



HEALTH POLICY BULLETIN

FOCUS:
MEDICAID BUDGET

After ten sessions and lengthy behind-the-scenes negotiations among legislative staff, administration staff, and representatives from health care provider groups, the social services conference committee approved the FY 1988-89 Medicaid budget on July 13. The legislature has recessed until at least July 28, however, and the longer it stays away, the more tenuous become the jerry-built agreements on the Medicaid budget. As it now stands, the Medicaid budget includes a one-half percent inflation increase (\$6.3 million) for all social services' providers--except nursing homes, which will receive a one-fourth percent increase--and grant recipients. The governor's original Medicaid cost-containment measures, which were intended to save \$52.9 million, have been pared to \$26 million.

Medicaid aims to save \$6.3 million by requiring all recipients in Wayne County to enroll in managed care plans and expanding the Physician Primary Sponsor Plan to Genesee County. At present, a little more than half of Wayne County's 300,000 Medicaid recipients are enrolled in these plans. Medicaid also projects savings of \$3.5 million by working with the Blues to identify Medicaid recipients who have Medicare or Blue Cross coverage; \$2.9 million from expansion of Medicare catastrophic illness coverage; and \$2.9 million from increased fraud and abuse detection.

Several other cost-containment measures hit hospitals. Only hospitals whose indigent care (Medicaid, Crippled Children's Program, Resident County Hospitalization, and uninsured patients) exceeds 10 percent of their total inpatient care will receive an indigent volume subsidy. Also, all hospitals will have their indigent volume subsidy for outpatient care reduced. These cuts total \$4.6 million. Standard outpatient hospital rates for selected surgeries and DRG prices for routine inpatient procedures (tonsillectomies, routine appendectomies, arthroscopy, and others) will cut another \$2.3 million from the budget.

Charles Ellstein, vice president for health delivery and finance at the Michigan Hospital Association (MHA), says that "we are gratified that the most onerous of the governor's payment-avoidance measures [reduction of hospitals' medical education subsidy and of inpatient hospital DRGs to the 85th percentile] were rejected by the legislature, but the reality that Medicaid payment is inadequate goes unrecognized. It is ironic that the governor's access to health care task force is working to expand access at the same time the indigent volume subsidy is being cut. Overall, we do not support the budget, and we are exploring our options." Representative David Hollister, chair of the social services conference committee, recognizes that hospitals face annual inflation increases of up to 8 percent, but he argues that "areas within the hospitals' line can be cut without hampering access. This is less true for physicians and nursing homes." Hollister sums it all up by saying, "We've just about reached the limit. Any further cuts may impede access for the poor."

Although the physicians' services line was not cut, the Michigan State Medical Society (MSMS) is concerned about cuts to other providers. Mary Anne Ford, MSMS chief of state government affairs, says, "We are worried that in the long term, the state won't be able to provide adequately for Medicaid patients." The MSMS supports expansion of case management in Wayne and Genesee counties, but Ford does not think that the one-half percent inflation increase for providers will encourage physician participation in Medicaid.

Nursing homes settled for a smaller inflation increase (one-fourth percent) in exchange for the exclusion from the cost-containment package of a \$4.4 million reduction in nursing home plant reimbursement. The pharmaceutical services line escaped large cuts proposed by the governor. Selective contracting for pharmacy services (\$2.5 million) and elimination of coverage for certain high-cost and brand-name drugs (\$5.0 million) were not part of the final \$26 million cost-containment package. Also, pharmacists' dispensing fees were increased 20 cents per prescription. Representative Hollister believes that "we need to look harder for cuts in this line next year."

FOCUS: PUBLIC
AND MENTAL
HEALTH BUDGETS

The legislature passed the FY 1988-89 public health budget on July 14, meeting the governor's revised general fund/general purpose (GF/GP) target of \$134,911,500. Slightly less than \$6 million of this will be transferred to social services to capture federal matching funds for prenatal care programs. The \$135 million appropriation is \$4.3 million (3.1 percent) less than last year's budget. More federal monies and revenues from the new state computer software tax earmarked for the Michigan Health Initiative Fund (MHIF) have contributed to higher funding for AIDS programs (testing, prevention, education, local referral and care network grants, and risk reduction clearinghouse and media campaign) as well as worksite health risk reduction programs. These and a few other programs will receive \$11.25 million in appropriations from the MHIF.

The Department of Mental Health budget as it emerged from the conference committee stands at \$1,139,520,800 gross appropriations with \$807,581,100 in GF/GP dollars, an increase of 6.3 percent over FY 1988. The budget continues to reflect the policy of downsizing institutions and increasing support for community-based services. The single largest shift is \$3,348,000 from institutions (a one percent reduction) to community mental health and community residential services: the money was divided evenly between community mental health (for inflation adjustments) and community residential services (for raising salaries of direct-care workers in group homes).

The \$5.75 million increase in the governor's GF/GP target allows the MDMH to budget \$1 million to provide 50 community demand beds for developmentally disabled persons who have never been institutionalized and \$1.5 million to provide 30 mentally ill children's beds or alternative services to enable those children to remain at home. The conference report also increased executive budget recommendations for respite and day care by \$400,000 and for the family support subsidy by \$200,000.

OF INTEREST

Although agreement is reportedly close on the CON reform package, the bills will be held over until at least July 28, victims of the budget process. HB 5145, which creates a CON standards commission, is still in the Senate. Senate conferees need to be appointed for HB 5575, which slims the 54-member Statewide Health Coordinating Council down to a 24-member State Health Planning Council; HB 4525, which allows small Michigan hospitals to set up swing-bed (short-term nursing care) programs; and SB 64, which increases capital expenditure thresholds to \$750,000 for clinical services and \$1.5 million for nonclinical services. SB 948, which exempts the CON standards from the rule-making process, is in the House Committee on Public Health. Major issues are the number and constitution of the standards commission (15 members appointed by the governor with Senate confirmation or 18 members appointed by the governor and each house), and whether the commission should be located in the Office of Health and Medical Affairs (House version) or the Department of Public Health (Senate version).

--Frances L. Faverman, Editor
--Peter Pratt, Consultant/Health Policy