

**Summary: Conference Committee Recommendation
COMMUNITY HEALTH FY 2003-04 Budget
House Bill 4392**



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Budget Overview

The Community Health budget provides funding for a wide range of mental health, substance abuse, public health, and medical services programs including Medicaid. Established in 1996, the Department also includes the Office of Drug Control Policy, the Office of Services to the Aging, and Crime Victim Services. The Conference Committee recommends \$9.5 billion Gross, \$2.6 billion GF/GP in funding.

Summary of Major Budget Issues

Medicaid Adult Benefits Waiver - The Conference Committee Report reduces the savings by \$6.8 million Gross, \$3.0 million GF/GP associated with the Executive proposal to limit health care benefits for adults on Medicaid who are not elderly or disabled. Anticipated savings are \$104.4 million Gross, \$92.3 million GF/GP.

Pharmaceutical Services Savings - The Conference Committee Report includes Medicaid savings of \$90.4 million Gross, \$40.0 million GF/GP by adjusting MAC prices for generic drugs and lower prescription drug costs through the multi-state purchasing initiative, as recommended by the Executive.

Medicaid Caseload, Utilization, and Inflation Increases - The Conference Report increases the funding recommended to reflect anticipated growth in Medicaid expenditures due to caseload growth, health care utilization, and inflation by \$77.8 million Gross, \$32.4 million GF/GP, based on recent consensus estimates.

Medicaid Mental Health Increases for CMHSPs - The Conference Report concurs with the Executive recommended increase of \$58.9 million for Medicaid mental health services financed in part with local funds from CMHSPs and \$22.7 million Gross, \$10.0 million GF/GP for a 1.6% capitation payment rate increase.

Family Planning Waiver - The family planning waiver proposal to provide an additional \$2.25 million of federal Medicaid funds for family planning programs is supported in the Conference Recommendation.

Bioterrorism Preparedness Federal Grant Increase - The Conference Report reflects \$42.2 million Gross in additional federal grant funds for public health and hospital bioterrorism preparedness and response.

Medicaid Tobacco Settlement and Federal Revenues - The Conference Report does not include \$126.7 million more in tobacco settlement funds, as recommended by the Executive. A net increase of \$27.4 million of tobacco settlement revenue is appropriated. \$168.4 million in federal Medicaid fiscal relief funds are also appropriated.

FY 2003-04 Recommendations

| | FY 2002-03 YTD (as of 3/6/03) | Executive | House | Senate | Conference | Difference: Conference to 2002-03 Amount % | |
|-------------------|--|------------------------|------------------------|------------------------|------------------------|---|------------|
| IDG/IDT | \$69,172,900 | \$69,204,800 | \$69,204,800 | \$69,204,800 | \$69,204,800 | \$31,900 | 0.0 |
| Federal | 4,915,609,536 | 4,890,865,600 | 4,845,868,100 | 5,048,870,200 | 5,248,332,100 | 332,722,564 | 6.8 |
| Local | 938,759,100 | 806,552,500 | 806,552,500 | 805,256,100 | 812,256,100 | (126,503,000) | (13.5) |
| Private | 64,736,600 | 59,458,000 | 57,844,000 | 57,844,000 | 57,844,000 | (6,892,600) | (10.6) |
| Restricted | 804,921,500 | 707,327,400 | 650,962,500 | 650,962,600 | 737,408,300 | (67,513,200) | (8.4) |
| GF/GP | 2,416,210,412 | 2,583,938,600 | 2,648,369,200 | 2,583,938,600 | 2,561,570,700 | 145,360,288 | 6.0 |
| Gross | \$9,209,409,748 | \$9,117,346,900 | \$9,078,801,100 | \$9,216,076,300 | \$9,486,616,000 | \$277,206,252 | 3.0 |
| FTEs | 5,672.3 | 4,672.2 | 4,388.3 | 4,388.3 | 4,388.3 | (1,284.0) | (22.6) |

