

**Summary: House 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 House Substitute recommends \$9.1 billion Gross, \$2.6 billion GF/GP in funding.

**Summary of Major Budget Issues**

**Medicaid Adult Benefits Waiver** - The House Substitute 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 House Substitute 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 House Substitute lowers the funding recommended in the Executive Budget to reflect anticipated growth in Medicaid expenditures due to caseload growth, health care utilization, and inflation by \$6.8 million Gross, \$3.0 million GF/GP.

**Medicaid Mental Health Increases for CMHSPs** -The House Substitute 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 Executive family planning waiver proposal to provide an additional \$2.25 million of federal Medicaid funds for family planning programs is supported in the House Substitute.

**Public Health Federal Grant Increases** - The House Substitute reflects \$54.4 million Gross in additional federal grant funds for public health, family and aging programs, a \$595,400 reduction from the Executive. This includes \$25.8 million for public health bioterrorism preparedness, \$19.5 million for the Women, Infants, and Children food program, \$3.3 million for senior services, and \$5.8 million for other programs.

**Medicaid Restricted Revenue Increases** – The House Substitute includes \$148.4 million more from provider assessment fees, tobacco settlement funds, and tobacco tax revenue, \$60.0 million less than the Executive.

**FY 2003-04 Recommendations**

	<b>FY 2002-03 YTD (as of 3/6/03)</b>	<b>Executive</b>	<b>House</b>	<b>Senate</b>	<b>Enacted</b>	<b>Difference: House to 2002-03 YTD Amount %</b>	
<b>IDG/IDT</b>	\$69,172,900	\$69,204,800	\$69,204,800			\$31,900	0.0
<b>Federal</b>	4,915,609,536	4,890,865,600	4,845,868,100			(69,741,436)	(1.4)
<b>Local</b>	938,759,100	806,552,500	806,552,500			(132,206,600)	(14.1)
<b>Private</b>	64,736,600	59,458,000	57,844,000			(6,892,600)	(10.6)
<b>Restricted</b>	804,921,500	707,327,400	650,962,500			(153,959,000)	(19.1)
<b>GF/GP</b>	2,416,210,412	2,583,938,600	2,648,369,200			232,158,788	9.6
<b>Gross</b>	<b>\$9,209,409,748</b>	<b>\$9,117,346,900</b>	<b>\$9,078,801,100</b>			<b>(\$130,608,648)</b>	<b>(1.4)</b>
<b>FTEs</b>	5,672.3	4,672.2	4,388.3			(1,284.0)	(22.6)

<b>Major Budget Changes from FY 2002-03 YTD Appropriations:</b>		<b>YTD FY 2002-03</b>	<b>House Change</b>
<b>1. Medicaid Adult Benefits Waiver</b>		<b>Gross</b>	<b>N/A (\$104,416,300)</b>
The House Substitute 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.		<b>GF/GP</b>	<b>N/A (\$92,309,300)</b>
The plan also: (1) eliminates Medicaid coverage for non-emergency dental services to adults; (2) reduces Long-Term Care costs through tighter screening requirements, and other changes; and (3) revises spend-down policies to provide a buy-in option for elderly and disabled persons on Medicaid. The House Substitute 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.			
<b>2. Medicaid Caseload, Utilization, and Inflation Increases</b>		<b>Gross</b>	<b>\$6,071,770,300</b>
Additional funding is recommended to reflect Medicaid costs associated with inflation, utilization and caseload growth. The House Substitute lowers the adjustment proposed in the Executive Recommendation by \$6.8 million Gross, \$3.0 million GF/GP.		<b>GF/GP</b>	<b>\$1,681,294,100</b>
<b>3. Medicaid Capitation Payment Rate Increase for CMHSPs</b>		<b>Gross</b>	<b>\$1,324,695,900</b>
The House Substitute 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.		<b>Federal</b>	<b>797,995,200</b>
		<b>Local</b>	<b>0</b>
		<b>GF/GP</b>	<b>\$526,700,700</b>
<b>4. Redirection of Funds to CMHSPs</b>		<b>Gross</b>	<b>\$271,346,700</b>
Due to the closure of Northville Psychiatric Hospital for Adults with Mental Illness in FY 2002-03, the House Substitute proposes to increase 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.		<b>Restricted</b>	<b>1,582,400</b>
		<b>GF/GP</b>	<b>\$269,764,300</b>

<u>Major Budget Changes from FY 2002-03 YTD Appropriations:</u>		<u>YTD</u> <u>FY 2002-03</u>	<u>House</u> <u>Change</u>
<b>5. Increased Federal Grants for Substance Abuse Services</b>	<b>Gross</b>	<b>\$76,335,400</b>	<b>\$4,213,000</b>
The House Substitute 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
<b>6. Early Retirement Savings</b>	<b>Gross</b>	<b>N/A</b>	<b>(\$11,644,900)</b>
Included in the House Substitute 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)
<b>7. Respite Services</b>	<b>Gross</b>	<b>\$1,000,000</b>	<b>\$0</b>
The House Substitute 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
<b>8. Multicultural Services</b>	<b>Gross</b>	<b>\$3,163,600</b>	<b>\$500,000</b>
The House Substitute proposes 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
<b>9. Family Planning Waiver</b>	<b>Gross</b>	<b>\$14,160,400</b>	<b>\$2,250,000</b>
The House Substitute 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 would be provided for family planning programs in FY 2003-04.	Federal	7,615,200	2,250,000
	Restricted	2,985,100	0
	GF/GP	\$3,560,100	\$0
<b>10. African-American Male Health Initiative Funding</b>	<b>Gross</b>	<b>\$106,700</b>	<b>\$0</b>
The House Substitute retains \$106,700 in funding for the African-American Male Health Initiative that had been recommended for elimination by the Executive.	GF/GP	\$106,700	\$0

