FLORIDA CENTER FOR FISCAL AND ECONOMIC POLICY

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Governor's Health and Human Services Budget: Fuzzy on Details, But With a Clear Direction

Given that Governor Rick Scott's 2011-12 state budget recommendations called for a staggering $4.6 billion reduction in total state spending, it may seem surprising that he proposed to increase the health and human services (HHS) budget. However, his incomplete presentation of totals with little accompanying detail masks his intent to allow almost no increases in HHS spending in the future. That intent is partially obscured by the fact that many of his proposed cost-cutting initiatives cannot be implemented in time to impact next year's budget. Beyond that, a slew of unanswered questions and questionable assumptions built into the proposal itself may render it of limited use to the legislature.

2011-12: Medicaid Recommendation Masks a Budget Cut

Strictly speaking, the Governor did not recommend a reduction in total spending for health and human services for 2011-12. Total HHS spending under the Scott proposal would in fact *rise* from $28.5 billion this year to $29.2 billion next year. Furthermore, the total Medicaid budget would increase by roughly 3 percent, from $20.3 billion to $20.9 billion. But in the sense that the proposed funding level for Medicaid in 2011-12 would not meet the state's currently projected need of $22.1 billion, however, the recommendations amount to a $1.2 billion *cut*.

The proposed funding level would not meet the state's currently projected need, so the recommendation amounts to a budget cut.

Unfortunately, much of the detail that would shed light on the specific nature of the cuts is missing from the Governor's broad brush proposal. Governor Scott's HHS budget is one-third the length of the final 2010 HHS budget, and many spending categories were collapsed.

Proposed Cuts Threaten Already-Strained System

Based on statements from Governor's staff and information from other budget documents, HHS cuts in 2011-12 would mainly be achieved using familiar methods, including:

- reducing payment rates to hospitals, nursing homes, health departments and other health care facilities by 5 percent

- reducing the total budget for a number of specialized Medicaid waiver programs, such as the Home- and Community-Based Services Waiver, the Aged and Disabled (MEDS-AD) Waiver and the Nursing Home Diversion Waiver
- capping payment rates for most other health care services at current levels and ignoring cost increases
- eliminating an unspecified number of so-called "optional" but essential benefits for adults; frequent targets include critical services such as hearing aids, dentures and eyeglasses, but the full list will be much longer

More broadly, the HHS budget directly impacts five current state agencies. Although the bulk of Medicaid spending is concentrated in the Agency for Health Care Administration, smaller agency budgets were not spared. Total cuts proposed for each agency (and key examples of affected programs and services) include:

- $174 million from the Agency for Persons with Disabilities, including cuts in payment rates for services for individuals with developmental disabilities as well as privatization of residential facilities
- $179 million from the Department of Children & Familes, including privatization of the three remaining state-operated mental health facilities
- $39 million from the Department of Elder Affairs, including elimination of funding for Alzheimer resource centers and other community-based services to seniors
- $36 million from the Department of Veterans Affairs, including privatization of veterans nursing homes

Limited Potential for Managed Care "Savings"

One area in which spending would *increase* next year is payments to managed care plans like Medicaid HMOs. However, the amount budgeted for managed care plans is comparable to the amount of total payments to such plans currently projected by legislative economists. This reflects an acknowledgment of the reality that a massive expansion of managed care cannot happen overnight.

Indeed, estimates prepared last year by the Agency for Health Care Administration (AHCA) showed that expanding mandatory managed care to the 19 "reform" counties (where capacity existed) to non-exempt recipients would have saved at most $22.5 million of general revenue this year. Little has changed, except that federal approval for expansion of Medicaid reform might be *more* difficult to obtain now.

2012-13: Bigger Cuts, Familiar Target

The Governor's proposal is different from those of his predecessors in that it includes budget recommendations for *two* years. Extending the horizon through 2012-13 provided the opportunity to project "savings" generated over a longer period, with significantly more reductions realized in the second year. All told, the Governor's proposal calls for Medicaid "savings" of $4 billion over the current two-year forecast. This in fact is a cut to the Medicaid program.

One key to generating additional "savings" in the second year is the proposed elimination of the most expensive parts of the Medically Needy program. Specifically, the Governor proposes eliminating hospital and surgical care for people with disabilities and seniors who have catastrophic medical expenses that would otherwise strand them in deep poverty. Gutting the Medically Needy program to exclude transplant patients and others who are gravely ill would not only put them in peril, it would massively shift costs to already overburdened safety net hospitals.

The fact is, the Governor's 2012-13 budget recommendations are largely symbolic. They are likely more an indication of his policy goals than an accurate reflection of the "savings" he can actually achieve.

Biggest Threat: Hard Spending Caps

Few other details regarding how the "savings" would be achieved are provided in budget documents, except that the impetus would be the implementation of a "patient-directed" Medicaid system. That reference is very similar to the "patient-centered" description used to describe the medical homes model, an alternative to the HMO-style approach. Despite the reference, however, the Governor is proposing a dramatically expanded Medicaid managed care experiment that builds on the very shaky foundation of the struggling Medicaid Reform Pilot.

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Even more problematic, however, the Governor proposes to install an arbitrary cap on Medicaid spending that does not factor in the true cost of providing care or even the general rate of inflation. In 2012-13, proposed funding levels in almost every category of HHS-related spending are either flat or decreased. That could only be possible with mandatory enrollment of virtually every Medicaid recipient in some form of HMO-style managed care by July 2012. Reduced access and quality of care for the most vulnerable Floridians who must depend on Medicaid will inevitably result.

Finally, given past problems with the lack of accountability by private, for-profit HMOs in Medicaid managed care, it is important to note that the Governor's budget does not provide additional funding for managed care oversight. Both recipients and taxpayers will be at greater risk as a result.

The Governor's budget is a recommendation to the legislature. Because so many questions about the raw numbers remain unanswered, however, the extent to which the legislature can use the recommendations is still unclear, despite the clarity of his general aim.

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