| Major Budget Changes from FY 2002-03 YTD Appropriations: | | YTD FY 2002-03 | Conference Change |
|--|------------|---------------------------|--------------------------------------|
| 1. Medicaid Adult Benefits Waiver | | Gross | N/A (\$104,416,300) |
| The Conference Recommendation includes Medicaid program changes, as proposed by the Executive, to limit health care benefits for “healthy” adults on Medicaid through a federal waiver. The limited Medicaid plan would cover caretaker relatives whose benefits were terminated in Executive Order 2002-22, persons now served through state and local indigent care plans, and adults in TANF-eligible households who currently have full Medicaid coverage. | Federal | N/A | (12,107,000) |
| | GF/GP | N/A | (\$92,309,300) |
| | | | |
| The Conference Report adds \$6.8 million Gross, \$3.0 million GF/GP to retain adult coverage for hearing aid, podiatric, and chiropractic services that the Executive eliminated. | | | |
| 2. Medicaid Caseload, Utilization, and Inflation Increases | | Gross | \$6,071,770,300 \$496,993,600 |
| Additional federal and GF/GP funding is recommended to reflect Medicaid costs associated with inflation, utilization and caseload growth. The Conference Report increases the adjustment proposed in the Executive Recommendation by \$77.8 million Gross, \$32.4 million GF/GP. | Fed/Other | 4,390,476,200 | 278,397,800 |
| | GF/GP | \$1,681,294,100 | \$218,595,800 |
| | | | |
| 3. Medicaid Capitation Payment Rate Increase for CMHSPs | | Gross | \$1,324,695,900 \$81,614,200 |
| The Conference Recommendation recognizes an increase of \$58.9 million for Medicaid Mental Health Services financed in part with local funds from CMHSPs. It also includes \$22.7 million Gross, \$10.0 million GF/GP for a 1.6% capitation payment rate increase to CMHSPs. The rate increase is financed by redirecting \$40.0 million from CMH Non-Medicaid Services for the Medicaid Adult Benefits Waiver program. | Federal | 797,995,200 | 45,614,200 |
| | Local | 0 | 26,000,000 |
| | GF/GP | \$526,700,700 | \$10,000,000 |
| | | | |
| 4. Redirection of Funds to CMHSPs | | Gross | \$271,346,700 \$36,714,400 |
| Due to the closure of Northville Psychiatric Hospital for Adults with Mental Illness in FY 2002-03, the Conference Report increases funding for CMH Non-Medicaid Services by \$36.7 million GF/GP which has been redirected from CMHSP, Purchase of State Services Contracts. This adjustment corrects the Executive Recommendation in which funding for Medicaid Mental Health Services had been increased by \$83.2 million. | Restricted | 1,582,400 | 0 |
| | GF/GP | \$269,764,300 | \$36,714,400 |
| | | | |
| 5. Increased Federal Grants for Substance Abuse Services | | Gross | \$76,335,400 \$4,213,000 |
| The Conference Recommendation recognizes \$4.2 million in additional and new federal grant funds for community substance abuse prevention, education and treatment programs. These funds are to be used as required by federal regulations for the Substance Abuse Block Grant and the State Incentive Grant Program. | Federal | 57,744,900 | 4,213,000 |
| | Restricted | 1,460,000 | 0 |
| | GF/GP | \$17,130,500 | \$0 |