<b>Major Budget Changes from FY 2002-03 YTD Appropriations:</b>		<b>YTD FY 2002-03</b>	<b>House Change</b>
<b>11. Public Health Federal Grant Increases</b>	<b>Gross</b>	<b>N/A</b>	<b>\$54,420,700</b>
The House Substitute reflects \$54.4 million Gross in additional federal grant funds for public health, family, and aging programs, including \$25.8 million for public health bioterrorism preparedness, \$19.5 million for the Women, Infants, and Children food program, \$3.3 million for senior community and nutrition services, and \$5.9 million for 13 other program areas: asthma, rape prevention, HIV care, epidemiology and laboratory capacity, birth outcomes, genetics, newborns, childhood lead poisoning prevention, family planning, SIDS, tuberculosis, injury, and integrated surveillance (OASIS). The Executive advised that a \$695,400 has not been awarded, and the House does not include.	Federal	N/A	54,420,700
	GF/GP	N/A	\$0
<b>12. Healthy Michigan Fund Revisions</b>	<b>Gross</b>	<b>\$57,765,900</b>	<b>(\$1,148,800)</b>
The House Substitute recommends replacement of GF/GP funds with Healthy Michigan Fund (HMF) monies for some prevention programs, and continued appropriation of approximately 68% of the HMF for Medicaid programs, as proposed by the Executive.	Restricted	57,765,900	(1,148,800)
	GF/GP	\$0	\$0
<b>13. Breast and Cervical Cancer Services</b>	<b>Gross</b>	<b>\$1,952,400</b>	<b>\$6,136,000</b>
The House Substitute 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 reflected in the Executive Recommendation. The funding will cover the cost of services to another 430 women.	Federal	1,356,000	4,241,200
	GF/GP	\$596,400	\$1,894,800
<b>14. Pharmaceutical Services Savings</b>	<b>Gross</b>	<b>\$521,491,500</b>	<b>(\$90,443,400)</b>
Additional Medicaid savings are taken in the House Substitute and the Executive Recommendation related to reducing MAC prices for generic drugs and lowering prescription drug costs as a result of 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)
<b>15. Medical Services Restructuring Policy Changes</b>	<b>Gross</b>	<b>N/A</b>	<b>(\$29,799,900)</b>
Several Medicaid, MICHild, and Children's Special Health Care (CSHCS) policy revisions are assumed in the House Substitute as proposed by the Executive:	GF/GP	N/A	(\$12,202,200)
a. Implementation of a revised reimbursement methodology for outpatient hospital services.	<b>Gross</b>	<b>N/A</b>	<b>(\$9,068,200)</b>
	GF/GP	N/A	(\$4,000,000)
b. Requiring MICHild eligible children to enroll in Medicaid HMOs (where they are available) or Medicaid fee-for-service.	<b>Gross</b>	<b>N/A</b>	<b>(\$7,124,400)</b>
	GF/GP	N/A	(\$2,200,000)
c. Enrolling current aged Medicaid spend-down beneficiaries in the EPIC-EX program.	<b>Gross</b>	<b>N/A</b>	<b>(\$4,307,400)</b>
	GF/GP	N/A	(\$1,900,000)

<b><u>Major Budget Changes from FY 2002-03 YTD Appropriations:</u></b>		<b><u>YTD FY 2002-03</u></b>	<b><u>House Change</u></b>
d. Carving out pharmaceutical services from CSHCS managed care payments in order to obtain drug manufacturer rebates.	<b>Gross</b> GF/GP	<b>N/A</b> N/A	<b>(\$2,040,400)</b> (\$900,000)
e. Requiring CSHCS eligible children to enroll in Medicaid or MICHild if they qualify for either program.	<b>Gross</b> GF/GP	<b>N/A</b> N/A	<b>(\$7,259,600)</b> (\$3,202,200)
<b>16. Medicaid Special Financing Payments</b>	<b>Gross</b>	<b>\$1,079,094,900</b>	<b>(\$256,662,800)</b>
The House Substitute 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
<b>17. Medicaid Financing Adjustments</b>	<b>Gross</b>	<b>N/A</b>	<b>\$0</b>
The House Substitute utilizes restricted funds to replace State GF/GP that otherwise would be required for the Medicaid program, as proposed by the Executive with the exception of the amount of the tobacco settlement revenue increase.	Restricted	N/A	148,400,000
	GF/GP	N/A	(\$148,400,000)
a. \$56.7 million from hospital and nursing home assessment fees and a new pharmacy assessment fee is used to replace the same amount of GF/GP. For each provider fee assessment, the State would retain \$18.9 million and utilize the remaining revenue to finance a Medicaid payment increase.	<b>Gross</b>	<b>N/A</b>	<b>\$0</b>
	Restricted	N/A	56,700,000
	GF/GP	N/A	(\$56,700,000)
b. An additional \$66.7 million in tobacco settlement revenue is proposed to replace the same amount of State GF/GP in support of the Medicaid program. The Executive budget proposed an additional \$60.0 million in tobacco settlement revenue.	<b>Gross</b>	<b>N/A</b>	<b>\$0</b>
	Restricted	N/A	66,700,000
	GF/GP	N/A	(\$66,700,000)
c. \$25.0 million in available revenue from the Medicaid Benefits Trust Fund is also utilized to replace State GF/GP.	<b>Gross</b>	<b>N/A</b>	<b>\$0</b>
	Restricted	N/A	25,000,000
	GF/GP	N/A	(\$25,000,000)

