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STATE BUDGET NEWS

medicaid and the uninsured

THE HENRY J. KAISER FAMILY FOUNDATION

# News on Medicaid and State Budgets: May and June 2003 Update

This update summarizes recent news from press reports published during the months of May and June 2003 as well as information reported by the National Conference of State Legislature's health policy tracking service during these two months. It highlights recent actions by governors and state legislators to reduce Medicaid spending growth. The information in this report has not been verified by the states, and in some cases the actions reported are not final. For more information on Medicaid state budget actions, please see The Kaiser Commission on Medicaid and the Uninsured's September 2003 report, "*States Respond to Fiscal Pressure: State Medicaid Spending Growth and Cost Containment - Results from a 2003 Survey,*" available at www.kff.org.

States continue to struggle with difficult budget situations driven in large part to the decline in state revenues. At the same time, the majority of states are continuing to develop cost control strategies to reduce Medicaid spending growth. In June, states received a $10 billion dollar fiscal relief package, designed to reduce the cost of Medicaid to states in 2003 and 2004 by temporarily raising the federal matching rate for Medicaid. The legislation also provides an additional $10 billion dollars ($5 billion in FY 2003 and another $5 billion in FY 2004) that states can use for broader budgetary relief.

**Alabama** - In June, state lawmakers approved Governor Bob Riley's $1.2 billion tax reform package. The legislation attempts to reverse Alabama's income tax system, which is said to be the most regressive in the nation, and solve a budget deficit of about $675 million. Included in the plan are proposals to raise the maximum individual tax rate from 5 to 6 percent and increase the tobacco tax from 17-cents to 31-cents per pack. The tax package goes before voters as a public referendum on September 9, 2003 (NCSL, 6/16/03).

**Alaska –** Governor Murkowski has line item vetoed $138 million from the recently passed FY 2004 budget to cover the state's budget shortfall. Over half of the cuts resulting from the line item veto were made to health and human services. Approximately $11 million was vetoed from behavioral health, health care, and long-term health under Medicaid. However, these state funds will likely be replaced by federal fiscal aid. The governor also signed legislation, which changes the eligibility for Denali KidCare from 200 percent to 175 percent of FPL and freezes eligibility for nursing home and home and community-based care recipients at the current income levels—300 percent of FPL (NCSL, 6/2/03 and 6/16/03). In addition, Alaska has recently enacted legislation, AK S 109, that gives the Department of Health and Social Services permission to take whatever Medicaid cost containment measures are necessary, including new utilization review procedures, changes in provider payment rates, pre-certification requirements for coverage of services, and agreements with federal officials under which the federal government will assume responsibility for coverage of some individuals or some services for some individuals through such federal programs as the Indian Health Service or Medicare (NCSL, 6/23/03).

**Arizona** – In June, the House approved the Senate-crafted $6.4 billion FY 2004 budget. The following is an outline of the major health care components in the FY 2004 budget: $124.1 million increase for Medicaid caseload growth, including long-term care (a portion of this was funded from the state General Fund, and the rest with proceeds from our newly-increased tobacco tax); $13.7 million increase for SCHIP programs (for kids and parents up to 200% FPL); $16.8 million increase for expected capitation rate increases due to the elimination of a special Medicaid exemption for the statewide 2% tax on insurance premiums; $25.7 million increase for Title Medicaid Behavioral Health Caseload growth; $11.7 million increase associated with shifting certain health care programs from non-appropriated to appropriated status (this ultimately does not actually increase health care spending, but increases the appropriated funding the state shows in the DHS budget); $3.3 million increase for expected capitation rate increases due to the elimination of a special Medicaid exemption for the statewide 2% tax on insurance premiums.

