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UPDATE - Overview and Analysis of the Governor's Revised FY 2010 Budget Proposals for Georgia's Medicaid Program

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The governor's revised FY 2010 budget proposal eliminates the hospital and HMO provider fees included in the original FY 2010 budget while offsetting the revenue loss with significant cuts to reimbursement rates paid to Georgia healthcare providers serving the Medicaid program. These cuts would save the state approximately **\$255 million**.

Due to the enhanced match rate available to Georgia as a result of the federal stimulus package, however, **these cuts will cost Georgia nearly three times this amount in federal funds, roughly \$750 million**. Thus, the governor's revised FY 2010 budget reduces funding to Georgia's healthcare providers by over **\$1 billion**. In addition to the lost federal funds, these rate cuts could have a negative effect on access to care for Georgia Medicaid recipients. (See Table I, in back, for summary of provider cuts.)

In order to avoid cutting provider rates below their already low levels, the state should examine revenue options currently introduced in the Legislature such as the proposal to increase tobacco taxes.

The Governor's Original FY 2010 Budget

The governor's original FY 2010 budget proposal included increased revenue by implementing a 1.6 percent provider fee on hospitals and HMOs in Georgia. The fee would have raised new revenue of approximately \$259.8 million from hospitals and \$57.3 million from HMOs in Georgia, and would have allowed the state to maintain net revenue from the existing CMO fee of approximately \$32 million.¹ The new revenue generated by the hospital and HMO fees would have been directed to provider rate increases, trauma funding, and base Medicaid and PeachCare costs previously funded with general fund dollars. The remaining CMO fee revenues were included in the base Medicaid budget, however due to a reduced rate for the CMO fee, some of the new hospital and HMO fees were to be used to offset revenue previously raised by the existing CMO fee.

In total, the proposed fees funded \$91.7 million in provider rate increases, generating additional federal funds of approximately \$172.4 million. Furthermore, \$37 million in new revenue was allocated for trauma funding and \$13.7 million (plus additional federal funds) was to help offset uncompensated healthcare costs for private hospitals. Finally, the new HMO and hospital fees would have protected \$174.6 million in base funding in Medicaid and PeachCare, as well as \$333.4 million in federal funds associated with these state funds.

Revised FY 2010 Medicaid Budget

The governor's revised Medicaid budget eliminates the HMO and hospital fees included in the original proposal, and as a result, eliminates the existing CMO fee effective October 1, 2009. Relative to the original FY 2010 Medicaid budget proposal, eliminating these fees results in a net revenue loss of \$317.1 million for the state in FY 2010.² To compensate for the lost revenue, the governor's revised budget eliminates funding increases originally slated to take effect in FY 2010 and further reduces provider reimbursement rates below current levels. These reductions generate \$292 million in state savings; however, these cuts also cost the state approximately \$750 million in lost federal funding. In total, the governor's proposal could reduce total Medicaid and PeachCare funding by more than \$1 billion below the original FY 2010 proposal.

Eliminating the Medicaid reimbursement rate increases included in the original FY 2010 budget proposal saves approximately \$91.7 million. According to the governor's original FY 2010 budget, the provider increases would have originally brought the state \$172.4 million in additional federal Medicaid funding. However, due to the enhanced federal match rate as a result of the ARRA, this \$91.7 million would instead generate approximately \$272.7 million in additional federal funds.³ Eliminating the increase for private hospital uncompensated care costs saves the state approximately \$13.7 million in FY 2010, costing the state approximately \$25.4 million in additional federal funds.

