benefit Plan

The State Health Benefit Plan offers health insurance to Georgia's active and retired state employees, teachers and other public school employees. More than 632,000 Georgians were covered by the plan at the end of 2016. The program is paid for through employee and employer contributions.

The 2018 budget estimates the plan will spend \$3.4 billion, an increase of \$166.4 million from the 2017 budget. The majority of this increase is \$200.3 million to reflect changes in membership and use since the last projection. Some of this is offset by other changes, including:

- \$14.4 million increase for a 2.5 percent rise in non-Medicare Advantage employee premiums, effective January 1, 2017
- \$10.5 million increase for a \$20 premium rise for Medicare Advantage plan members, effective January 1, 2017
- \$29.5 million increase for higher employer contribution for non-certified school employees. This brings employer contributions to the same level as in teacher plan
- \$1.1 million increase to reflect enrollment growth to match Medicaid age requirements for autism treatment, effective January 1, 2018
- \$89.5 million in savings due to lower Medicare advantage rates, dependent audit verification and pharmacy benefit management strategies

Departmental Administration and Attached Agencies

The remaining six department programs received a combined \$87.9 million in state general funds, a \$450,000 increase from 2017. These programs also received \$588 million in federal money, the same amount received in the prior year. The increase in state funds is mostly from pay increases and employee recruitment and retention. The \$399.6 million in the Indigent Care Trust Fund is the same as the prior year, but the fund is \$39.8 million less than in the 2015 fiscal year. This fund is used to support rural and other health care providers who serve the medically indigent. The amended fiscal year 2017 budget uses the Tenet settlement money to match federal funds for payments to hospitals that serve uninsured patients.

The department budget also contains administratively attached agencies, including the Georgia Board for Physician Workforce, Georgia Composite Medical Board, and Georgia Drug and Narcotics Agency. Spending for these agencies totals \$71.2 million, an increase of \$2.2 million from 2017.

New in the proposed budget is \$725,000 for 126 new primary care medicine residency slots. Georgia produces more medical school graduates than the state has residency slots, making it harder for the state to retain health care workers to practice in Georgia.¹ As the state continues to grow and diversify, it is important that the health workforce keeps pace in size and diversity. These new residency slots are in primary care medicine which can help improve diversity in the health care workforce because minority health providers are more likely to practice in primary care than white providers.² These new residency slots, along with the primary care reimbursement rate increase in the 2018 budget, are a step forward in implementing policy solutions to strengthen the health care workforce in Georgia.

¹ Georgia Budget and Policy Institute (2016). "Prescribing Remedies for Georgia's Medical Provider Shortage"

² Georgia Budget and Policy Institute (2016). "Unlocking the Benefits of an Inclusive Health Workforce"