| Major Budget Changes from FY 2002-03 YTD Appropriations: | | YTD FY 2002-03 | Conference Change |
|--|--------------|---------------------------|------------------------------|
| 6. Early Retirement Savings | Gross | N/A | (\$11,644,900) |
| Included in the Conference Proposal are early retirement savings totaling \$11.6 million Gross and \$6.1 million GF/GP for FY 2003-04 for the Department of Community Health. These savings are in addition to the net early retirement savings achieved during this fiscal year of \$7.5 million Gross and \$5.8 million GF/GP. | Federal | N/A | (1,069,700) |
| | Restricted | N/A | (202,600) |
| | Local | N/A | (4,276,800) |
| | GF/GP | N/A | (\$6,095,800) |
| 7. Respite Services | Gross | \$1,000,000 | \$0 |
| The Conference Report includes \$1.0 million GF/GP for respite care services for children with serious emotional disturbances and their families. The increase is financed by a reduction to the worker's compensation program. The Executive Budget proposed the elimination of funding for this line item. | Restricted | 1,000,000 | (1,000,000) |
| | GF/GP | \$0 | \$1,000,000 |
| 8. Multicultural Services | Gross | \$3,163,600 | \$500,000 |
| The Conference Recommendation includes an additional \$500,000 for the Multicultural Services line item in which these funds would be authorized to the Jewish Federation. The increase is financed from additional GF/GP savings realized from the Medicaid match rate change from 55.42% to 55.89% for Medicaid Mental Health Services. | GF/GP | \$3,163,600 | \$500,000 |
| 9. CMH Non-Medicaid Services | Gross | \$271,346,700 | \$4,532,100 |
| The Conference Proposal includes \$4,532,100 GF/GP for CMH Non-Medicaid Services that has been redirected from CMHSP, Purchase of State Services Contracts due to the rebasing of authorizations for state mental health facilities. This funding was not included in the Executive Budget proposal. | Restricted | 1,582,400 | 0 |
| | GF/GP | \$269,764,300 | \$4,532,100 |
| 10. Family Planning Waiver | Gross | \$14,160,400 | \$2,250,000 |
| The Conference proposes an expansion of family planning and pregnancy prevention services to low income women not currently eligible for Medicaid, with a federal family planning waiver request, as proposed by the Executive. An additional \$2.25 million of federal Medicaid funds is provided for family planning programs. Other funding adjustments of \$753,800 to this program are included in items 13 and 14. | Federal | 7,615,200 | 2,250,000 |
| | Restricted | 2,985,100 | 0 |
| | GF/GP | \$3,560,100 | \$0 |
| 11. African-American Male Health Initiative Funding | Gross | \$106,700 | \$0 |
| The Conference retains \$106,700 of GF/GP funding for the African-American Male Health Initiative. The Executive had proposed to eliminate this funding. | GF/GP | \$106,700 | \$0 |

| Major Budget Changes from FY 2002-03 YTD Appropriations: | | YTD FY 2002-03 | Conference Change |
|---|--------------|---------------------------|------------------------------|
| 12. Bioterrorism Preparedness Grant Increase | FTEs | 33.0 | 26.5 |
| The Conference reflects an additional \$42.2 million of federal funds anticipated for public health and hospital bioterrorism preparedness and response and related staffing, an increase over the Executive Recommendation as updated information on the federal award became available. | Gross | \$8,383,700 | \$42,196,200 |
| | Federal | 8,383,700 | 42,196,200 |
| | GF/GP | \$0 | \$0 |
| 13. Public Health Federal Grant Increases | Gross | N/A | \$28,646,700 |
| The Conference reflects \$28.7 million Gross in additional federal grant funds for public health, family, and aging programs, including \$19.5 million for the Women, Infants, and Children Supplemental Food program, \$3.3 million for senior community and nutrition services, and \$5.9 million for 13 other program areas, as proposed by the Executive. | Federal | N/A | 28,646,700 |
| | GF/GP | N/A | \$0 |
| 14. Healthy Michigan Fund Revisions | Gross | \$57,765,900 | (\$1,148,800) |
| The Conference recommends replacement of GF/GP funds with Healthy Michigan Fund monies for certain disease, smoking, and pregnancy prevention programs, and appropriation of 68% of the Healthy Michigan Fund for Medicaid services, as recommended by the Executive. | Restricted | 57,765,900 | (1,148,800) |
| | GF/GP | \$0 | \$0 |
| 15. School Health Education Funding | Gross | \$102,800 | \$500,000 |
| The Conference provides \$500,000 GF/GP for school health education and the Michigan Model for Comprehensive School Health Education. | Federal | 102,800 | 0 |
| | GF/GP | \$0 | \$500,000 |
| 16. Early Childhood Collaborative Funding | Gross | \$0 | \$524,000 |
| The Conference provides \$524,000 GF/GP for the cooperative program with the Family Independence Agency and the Department of Education to fund community-based projects designed to foster healthy child development between 0-3 years of age. | GF/GP | \$0 | \$524,000 |
| 17. Diabetes Outreach Funding | Gross | \$208,300 | \$41,700 |
| The Conference provides \$250,000 GF/GP for statewide and community diabetes outreach programs of the Morris Hood Comprehensive Diabetes Center at Wayne State University, for which state restricted funds are eliminated. | Restricted | 208,300 | (208,300) |
| | GF/GP | \$0 | \$250,000 |
| 18. Breast and Cervical Cancer Services | Gross | \$1,952,400 | \$6,136,000 |
| The Conference Report recommends additional funding to continue the phase in of Medicaid treatment services for women with breast and cervical cancer who have income up to 250% of the poverty level, as the Governor recommended. | Federal | 1,356,000 | 4,241,200 |
| | GF/GP | \$596,400 | \$1,894,800 |