### **Major Boilerplate Changes from FY 2002-03:**

#### ***Sec. 206. Contingency Funds – RETAINED***

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 House Substitute retains 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 House Substitute 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 House Substitute 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 funds appropriations 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 House Substitute 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 House Substitute 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 House Substitute 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 House Substitute 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 allow each CMHSP or specialty prepaid health plan to retain 50% of the GF/GP portion of funds allocated to the CMHSP or specialty prepaid health plan for services to be provided under the Medicaid specialty services and supports program. This section had been proposed for deletion by the Executive.

***Sec. 450. Audit Requirements for CMHSPs – NEW***

The House Substitute 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 requires for these entities.

***Sec. 853. Bioterrorism Preparedness Funding Allocation – NEW***

The House Substitute includes a new section that allocates \$1.0 million of federal bioterrorism preparedness funding to a Biosafety Level 2/3 certified facility.

***Sec. 905. Local Public Health Operations Distributions – DELETED***

Requires the Department to provide no less than 100% of FY 2001-02 allocations to local public health departments in implementing the new funding distribution methodology for local public health operations funds. The House Substitute does not include this section recommended for deletion by the Executive.

***Sec. 1129. Report of Elevated Blood Lead Levels – RETAINED***

Requires the Department to annually report to the Legislature on the number of children with elevated blood lead levels, by county, and indicating the blood lead level. The House Substitute retains this section with modifications that the Executive proposed to delete.

***Sec. 1135. Services for Sponsored Aliens – DELETED***

Requires the Department to implement a sponsor-to-alien deeming policy for aliens seeking services under any means-tested state-funded program; and to seek reimbursement from sponsors for nonqualified aliens who have received services. The House Substitute does not include this section recommended for deletion by the Executive.

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

The House Substitute recommends new language that 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, as proposed by the Executive.

***Sec. 1302. Allocation of Funds for Forensic Nurse Examiner Programs – RETAINED***

Allocates up to \$50,000 for expansion of forensic nurse examiner programs to facilitate training for improved evidence collection for the prosecution of sexual assault. Unexpended funds shall be carried forward. The House Substitute retains this section that the Executive proposed to delete.

***Sec. 1622. Pharmaceutical Best Practice Initiative – RETAINED***

Specifies conditions for the continued implementation of the Department's pharmaceutical initiative related to the prior authorization process, the Pharmacy and Therapeutics Committee, and reporting requirements. The House Substitute retains this section that the Executive proposed to delete.

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

The House Substitute includes new language that requires the Department to base its MAC prices for generic drugs on the pricing available from at least 2 wholesalers who deliver in the state with their own vehicles.

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

House Substitute retains this section that the Executive proposed to delete and 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. 1661(2). Prohibition on Prior Authorization for EPSDT and MSS/ISS Services – RETAINED***

Prohibits prior authorization for EPSDT and MSS/ISS referrals and up to 3 MSS/ISS service visits. The House Substitute retains this section that the Executive proposed to delete.

***Sec. 1677. MICHild Benefits – RETAINED***

Specifies the benefits to be covered by the MICHild program based on the state employee insurance plan. The House Substitute retains this section that the Executive proposed to delete.

***Sec. 1700. Medicaid Appropriations for Quality Assurance Assessment Revenues – NEW***

The House Substitute does not include Executive proposed new language to authorize increased appropriations for the Hospital, Long-Term Care, Pharmaceutical, and Health Plan Services line items if quality assurance assessment revenues are available to finance provider rate increases.

***Sec. 1710. MICHoice Home and Community Based Services – MODIFIED***

Requires the Department to report proposed changes in the MICHoice home and community based services waiver program screening process to the House and Senate Appropriations Subcommittees on Community Health at least 30 days prior to implementation. The House Substitute retains this section that the Executive proposed to delete, but eliminates the 30 day notice requirement.

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

The House Substitute retains language requiring the continuation of a 2-tier Medicaid case rate for emergency physician charges. The section was not included in the Executive Recommendation.