Washington State
Department of Social
& Health Services

2009 Fact Sheet:

HRSA's upcoming budget changes

THE BACKGROUND

Federal stimulus funds appropriated in early 2009 protected many Medicaid-funded programs from severe budget cuts, but the Health and Recovery Services Administration was still given an appropriate share of the administrative cuts assigned to state agencies. These included layoffs of approximately 150 FTEs across the entire administration between late 2008 and June of 2009. In addition, the Legislature assigned specific budget cut targets where state General Fund spending could be trimmed – programs like non-Medicaid substance abuse treatment, the coverage for General Assistance-Unemployable (GA-U), Alien Emergency Medical, adult dental and optional Medicaid benefits like medical supplies and equipment. In addition, HRSA steering committees over the past six months produced spending strategy changes that totaled approximately $200 million in savings. These will be achieved in cost avoidance, efficiencies and better benefit design. In many cases, the "cuts" also represent both quality and safety improvements, better targeting customer needs and circumstances.

As the new fiscal year nears, another in a series of adverse revenue forecasts resulted in DSHS and other state agencies being given a mandate by the Governor to stay 2 percent under their allotted budget for the coming two years. Those changes are still under review. In addition, HRSA is making several major structural changes to move the administration forward on the Secretary's and Governor's agenda and seize the opportunity of the budget crisis to make lasting improvements in the system. Three divisions in HRSA are being merged into two new divisions this summer in order to further integrate the joint mission of medical assistance, mental health services and chemical dependency treatment. These changes amount to a major step toward the person-centered treatment envisioned in the original creation of HRSA three years ago, and they will be accomplished largely through efficiencies and existing resources. The administration also plans to engage Mercer as a consultant to assist in developing the strategies and additional structural changes that will assist in the pursuit of these goals. Deputy Assistant Secretary Heidi Robbins Brown is heading up this effort, putting together a comprehensive work plan and time frame as we move forward.

Another overriding factor in coming months is the effort in Congress to pass health-care reform. This is expected to have a major impact on Medicaid programs across the nation. Federal officials testifying before state Medicaid directors earlier this month expressed near unanimous certainty that the effort will succeed, even though the specific dimensions of reform are still vague. Current estimates, however, suggest that states like Washington could see up to a 50 percent increase in their enrollments in the course of setting uniform eligibility ceilings between states.

Major budget cuts (including savings in both state and federal funds) in the three key areas of HRSA:

CHEMICAL DEPENDENCY:

■ Cuts in low-income adult outpatient, residential treatment and detox services. Clinics advise HRSA that these cuts will have a disproportionate effect on treatment opportunities for non-Medicaid eligibles – in particular, undocumented aliens. Also, because the federal stimulus funds generally protected Medicaid-funded slots, these cuts will impact the working poor, i.e., those who cannot qualify for Medicaid's income eligibility standard. HRSA has followed legislative intent in giving counties as much flexibility as possible to make local decisions on how to best achieve the reductions without abandoning an optimal level of services. ($12.4 million, effective July 1.)

■ Shift funding for drug court support with other grant sources so the shortfall will come in the second year of the biennium because of the way federal stimulus funding is applied. ($2 million, effective July 1.)

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MENTAL HEALTH:

■ 3.4% Medicaid rate cut to Regional Support Networks is being prepared by an actuary firm. The reductions will be handled by requiring the RSNs to perform utilization management and other managed care oversight to increase uniformity in provider payment structures. ($24.5 million, effective July 1.)

■ 9% cut in non-Medicaid RSN treatment will result in reducing outpatient services for between 10,000 and 15,000 non-Medicaid clients statewide. RSNs are being instructed not to reduce services to community inpatient, crisis/commitment services and residential services, including emergency housing assistance. The bulk of the reductions will fall on outpatient or non-crisis services. ($23.2million, effective July 1.)

■ Elimination of Return to Work program at Western State Hospital. This program in the previous biennium was credited with helping staff injured on the job to return to lighter duties during their recovery. WSH will monitor progress in this area to see if the cutback results in higher injury-related costs over the biennium. ($1.7 million, effective July 1.)

■ Layoffs in state hospital staffing totaled 47 FTEs leading up to the new biennium. None of the layoffs were in direct care.

MEDICAL ASSISTANCE:

■ The Legislature has directed DSHS to reduce General Assistance-Unemployable (GA-U) medical program expenditures by 18 percent while enrolling clients into managed care and including a mental health benefit.. A joint workgroup of representatives from HRSA and the Economic Services Administration are working on this assignment. In order to meet the targeted expenditures, the agency may have to cap the state-funded program, much as the Basic Health program is handled. Under such a cap, GA-U would no longer be treated as an entitlement, and DSHS would start a waiting list before enrollment reached unsustainable levels. ($45.8 million, effective date for changes still under discussion.)

■ Alien Emergency Medical cut follows a series of audit findings that reduced the allowable services and eligible clients under this program, which reimburses providers for emergency treatment of undocumented clients who would otherwise be eligible for Medicaid coverage. Under the revised benefit, these clients would only be eligible for renal dialysis, cancer treatment and other services approved as emergencies by the federal oversight agency. ($13.9 million, effective August 1.)