| Major Budget Changes from FY 2002-03 YTD Appropriations: | | YTD FY 2002-03 | Conference Change |
|---|--------------|---------------------------|------------------------------|
| 19. Pharmaceutical Services Savings | Gross | \$521,491,500 | (\$90,443,400) |
| Medicaid savings are taken in the Conference Report, as proposed by the Governor from MAC price changes for generic drugs and the multi-state purchasing initiative. | Federal | 291,528,900 | (50,443,400) |
| | Tobacco | 8,000,000 | 0 |
| | GF/GP | \$221,962,600 | (\$40,000,000) |
| 20. Medical Services Restructuring Policy Changes | Gross | N/A | (\$29,799,900) |
| Several Medicaid, MICHild, and Children's Special Health Care (CSHCS) policy revisions are included in the Conference Report as proposed by the Executive. \$6.0 million GF/GP replaces federal funds for Medicaid coverage of caretaker relatives. | Federal | N/A | (23,597,700) |
| | GF/GP | N/A | (\$6,202,200) |
| 21. Medicaid Special Financing Payments | Gross | \$1,079,094,900 | (\$256,662,800) |
| The Conference Report concurs with the Executive proposed adjustments to reflect reductions in Medicaid special financing payments due to federal policies that limit the amount of such payments. As a result, State GF/GP revenues to fund the Medicaid program are increased. | Federal | 670,336,700 | (153,805,800) |
| | Local | 840,638,900 | (232,561,400) |
| | Restricted | 160,429,500 | (16,981,500) |
| | GF/GP | (\$592,310,200) | \$146,685,900 |
| 22. Federal Medicaid Fiscal Relief | Gross | N/A | \$0 |
| The Conference Report allocates \$168.4 million in federal funds due to the recently enacted temporary increase in the federal Medicaid match rate to 58.84% through June 2004. | Federal | N/A | 168,400,000 |
| | GF/GP | N/A | (\$168,400,000) |
| 23. Tobacco Settlement Revenue Adjustments | Gross | N/A | \$0 |
| The Conference Committee Report includes an additional \$27.4 million in tobacco settlement funds to replace State GF/GP that otherwise would be required for the Medicaid program rather than the \$126.7 million tobacco settlement revenue increase proposed by the Executive. | Restricted | N/A | 27,384,000 |
| | GF/GP | N/A | (\$27,384,000) |
| 24. Detroit Medical Center | Gross | N/A | \$50,000,000 |
| The Conference Committee Report provides \$50.0 million as a special Medicaid payment to the Detroit Medical Center. | Federal | N/A | 27,945,000 |
| | Local | N/A | 7,000,000 |
| | Restricted | N/A | 15,055,000 |
| | GF/GP | N/A | \$0 |

Major Boilerplate Changes from FY 2002-03:

Sec. 206. Contingency Funds – DELETED

Appropriates up to \$100.0 million in federal contingency funds, up to \$20.0 million in state restricted contingency funds, up to \$20.0 million in local contingency funds, and up to \$10.0 million in private contingency funds. Specifies that contingency funds are not available for expenditure until transferred according to provisions in Section 393(2) of the Management and Budget Act. The Conference Recommendation does not retain current year language in which the Executive proposed to increase the ceiling on state restricted contingency funds and local contingency funds from \$20.0 million to \$50.0 million.