In addition, the proposed reduction in provider reimbursement rates below their current levels will save the state \$149.6 million in Medicaid and PeachCare. Due to the enhanced federal match rate, this cut will cost the state approximately \$452.4 million in federal funds.⁴

The reimbursement rate cuts noted above — totaling \$255 million in state funds and potentially up to \$750.5 million in federal funds — along with the elimination of \$37 million slated for trauma centers represent reduced funding to Georgia's hospitals, doctors, pharmacies, and other healthcare providers that exceeds \$1 billion. Furthermore, as Georgia's already low Medicaid reimbursement rates likely discourage healthcare providers from accepting Medicaid patients, these additional reductions will exacerbate access issues already present. As a result, providers could elect not to accept Medicaid patients and could attempt to pass more of the losses onto private insurance customers, further driving up the cost of health coverage for individuals and employers in Georgia. Both of these responses could further imperil a healthcare system already in desperate need of reform, and could make it harder for Medicaid recipients to obtain healthcare services if providers leave the system.

American Recovery and Reinvestment Act (ARRA) Increases Medicaid Match Rate for Georgia

The ARRA includes provisions increasing the federal share (known as the Federal Medical Assistance Percentage, or FMAP) of Georgia's Medicaid program from October 1, 2008 through December 31, 2010. Prior to the enactment of the AARA, Georgia's FMAP for FY 2010 would have been 0.6495, meaning that federal funds account for roughly 65 percent of overall Medicaid spending, while state funds account for the remaining 35 percent.

The ARRA contains two FMAP provisions that benefit Georgia. First, the bill included an across the board increase in the FMAP of 6.2 percentage points for all states. In addition, the ARRA included additional FMAP assistance to states suffering the most significant unemployment rate growth. Due high unemployment growth in Georgia in recent months, GBPI estimates this provision will further increase the state's FMAP by 3.67 percentage points.

Based on GBPI analysis, the FMAP for Georgia in FY 2010 will be 0.7482, meaning that for every \$1 the state invests in Medicaid in FY 2010, \$3 in federal funds will flow to the state. Likewise, for every \$1 in state savings achieved through Medicaid cuts, the state will lose \$3 in federal funds.

Georgia's low Medicaid reimbursement rates cause two significant consequences

First, low reimbursement rates can limit the number of providers that will accept Medicaid patients, thus reducing the services available to low-income children, elderly, disabled, and pregnant individuals across Georgia. The lack of providers who accept Medicaid patients, or the office hours of such providers, is likely a significant contributing factor to the fact that Medicaid patients often utilize hospital emergency departments at higher rates than commercially insured consumers.

Secondly, the low rates paid by Medicaid are a hardship on the providers who continue to accept Medicaid. Since Medicaid payments often do not cover the costs borne by the providers, these uncompensated costs get shifted to other payers, such as private insurers and taxpayers.

Taxpayers help offset these costs for many hospitals through the Indigent Care Trust Fund, which consists of state and federal funds that are directed to help offset uncompensated care costs borne by qualifying hospitals. Privately insured individuals bear additional costs as providers are forced to increase the reimbursement rates they charge to private insurers, who must then pass these costs on to the employers, employees, and individuals through higher premiums, deductibles, and copayments.

The Governor's Proposed Use of State Savings from the ARRA

The enhanced federal matching rate in the ARRA reduces the state's required contribution for Medicaid, thus generating budget savings in the Department of Community Health (DCH) and Department of Human Resources (DHR). At the same time, Medicaid reimbursement rate cuts effectively limit the total amount of additional federal funds the state receives from the ARRA by reducing the overall size of the state's Medicaid program. However, significant savings are realized due to the ARRA, and a portion of these savings are retained by DCH and DHR, while the governor's budget directs the bulk of the savings to prevent additional cuts in other state agencies.

In total, the governor's revised FY 2010 budget realizes approximately \$687.4 million in state savings as a result of the increased Medicaid match rate. These savings are used as follows:⁵

- **\$155.4 million** for enrollment growth and to prevent additional cuts to the Medicaid and PeachCare budgets in DCH;
- **\$5.2 million** to fund enrollment growth and prevent additional cuts in DHR; and
- **\$526.8 million** to offset state revenue losses and prevent further budget cuts outside of Medicaid.