The FY2004 budget also includes the following decreases: $6 million decrease in Non-Medicaid Mental Health services; $3.7 million decrease in Substance Abuse services; $14.3 million decrease to require cost sharing (co-pays, premiums, and enrollment fees) for the Medicaid and SCHIP populations; $10.9 million decrease from eliminating a state-only program providing health care services, for a small premium, to members up to 200% FPL otherwise not eligible for Medicaid or SCHIP; $1.2 million decrease to eliminate coverage of adult emergency dental care; $4.8 million decrease to eliminate a state-only program providing reimbursement to doctors and clinics who provide emergency care to undocumented immigrants (NCSL, 6/16/03).

Recent legislation passed in Arizona requires certain persons eligible for medical assistance to be financially responsible for any cost sharing requirements established in a State Plan or a Section 1115 waiver; and changes the timeline for determining an eligible person's continued eligibility on an annual basis to every six months (NCSL, 6/23/03).

**Arkansas** – On April 14th, an Arkansas Senate plan was presented to the budget committee and included $98 million to the Department of Human Services to prevent cuts to Medicaid and nursing homes. The Legislature adjourned in Mid-April with out passing a FY 2004 budget. Since then the Legislature has raised the state's excise tax on a pack of cigarettes by 25 cents per pack and imposed a 7 percent tax on other tobacco products. Lawmakers also enacted a 3 percent income tax surcharge. The Legislature did not earmark the increased revenue from the taxes; however, it made a direct connection between the additional revenue and the state's ability to adequately fund Medicaid services. The state still is expected to have to draw down $40 million from its reserves to balance the FY 2004 budget (NCSL, 5/19/03).

**California** – The June 30th constitutional deadline for passage of the FY 2004-2005 budget has passed and the governor and legislative leaders are nowhere near agreement on how to

address California's $38 billion two-year deficit (NCSL, 1/7/03). State fiscal year 2003 ended with the Medi-Cal program facing a $1 billon dollar shortfall. Reductions to nursing home payments and other health facilities began in late June on account of the large budget deficit. Lawmakers have made plans to use the $2.4 billion the state will receive from the federal tax cut package. Democrats, who control both chambers, are pushing for tax increases to save further cuts to social programs, but Senate Republican Leader Jim Brulte has announced that he will actively campaign against any Republican who votes for a tax increase. This announcement makes it unlikely that any budget that includes tax increases will receive the needed two-thirds majority to pass either the Assembly or Senate. Democrats are considering fee increases and accounting maneuvers to find more revenue (NCSL, 6/16/03).

On June 5th, Gov. Gray Davis launched the Express Lane Eligibility program, an initiative that will allow low-income parents to register their children for Medi-Cal, the state's Medicaid program, or Healthy Families, the state's CHIP program, when they sign up for the National School Lunch Program. The program will be tested in five school districts beginning July 1 (*San Jose Mercury News*, 6/6/03).

**Colorado –** Over the last month, Colorado has passed the following legislation: CO S 266 authorizes the Department of Health Care Policy and Financing (DHCPF) to impose a provider fee on nursing home facilities in order to finance two new nursing home programs and reduce General Fund appropriations for the DHCPF; CO S 279 states that in order to keep expenditures within approved appropriation, the Medical Services Board may establish limits on a categorically needy services provided so long as the service provided is sufficient in the amount, duration and scope to reasonably achieve the purpose of the service as required by federal law or regulation; CO S 288 limits private-duty nursing services per recipient to 112 hours per week (NCSL, 5/26/03); and CO S 294 directs the state to implement drug utilization mechanisms, including, but not limited to, prior authorization, to control costs in the medical assistance program associated with prescribed drugs (NCSL, 6/23/03).

On June 4th, Colorado Gov. Bill Owens announced that $5.6 million of the $146.3 million the state expects to receive as part of the fiscal relief provided in the federal tax cut bill will be used to restore funding for the state's CHIP program, Child Health Plan Plus. Last month, Owens signed into law a bill that ends prenatal care benefits for women under the program to save the state an estimated $5.8 million. The measure also caps the program's monthly enrollment to 49,774 children; currently, there are 52,864 beneficiaries (*Denver Post*, 6/6/03).

