Louisiana Budget Project Analysis

Medicaid Amendments Would Compromise Future Budgets

By Steve Spires, May 24, 2013

Louisiana Budget Project

447 Third St., Suite 200
Baton Rouge, La. 70802
www.labudget.org

Two bills with the potential to complicate future state budgets are awaiting final approval by the Louisiana Legislature. House Bill 532 would establish a hospital provider fee, a positive step that would bring in additional federal health care dollars. But HB 532 and its companion bill, House Bill 533, would also set a reimbursement "rate floor" for hospitals, nursing homes, pharmacies and Intermediate Care Facilities for the Developmentally Disabled (ICF-DDs) in the Medicaid program, protecting funding for these select provider groups and shielding them from future budget cuts. Both proposals are constitutional amendments that would need approval from voters if they pass the Legislature.

While a hospital provider fee is a smart way to bring in new state revenues, giving special protection to select health-care providers and removing hundreds of millions of state dollars from policymakers' discretion is a recipe for trouble that ties the hands of future legislators and makes it harder to balance the budget in future years.

The reality is that Louisiana must balance its budget every year, using available revenues to pay for basic services. If these two constitutional amendments win final approval, it could mean deeper cuts elsewhere in the discretionary budget in the event of a shortfall. These cuts have the potential to hurt other health care providers such as doctors and home-care providers, along with public colleges, state police and other critical services.

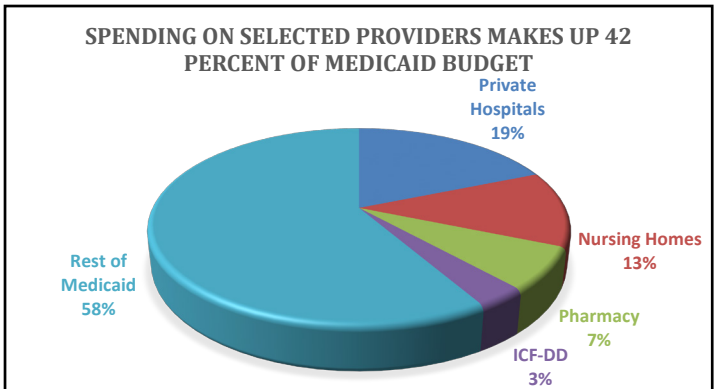
Hospital provider fee would strengthen budget

The hospital provider fee authorized by HB 532 would generate revenue that could be used as state match to draw down millions in federal health care dollars. Because Medicaid is funded through a state-federal partnership, every dollar raised by a provider fee would bring more than $1.50 in new federal funding, resulting in a clear gain for the state budget. Forty-nine states use some type of provider fee, and such fees are not a new concept in Louisiana.[1] Nursing homes have had a provider fee for more than two decades, and this year it is being raised from $8.02 per day to $10 per patient, per day.[2] A hospital provider fee would help strengthen the health care budget.

Protecting select providers from cuts threatens other priorities

The problem with these bills is that they set a "rate floor" for hospitals, nursing homes, pharmacies and ICF-DDs — a minimum Medicaid reimbursement rate that would have to be maintained, regardless of the state's financial outlook. Furthermore, it would take a two-thirds vote of the Legislature in the future to cut these provider rates at all. Other parts of the budget can be cut by a simple majority vote.

The four groups of private health-care providers that would be protected by these bills account for more than 40 percent of the spending in the Medicaid program, which is the single largest item in the state budget.[3] Taking this spending "off the table" in future budget negotiations leaves the rest of the health care budget more exposed to cuts. For example, funding for physicians and home and community based services will be a secondary priority to maintaining rates for hospitals and nursing homes. Some optional services, such as hospice care for the terminally ill, could be eliminated altogether in the future.



Source: DHH, 2011 Medicaid Annual Report

Locking in the payment rates for favored providers also puts additional strain on other parts of the discretionary budget, including higher education and public safety services.

The bills also include a mechanism for annual inflation increases, meaning the state will be paying more for these services every year no matter how much revenue is available. As the Legislative Fiscal Office wrote, "to the extent provider fee collections remain the same on an annual basis and the rates are increased to some amount through the payment formula [outlined in the bill], additional State General Fund match resources may be required." This means less money would be available for other priorities.[4]

The net result of these bills is that elected officials would have even less control of the state budget than they do today. Already, legislators only have true discretion over 10 percent of the annual operating budget. These bills would make the problem worse.