Sec. 224. Appropriation of Unexpended and Unreserved General Fund – NEW

The Conference Report does not include new language recommended by the Executive to appropriate up to ½ of the unexpended and unreserved GF portions of FY 2002-03 appropriations made to the Department for salaries and wages expenses, contractual services, supplies and material expenses, information technology expenses and program operation costs in order to encourage administrative efficiencies.

Sec. 262. Expenditure of Appropriated Funds – MODIFIED

The Conference Proposal modifies current year language to require the Department to provide a written explanation for all legislative transfers upon submission of the request for the legislative transfer by the Department of Management and Budget and an annual report of lapses by line item for this appropriation act. The Executive proposed the deletion of this section.

Sec. 407. Substance Abuse Prevention, Education, and Treatment Grants – RETAINED

Requires that funds appropriated for substance abuse prevention, education, and treatment grants be expended for contracting with coordinating agencies or designated service providers. Provides that is the Legislature's intent that coordinating agencies and designated service providers work with CMHSPs to coordinate services provided to individuals with both mental illness and substance abuse diagnoses. Requires the Department to establish a fee schedule for providing substance abuse services and charge participants in accordance with their ability to pay. The Conference Report retains this section that the Executive proposed to delete.

Sec. 425. Report on Prisoners Receiving Mental Health and Substance Abuse Services –RETAINED

Requires the Department, in conjunction with the Department of Corrections, to report by April 1, 2003, on the following FY 2001-02 data to the House of Representatives and Senate Appropriations Subcommittees on Community Health and Corrections, the House and Senate Fiscal Agencies, and the State Budget Office: the number of prisoners receiving substance abuse services; the number of prisoners receiving mental health services; and data indicating if prisoners receiving mental health services were previously hospitalized in a state psychiatric hospital for persons with mental illness. The Conference Report updates the fiscal years and retains this section that the Executive proposed to delete.

Sec. 428. Contingency Appropriation of \$100 Million for CMHSPs – MODIFIED

The Conference Report modifies current year language that requires each CMHSP and affiliation of CMHSPs to provide local funds to be used as a state match required under the Medicaid program in order to increase capitation rates for CMHSPs and affiliations of CMHSPs. This section also requires the distribution of the rate increase to be based on a formula developed by a Committee established by the Department that includes representatives from CMHSPs or affiliations of CMHSPs and department staff. This section had been proposed for deletion by the Executive.

Sec. 442. Medicaid Adult Benefits Waiver – MODIFIED

The Conference Recommendation modifies current year language to express the Legislature's intent that the \$40.0 million transferred from CMH Non-Medicaid Services to support the Medicaid Adult Benefits Waiver be used to provide state match for increases in federal funding for primary care and specialty services provided to enrollees and economic increases for the Medicaid specialty services and supports program. This section also requires the Department to request in a waiver renewal application for the Medicaid Specialty Services and Support program that the amount of savings retained by a Specialty Prepaid Health Plan (PHP) be changed from 5% to 7.5% of aggregate capitation payments. If the Department is unable to secure federal approval for this change, the Department is then required to allow PHPs and their affiliate CMHSP members to retain 50% of the GF/GP portion of funds allocated under the Medicaid Specialty Services waiver. This section had been proposed for deletion by the Executive.

Sec. 450. Audit and Reporting Requirements for CMHSPs – NEW

The Conference Report includes a new section that requires the Department to establish a Work Group comprised of CMHSPs or specialty prepaid health plans and departmental staff to recommend strategies to streamline audit and reporting requirements for these entities. This section as acted upon by the House would have required the Workgroup to recommend strategies to streamline only audit requirements for CMHSPs or specialty prepaid health plans.

Sec. 853. Bioterrorism Preparedness Funding Allocation – NEW

The Conference Recommendation includes a new section that allocates up to \$1.0 million of federal bioterrorism preparedness funding to a Biosafety Level 2/3 certified laboratory facility, as allowed by federal law and regulations.