■ Reduction to managed care (FQHC) payments by lowering the supplemental payments used for services to Healthy Options Medicaid clients. HRSA has been working with the clinics as well as the federal government to resolve a federal audit finding that the state has been paying too much for these services in the past. ($62.4 million, effective July 1 and retroactive to January 1, 2009.)

■ New pharmacy purchasing strategies have been developed, including a multi-agency emphasis on putting generics first. The initiative will include a generics newsletter, sharing information with physicians on their own prescribing history and relative costs of brands and generics. Other purchasing strategies and savings include: Changing the payment rate on higher-cost drugs to Average Wholesale Price minus 16 percent; eliminating certain over-the-counter medications as a covered benefit, effective September 1, and requiring preauthorization of selected brand name drugs. ($183.4 million; some changes effective July 1, others to be phased in between August and November.)

■ Four percent rate cut for hospital inpatient and outpatient that takes into consideration services paid under fee-for-service and managed care. These changes also will adjust the rates for caesarian-section deliveries to encourage natural deliveries and discourage unnecessary c-sections. Transfers from inpatient care that occur to other than home within the average length of stay of a DRG will be prorated. HRSA also will begin reimbursing all outpatient hospital services (except for Critical Access Hospitals) with the Outpatient Prospective Payment System (OPPS). ($121.5 million, effective July 1).

■ Thirty-three percent pediatric partial rate rollback for office visits. This reclaims some of a 48 percent increase in these same rates during the previous biennium. ($42.7 million, effective July 1.)

■ A 20 percent reduction in Maternity Support Services: A workgroup involving both HRSA and the Department of Health, which partners with DSHS on this program, will work out changes to meet the assigned cut. Intensive screening will be used to identify pregnant women at highest risk to focus providing services to these clients. ($16.7 million, effective July 1.)

■ Medical assistance divisions have laid off more than 100 employees over the past six months, preparing for the administrative cuts targeted by the new budget as well as the savings required for the biennium that ends June 30. The budget also includes an additional 25 FTEs that are being hired to meet pharmacy savings initiatives, and the Division of Disability Determination Services will hire another 60 employees to handle an anticipated increased workload in Social Security disability applications. Some recruitment and new hiring began in mid-June and will continue through the first months of the new biennium.

■ For a number of years, the state has paid the Medicare managed care premiums for a group of dual-eligible seniors who opted for that coverage, known as “Part C” of Medicare. The new budget eliminates this subsidy, and the participants will either have to pick up that additional cost themselves or return to regular fee-for-service Medicare. ($1.2 million, effective July 1.)

■ The new budget eliminates four Patient Navigator pilot programs around the state. The pilots were focused on cultural bridges to help members of minority communities mesh more easily with the health-care system and effective treatment of their conditions. ($2.7 million, effective July 1.)

■ The new budget eliminates a one-percent increase originally planned for Healthy Options managed care plans. The rate cut – which leaves the 2008 rate intact – means a savings of $76.8 million.

■ In 2005, DSHS pared back the optional Medicaid adult dental coverage, although pieces of that were restored in subsequent years. The new budget basically will return that benefit to the 2005 levels. The changes will also affect coverage of children’s posterior crowns, although alternative treatment (stainless steel crowns) remains authorized. For adults, the cuts will limit posterior root canals and some oral surgery procedures that accompany extraction. Fee reductions are programmed between 3 and 15 percent. (July 1, $16.5 million)

■ Oral enteral nutrition for adults not using feeding tubes will no longer be a covered benefit after July 1. Other medical supplies and equipment affected by budget changes include sterile and non-sterile gloves, bathroom supplies, automatic blood pressure cuffs, incontinent supplies and some diabetic supplies. The latter changes will be effective on August 1. ($35.1 million.)

RECAP OF MAJOR RATE CHANGES:

■ Pediatrics: In the 2007 legislative session, pediatric office visit rates were increased by 48%. This rate increase is reduced from a 48 percent increase to a 15 percent increase. (Effective July 1.)

■ Adult Evaluation and Management Services – In the 2007 legislative session, adult office visit rates were increased by 12 percent. This rate increase is reduced from a 12 percent increase to a 1 percent increase. (Effective July 2009.)

■ Lab Services for the 2009-2011 biennium will be reduced by approximately 4 percent (July 1.)

■ Rates for Healthy Option managed care health contractors will be cut 1 percent (July 1.)

■ Rates for inpatient and outpatient hospital care will be cut 4 percent (July 1).

■ Reimbursement for pharmacies’ purchase of drug ingredients will be cut by 2 percent (AWP-minus-16 percent) (July 1).

■ 3.4% Medicaid rate cut to Regional Support Networks (effective July 1)

■ 9% cut in non-Medicaid RSN treatment. (effective July 1).

■ 9.5% rate reductions for incontinence products, effective July 1, plus lower benefit limits on those products for children and adults, effective August 1, should result in a 25 percent savings ($6 million) on incontinence supplies overall during the biennium.

AS OF: July 6, 2009