**Connecticut –** The legislature passed a FY 2004 budget by the end of their regular session, June 4th, but for the third year in a row Governor John Rowland vetoed the budget passed by the General Assembly, on the grounds that the tax increases were still too high (NCSL, 6/16/03).

In addition, about 19,000 low-income Connecticut parents were scheduled to receive letters June 16 informing them that as of July 1 they no longer will qualify for the HUSKY program, the state's Medicaid program. To balance the state budget, lawmakers approved the elimination of benefits for adults who have incomes of between 100% and 150% of the federal poverty level (*Hartford Courant*, 6/16).

**Delaware** – In late June, Governor Ruth Minner signed into law Delaware's $2.44 billion FY 2004 budget. The legislature appropriated an additional $22 million—a 7.5 percent increase over FY 2003—and made no benefit or eligibility cuts to Medicaid. Actions the legislature took include: granting the Medicaid agency the authority to establish a step therapy or fail first policy with regard to prescription drugs; postponing the inflationary increase for hospital reimbursement rates from October 2003 to January 1, 2004; expanding prior authorization to include additional classes of drugs; establishing a preferred drug list; establishing an intrastate bulk purchasing plan for pharmaceuticals that includes the state employee health plan; establishing a co-payment for prescription drugs, and establishing a co-payment for non-emergency transportation (NCSL, 7/1/03).

**Florida –** The two-week special session called by Governor Jeb Bush to pass the budget has concluded. The budget provides for a 9 percent increase in allocations to health services and includes the following: $448.7 million to continue health care coverage for Medically Needy adults; $5.6 million is provided to fund three pilot sites for a Medicaid Home & Community-Based Waiver for persons with Alzheimer's disease; $16.2 million for expansion of the Silver Life Saver Program that will assist more than 250,000 seniors with their prescription drug costs; and $35.6 million will be saved by expanding the nursing home diversion program to keep elders in their homes and communities.

In addition, the budget includes $6.4 million to continue adult emergency dental services for Medicaid recipients; $25.4 million will be saved by restructuring the KidCare Program and revising contract requirements, limiting dental benefits to $750, increasing family co-payments to $20 and requiring $5 co-payments on certain health benefits; $900,000 will be used to continue eye exams and glasses to low income children around the state; $26.8 million will be saved by requiring a 2.5 percent co-insurance from beneficiaries for prescription drug purchases, with a $7.50 limit per drug. Long-term care residents and children are exempt from the co-insurance; $11.7 million will be saved by expanding the maximum allowable cost program for generic drugs; $14.1 million will be saved by restocking and reusing unused prescription drugs in long term care facilities; $11 million will be saved by reorganizing patient transportation for Medicaid recipients without limiting service; $21.5 million will be saved by implementing a $15 emergency room co-payment for non-emergency visits; $10.7 million will be saved by conducting a utilization review and management of speech, physical rehabilitation, respiratory and occupational therapies; $14.4 million will be saved by reducing reimbursement rates to HMOs by 1 percent (NCSL, 6/2/03).

Florida recently decided to renew its four drug company-sponsored disease management programs - run by Pfizer, Bristol-Myers Squibb Co., GlaxoSmithKline PLC and AstraZeneca PLC - when they expire June 30. The programs, an alternative to the drug price discounts, will have saved almost $65 million in Medicaid costs over two years. However, the Florida Legislature's policy review office said the state could save $64 million the next fiscal year alone by eliminating the programs and forcing companies to offer drug discounts for Medicaid recipients (NCSL, 6/23/03).