Sec. 1109. Volunteer Dental Services Program and Report - MODIFIED

The Conference recommends a new subsection to Sec. 1109, to require the Michigan Dental Association to report on the Association's efforts to increase its membership's participation as Medicaid providers.

Sec. 1250. Interdepartmental Grant to Judiciary for Drug Treatment Courts – NEW

The Conference Recommendation provides for \$1.8 million of federal Byrne grant money to be directed as an interdepartmental grant to the Judiciary for local drug treatment courts, in addition to the \$1.8 million funding that the Department currently distributes to local drug treatment courts from the Byrne grant, as proposed by the Executive.

Sec. 1621a. Disease Management Pilot Projects – NEW

1621a – Allows DCH to establish pilot projects to test the efficacy of disease/health management systems and use the savings in lieu of supplemental rebates to include the drug manufacturer's products on the preferred drug list.

Sec. 1622a. Pharmacy and Therapeutics Committee – NEW

Expresses legislative intent regarding the make up of the pharmacy and therapeutics committee.

Sec. 1625. Atypical Antipsychotic Medications – NEW

Directs the department to continue the practice of placing all atypical antipsychotic medications on the Medicaid preferred drug list.

Sec. 1626. Multistate Drug Purchasing Benefit-Cost Analysis – NEW

Requires DCH to provide a benefit-cost analysis that documents greater savings from the multistate drug purchasing compact than the current PDL supplemental rebate program before implementing the compact.

Sec. 1628. CSHC Prior Authorization for Prescribed Drugs – NEW

Exempts Children's Special Health Care Services recipients from needing prior authorization for prescribed drugs through the Pharmaceutical Best Practice initiative.

Sec. 1629. Maximum Allowable Cost (MAC) Drug Pricing – NEW

Requires the Department to base its MAC prices for generic drugs on the pricing available from at least 2 wholesalers who deliver in Michigan.

Sec. 1629 a & b. Exemptions from Prior Authorization for Medications – NEW

Exempts persons from drug prior authorization requirements who have been stabilized under a given medication regime before becoming eligible for Medicaid and those who are under court order for a particular medication.

Sec. 1630. Medicaid Dental, Podiatric, and Chiropractic Services – MODIFIED

Continues hearing aid, podiatric, and chiropractic services at not less than the level provided on October 1, 2002. Prohibits restrictions on chiropractic services unless the recipient exceeds 18 visits within a year.

Sec. 1689. MICHoice Home and Community Based Services – MODIFIED

Gives priority in HCBS enrollment to nursing homes residents and those eligible for nursing homes, and requires screening to prevent unnecessary nursing home admissions. Directs DCH to transfer funds to the HCBS program for successfully moving persons out of nursing homes if there is a net reduction in the number of Medicaid nursing home days of care. Provides for a quarterly report on HCBS allocations and expenditures by regions and net cost savings. Requires competitive bid for administration of the new screening and assessment process for long-term care services.

Sec. 1711. Medicaid 2-Tier Case Rate for Emergency Services – RETAINED

Requires the continuation of a 2-tier Medicaid case rate for emergency physician charges. The section was not included in the Executive Recommendation or Senate passed bill.

Sec. 1712. Rural Health Initiative – NEW

Subject to the availability of funds, requires DCH to implement a rural health initiative with funds to be first allocated to a rural outpatient hospital adjustor, and secondly, for defibrillator grants, EMT training, or other similar programs.

Sec. 1715. Pharmaceutical Services Savings – NEW

Requires the pharmaceutical savings of \$18.9 million GF/GP in Part 1 to be achieved through implementation of the federal Medicare prescription drug program, or a withdrawal from the Medicaid Benefits Trust Fund.

Sec. 1716. Adult Benefits Waiver Hospital Case Rate – NEW

Requires the hospital case rate under the Medicaid Adult Benefits Waiver to be set at a rate that does not exceed \$108.6 million in gross savings.

Sec. 1717. Detroit Medical Center Payment – NEW

Requires \$7.0 million in local funds to be received by the state prior to distributing the Detroit Medical Center payment.