



HEALTH POLICY BULLETIN

FOCUS: GOVERNOR
OFFERS AUSTERE
MEDICAID BUDGET

Michigan's Medicaid program is once again the target of state budget cuts. Medicaid is big and vulnerable. At \$1.6 billion, the program accounts for about 10 percent of the total current state budget. Governor Blanchard targeted the program for substantial cuts in his FY 1988-89 budget, which

he presented to the legislature on January 20.

The governor calls for FY 1988-89 Medicaid spending to be capped at \$1,505,992,600, \$110 million less than the amount anticipated to be spent during the current fiscal year. How does the governor expect to achieve the savings? He proposes cost containment actions such as

- paying hospitals only up to the 85th percentile of regional DRG prices (\$18.6 million in savings);
- cutting subsidies to teaching hospitals by half (\$15 million);
- requiring Wayne County Medicaid recipients to enroll in HMOs (\$14 million);
- limiting hospital long-term care unit reimbursement rates to nursing home reimbursement levels (\$43 million);
- limiting prescription payments to the rates for the lowest-cost drug in each class (\$10 million); and
- eliminating the capital cost pass-through (\$2 million).

These changes, with others such as elimination of coverage for podiatric and chiropractic services, would save \$135 million (\$53 million in GF/GP monies). The governor has targeted Medicaid expenditures for reduction to compensate for loss of federal Medicaid funds (expected to decline from matching 56.25 percent of state expenditures to matching 54.75 percent, a cut of \$27.2 million for Michigan), to help pay for his other program initiatives, and to balance a proposed budget thought by many to be short on revenues and long on expenses.

Hospital and nursing homes are slated for the largest reductions, as indicated in the following table.

	<u>Total State/Federal Funding</u> (in millions)		<u>State Share (in millions)</u>	
	<u>FY 1987-88</u>	<u>FY 1988-89</u>	<u>FY 1987-88</u>	<u>FY 1988-89</u>
Hospitals	\$683.4	\$661.2	\$305.2	\$295.4
Nursing homes	309.3	279.5	134.6	126.5
Physician services	183.9	181.6	84.7	86.6

The recommended FY 1988-89 budget calls for one of the smallest-ever increases in total state spending (.6 percent). Thus far, the governor's proposed cuts in health care funding have been overshadowed by his proposals for a major shake-up in K-12 school funding and hold-the-line funding recommendations for colleges and universities. The coming budget deliberations by the legislature promise to be the most painful since the recession years of 1981-83. Compounding the problem of the future budget is the possibility of a major imbalance in the current one. Although the

governor believes this year's budget will balance, the Senate Fiscal Agency projects a 1987-88 shortfall of \$162 million and Public Sector Consultants forecasts a \$100-150 million shortfall. Where the funds will come from to balance this year's budget and to finance the new initiatives for 1988-89 is anybody's guess. Look for legislators to consider tapping the state's "rainy day fund," which contains \$375 million, and new revenue sources such as increased beer and other alcohol taxes and closing business tax loopholes. Absent these legislative actions, in the fiscal year starting October 1988, Medicaid providers and recipients can expect even more belt-tightening than that already proposed by the governor.

OF INTEREST Growing concern is generating wider AIDS testing. Two tests can detect the presence of HIV antibodies: ELISA (an initial test) and the Western Blot (a confirmatory test). In the first six months of 1987, the Michigan Department of Public Health (MDPH) reports that 41,000 ELISA and 1,600 Western Blot tests were performed. In addition to the MDPH labs, 37 clinical laboratories in Michigan are allowed to perform ELISA tests and only three perform Western Blot tests.

With the surgeon general's call for anonymous testing on college campuses and pending state legislative measures requiring testing of prisoners and applicants for marriage licenses, the rush to test is escalating. Public health officials, however, caution that test results, behavioral risks, and ways to reduce risks must be explained to the patient; testing without counseling does little to discourage high-risk behavior even among those who test negative.

"Testing for testing's sake" is also being discouraged by the Food and Drug Administration (FDA). The FDA has rejected licenses for home blood-drawing kits and physician office testing supplies because of concerns about confidentiality, accuracy, access to confirmatory tests, and the absence of adequate counseling.

In the next thirty days, look for

- the House Public Health Subcommittee on Nursing Homes to rework HB 4588, a bill requiring pre-admission screening of patients to determine whether long-term care placement best suits their needs.
- the House Public Health Subcommittee on AIDS to hold more meetings on various bills, such as HB 4980 (requiring that organ, tissue, and fluid donations be tested for AIDS) and HB 5026 (authorizing courts to require HIV carriers known to be engaging in behavior that can spread the disease to participate in counseling, education, or treatment programs).
- the House Public Health Subcommittee on Certificate of Need to hear presentations on February 9 from the Michigan Hospital Association and the Economic Alliance. Prospects look favorable for a compromise on a package of CON reforms.
- the Senate Committee on Health Policy to draft bills to further restrict smoking in certain public places and to give more latitude to courts to fine and/or educate underage youths caught smoking. The latter would update and recodify an 1895 law.

--Frances L. Faverman
Editor