In an effort to control costs and improve quality in the Medicaid program, Louisiana has been transitioning to a man-

Bills complicate transition to managed care

aged-care system, where private plans are charged with overseeing patient care. These managed care plans — like those participating in the new Bayou Health program — receive a set "per member, per month" payment that incentivizes better management of care and improved health outcomes. If a health plan can keep costs below what it is paid, it gets to keep the difference. If costs go over, the plan is on the hook and not the state.

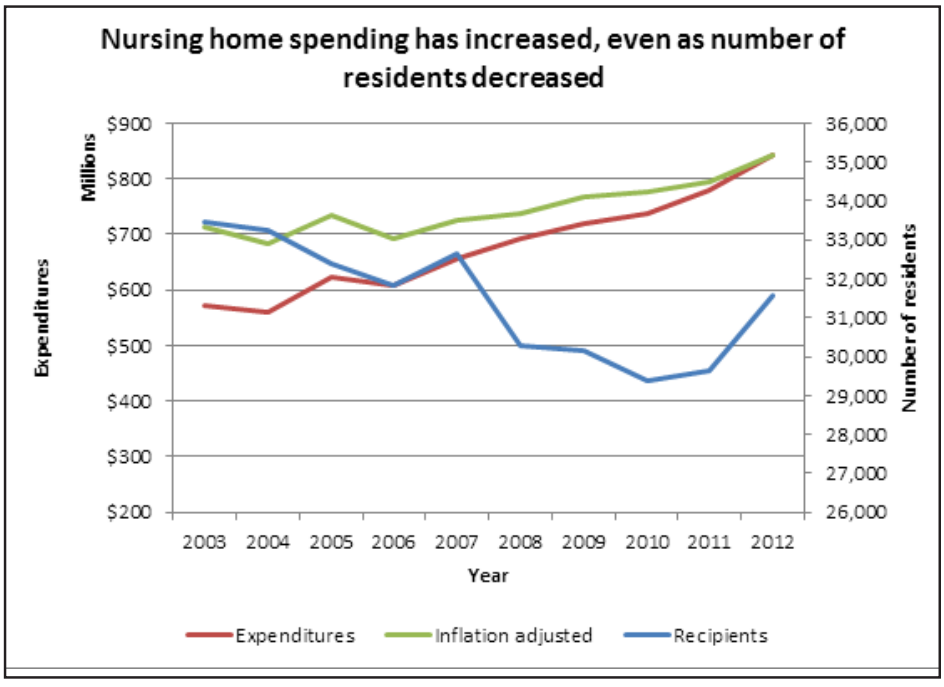
To hold down costs in a responsible manner, managed care plans need to invest in preventive care that keeps patients out of more expensive settings like hospitals and nursing homes. But under these bills, the plans would be forced to pay higher rates to these same providers while their own payments stay flat, leaving less for other priorities. In a tight budget year, the state might decide to cut the rates for managed care to help pay for the rate increases, meaning the plans would be financially squeezed on two sides.

Locking in Medicaid rates for select provider groups could also compromise the state's efforts to have managed care plans coordinate long-term care and supports for seniors and people with disabilities — the most medically-needy and therefore most costly group of Medicaid patients. Such a transition may not be far off, as evidenced by a request for information put out by the Department of Health and Hospitals late last year.[5]