**Georgia** – On the 40th day after the Legislature adjourned, the last day to act, Governor Sonny Perdue signed the FY 2004 budget bill. He made $21.5 million in line-item vetoes to areas he considered "pet projects" placed into the budget at the last minute. The governor says he will use these funds to cover any budget shortfalls that come during the fiscal year. With the signing of the budget Governor Perdue instructed the Department of Community Health to take any actions necessary, including limiting enrollment, to make sure PeachCare, the states SCHIP program, does not exceed its budget (NCSL, 6/16/03). In addition, Georgia recently passed legislation, GA H 526, that creates the "Nursing Home Provider Fee Act." The act imposes a fee on nursing homes to be used to obtain federal financial participation for medical assistance payments to nursing homes that serve the medically indigent. States that any nursing home that fails to pay the provider fee within the time required by this article will pay, in addition to the outstanding provider fee, a 6 percent penalty for each month or fraction thereof that the payment is overdue. Authorizes the state to withhold Medicaid payments equal to amounts owed as a provider fee and penalty (NCSL, 6/9/03).

**Hawaii –** The state will receive about $1.7 million as part of the largest federal Medicaid fraud settlement involving pharmaceutical manufacturers. Hawaii will receive $1.6 million from damages and penalties paid by Bayer and $126,261 from GlaxoSmithKline's civil settlements (NCSL, 5/26/03).

**Idaho –** Governor Dirk Kempthorne signed a bill April 22 that expands coverage under SCHIP. Beginning July 1, 2004, the measure opens SCHIP coverage to families with incomes between 150 percent and 185 percent of the federal poverty level. Families who qualify will be able to provide health insurance for their children in one of two ways: a reduced-benefit version of the Medicaid-based CHIP plan, or a health insurance "access card" which will provide a $100 monthly subsidy to pay for private insurance. The state portion of the plan will be financed by proceeds from the state's health insurance premium tax, not the general fund. The coverage expansion is expected to cover an additional 9,500 children (Bureau of National Affairs, 4/28/03).

**Illinois** – The FY 2004 budget passed by the legislature is awaiting Governor Rod Blagojevich's signature. It provides a 3 percent to 5 percent increase for Medicaid and other health care programs. Specific actions taken by the legislature include: expanding eligibility for the SCHIP program from 185 percent to 200 percent FPL; expanding

eligibility for the parents under the SCHIP program from 49 percent to 90 percent FPL; expanding SeniorCare, the state's Pharmaceutical Plus program, from 200 percent to 250 percent FPL (This expansion is pending with CMS); continuing the freeze on Medicaid provider and service reimbursement rates, except where federally mandated; and establishing several pharmaceutical cost control measures. The legislature significantly increased Medicaid funding for the reimbursement of services to treat mental illness, alcoholism and drug addiction. The impetus for the increase was the state's desire to pay for more services through Medicaid. The state legislature has yet to decide how it will use the additional money it will receive from the federal government from the tax cut (7/1/03).

**Indiana** – In May, the Indiana General Assembly passed a budget that froze Medicaid spending for the state's $4 billion program. Gov. Frank O'Bannon has said a funding freeze would necessitate cutting $574 million from the program (NCSL, 5/26/03). In addition, Medicaid officials are currently trying to renegotiate the terms of the Hoosier Rx waiver due to a 5-year $6 billion federal spending cap that state officials fear they cannot meet. In addition, 1,800 Hoosiers are at risk to be kicked off a Medicaid support services waiver because the state did not anticipate the number of requests for the waiver to secure services for the developmentally disabled (NCSL, 6/9/03).

On June 30, a Hamilton County Superior Court Judge issued a temporary restraining order preventing the state from implementing new rules that would change Medicaid eligibility for the state's "spend down" program. The new rules, which were scheduled to take affect July 1, would only count medical expenses personally paid by individuals, not costs paid by Medicare or private insurers to determine eligibility (*Indianapolis Star*, 7/1/03).

**Iowa –** Governor Tom Vilsack will move more than $15 million in state Medicaid money to help cover the personnel costs for state employees, including a 2 percent raise. Gov. Vilsack has said that he expects to have a $15 million Medicaid surplus at the end of the year and that if he does not make the transfer the state will be forced to lay off workers (*The New York Times*, 6/25/03).