Conclusions

Cuts to Georgia's Medicaid and PeachCare programs that provide health coverage to low-income children, pregnant women, elderly, disabled, and other individuals in Georgia are especially problematic because the state must send the bulk of any savings achieved back to the federal government. Such is the case with the reimbursement rate cuts proposed by the governor to help balance the FY 2010 budget. While the rate reductions cut out more than \$1 billion in total funding from the original FY 2010 proposed Medicaid and PeachCare budgets, only \$255 million in savings is realized by the state. The remaining \$750 million is lost from Georgia's healthcare system and represents savings to the federal government.

While a portion of the total savings in FY 2010 represents eliminating rate increases that have not yet taken effect, the over \$600 million in total funds reductions to the base Medicaid and PeachCare budgets represent money that is currently flowing to Georgia's healthcare providers. By reducing provider reimbursement rates below their already too low levels, the proposal realizes only \$149.6 million in state savings while reducing the federal funds flowing to Georgia by \$452.4 million. Taking these funds out of Georgia's healthcare system will exacerbate the many access and affordability concerns already facing too many Georgians. As providers try to mitigate rate cuts by shifting uncompensated costs onto private

insurers, the effect will be felt by Georgia’s businesses, employees, individuals, and families. Costs of coverage will go up, and as costs increase more businesses and individuals may respond by dropping coverage, which is already occurring. As a result, more individuals could turn to the state’s Medicaid and PeachCare programs, and Georgia’s already high and growing uninsured rate could increase further.

Recommendations

While the governor’s revised budget does not retain all of the savings due to the enhanced FMAP in the DCH and DHR budgets, these savings are nevertheless used to avoid budget cuts to other state agencies. If the state wants to prevent provider rate cuts without exacting greater damage elsewhere in the state budget, the state must find or create new revenues.

To this end, the state has at least two options to consider that would protect providers currently serving Medicaid and PeachCare patients and keep millions in federal funds from leaving Georgia. One option is HB 39, which increases tobacco taxes and could generate nearly \$450 million. These funds could then be used in part to maintain existing provider reimbursement rates as well as to prevent deeper cuts in other important state services.

Another option the state could consider would be to revisit all or part of the governor’s originally proposed provider fees. For example, implementing a fee on HMOs in Georgia, as originally proposed, allows the state to retain the existing fee on Medicaid CMOs, which generates state revenue in the form of increased federal funds. Either or both of these revenue sources allows the state to at least maintain the existing provider reimbursement rates, and could also protect against deep budget cuts in other agencies.

	<u>State Funds</u>	<u>Federal Funds</u>
Eliminate original FY 2010 increases	\$91.7	\$272.7
Eliminate pvt. hosp DSH & new trauma funds	\$50.7	\$76.1
Hospital in/out patient rate cuts (10%)	\$80.7	\$242.7
Physician & other rate cuts (6%)	\$68.9	\$209.7
Total Savings	\$292.0	\$801.2
Combined State/Federal Funds	\$1,093.2	

¹ For more information on governor’s original HMO & hospital fee proposal, see GBPI brief [Overview and Summary of Governor’s Provider Fee Proposals and Uses in Department of Community Health Budget in FY 2010](#).

² Represents net loss relative to governor’s original FY 2010 proposal. This amount includes a revenue reduction of \$324,021,505 and a spending reduction associated with the existing CMO fee of \$6,963,544.

³ The governor’s original FY 2010 budget proposal estimated federal funds associated with the provider rate increases of \$172.4 million, for total funding of \$264.1 million. Due to the revised FMAP in the ARRA, either the same state funding could draw down more federal funds, or fewer state dollars would be needed to achieve the total funding increase of \$264.1 million. GBPI estimates that the revised FMAP would require only \$66.4 million in state funds to achieve the same overall funding increase, a savings of approximately \$25.3 million in state funds relative to the original FY 2010 budget.

⁴ GBPI estimates based on enhanced Medicaid FMAP due to ARRA and enhanced match rate in PeachCare.

⁵ Figures from Governor’s Office of Planning and Budget, email 3/12/2009.

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