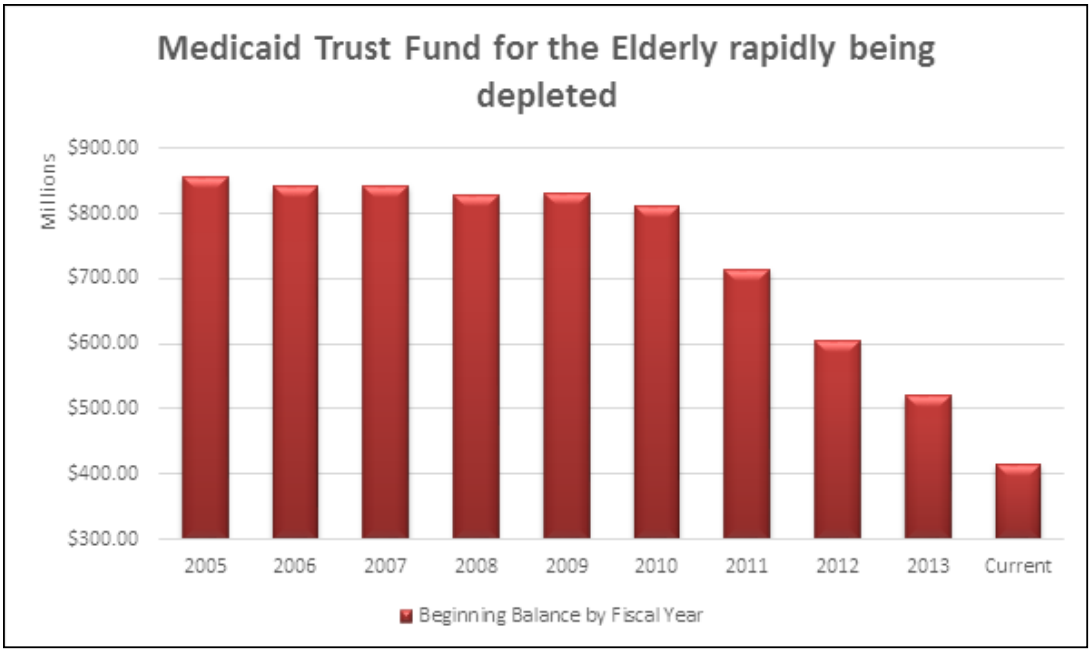
Reducing the cost of caring for the most expensive Medicaid enrollees through better management is critical to bringing down overall health-care costs, as just 3 percent of patients accounted for 46 percent of total Medicaid spending in Louisiana last year.[6] By protecting selected provider groups, HB 532 and 533 could actually work against the long-term sustainability of Louisiana's health care budget – exacerbating the very problem these bills are designed to solve.

Major financial hit possible in near future

The rate floor for nursing homes presents a unique risk to the state budget. When revenue shortfalls have forced rate cuts to Medicaid services in recent years, the Legislature and administration has chosen to replace the cuts to nursing homes with money from the Medicaid Trust Fund for the Elderly (MTFE), which is dedicated to funding long-term care. This is one reason why overall spending on nursing homes has increased 18 percent over the last decade on an inflation-adjusted basis, even as the number of nursing home residents decreased.



But the trust fund is quickly running out of money, and is likely to be tapped out within three years at current rates, if not sooner.[7] The proposed nursing home budget for next year includes $184 million from the trust fund, which would



leave just $231 million in the account for future years. As state Health and Hospitals Undersecretary Jerry Phillips told the House Appropriations Committee last month, 83 percent of nursing home funding currently comes from the trust fund, while only 17 percent comes from the state general fund.[8]

The fund was established in 2000 with federal dollars. In the early years, the state only spent the interest money generated by the fund, keeping the balance high. But in recent years the state has been using the account's principal to pay operating expenses. Once the fund is depleted, legislators will have to find money elsewhere in the budget to maintain nursing home funding at the current level – much less pay for the inflationary increases called for in the proposed amendments.

Making matters worse, the existing provider fee for nursing homes is capped by state law and cannot be raised without a statutory change, removing a source of revenue to help fund the rate increases.

Conclusion

A hospital provider fee is a smart way for Louisiana to raise state match in support of the Medicaid program. But the state constitution should not be used to guarantee reimbursement rates for select groups of health-care providers, much less provide for annual spending increases. Louisiana's policymakers already have enough trouble crafting a balanced budget that prioritizes and protects services. Moving hundreds of millions of dollars of spending from the discretionary to the non-discretionary budget — tying the hands of future legislators — means deeper cuts to other health care providers, as well as higher education, public safety and other discretionary programs when there is a shortfall.

References

1. National Conference of State Legislators. Health Care Provider and Industry Taxes/Fees. February 2013. http://www.ncsl.org/issues-research/health/health-provider-and-industry-state-taxes-and-fees.aspx

2. DHH Public Notice in the Advocate. April 29, 2013 http://www.publicnoticeads.com/la/search/view.asp?T=PN&id=328\4292013_20150539.HTM

3. Department of Health & Hospitals. Medicaid Annual Report. http://new.dhh.louisiana.gov/assets/medicaid/AnnualReports/Medicaid_10_11_fnl.pdf

4. Legislative Fiscal Office. HB 533 Fiscal Note. http://www.legis.la.gov/legis/ViewDocument.aspx?d=839729&n=Fiscal%20Note%20-%20HB533%20Engrossed

5. Department of Health & Hospitals. Reponses to Long Term Services and Supports Request for Information. February 2013. http://dhh.louisiana.gov/index.cfm/newsroom/detail/2749

6. Department of Health & Hospitals. Medicaid Annual Report.

7. LBP analysis of Louisiana Department of Treasury data.

8. LBP analysis of House Bill 1. http://www.legis.la.gov/legis/BillInfo.aspx?s=13RS&b=HB1&sbi=y