**Kansas** – The Kansas Legislature enacted a FY 2004 budget that includes the following actions affecting Medicaid and other health care programs: reduces funding for mental health grants; increases HealthWave premiums; moves the termination date of MediKan up by 6 months to January 1, 2004; reduces funding for physical disability waiting list; reduces AWP- the state will pay from the average wholesale price minus 11 percent to minus 12 percent; reduces pharmacists' reimbursement from AWP minus 12 percent to minus 14 percent; reduces a Medicaid enrollee's prescription limit from a 34 day supply to 31 days; reduces state-only medical reimbursement rates to community mental health centers; expands the state's current preferred drug list (PDL); places additional drugs on the prior authorization list; includes savings from expanded and supplementary rebates;

implements a multi-state bulk purchasing initiative; reduces ICF/MR reimbursement rates by 10 percent; and freezes nursing facility reimbursement rates at FY 2003 level (NCSL, 5/19/03).

In addition, recently enacted legislation, KS H 2444, allocates funds to be used by the Department of Social and Rehabilitation Services for fiscal year 2004 to prepare and submit an application for a federal waiver to increase the look-back period for the transfer of assets in determining Medicaid eligibility from 3 years to 5 years (NCSL, 6/23/03).

**Kentucky –** Despite a recent federal infusion of funds and Kentucky Gov. Paul Patton's recent $250 million in Medicaid cuts, the next fiscal year, which starts July 1, is projected to see about a $30 million shortfall. Kentucky's Medicaid money woes are expected to worsen in 2005 when it is projected to be short more than $198 million (NCSL, 6/23/03).

**Louisiana –** The federal state aid funds in the President's tax cut legislation allowed Louisiana to avoid cutting its Medicaid budget by up to 6 percent. The FY 2004 funding levels represent an increase of from less than 1 percent to 4 percent over the FY 2003 budget. Funding is sufficient to allow Medicaid health services to grow by 3.3 percent; however, state lawmakers did institute at least three cost cutting measures. Medicaid enrollees are limited to 8 prescriptions per month. The action is expected to save the state between $30 million and $40 million per year. The up-front payment the state makes to hospitals for outpatient services will be reduced. The state's 10-hospital Charity Care Hospital System, that provides free health care, will receive between $60 million and $70 million less than in FY 2003—approximately a 10 percent cut. The cut appears to be more drastic than it is, because the hospitals overspent their FY 2003 budget by nearly $70 million (NCSL, 7/1/03).

**Maine** – Governor Baldacci recently signed the Dirigo Health bill, which will expand access to affordable insurance coverage by 2009 to all Mainers who need it. In addition, the bill will take steps to lower health-care costs through voluntary pricing caps and a hold-down on new facilities. The bill would rely on more than $50 million in federal funds to provide subsidies for the program. Other sources of funding would include: a fee of up to 4 percent on the gross revenues of insurers, premiums paid by participating employers and the insured, cost savings resulting from less charity care and bad debt, and federal Medicaid funds. Also, the Maine House of Representatives gave final approval to a bill to revise the Maine Rx law in response to last month's U.S. Supreme Court decision that gave the state a qualified endorsement of a prescription drug plan. Maine would also be authorized to seek further discounts by entering into rebate agreements with drug manufacturers (NCSL, 6/23/03).

**Maryland** - The state recently enacted the following legislation that deals with Medicaid benefits and services: MD H 935 amends the Maryland Children's Health Program (MCHP) to require individuals whose family income is at or below 200% FPL to enroll

in managed care organizations; to require individuals whose family income is above 200%, but at or below 300% FPL to enroll in the MCHP Premium Plan; and, in fiscal year 2004 only, to require eligible individuals whose family income is above 185% FPL, but at or below 300% FPL, to enroll in the MCHP Premium Plan; MD H 950 alters the required copayment for the Maryland Pharmacy Assistance Program by requiring a $2.50 copayment for a generic drug or a brand name drug on a preferred drug list and $7.50 for a brand name drug not on a preferred drug list (NCSL, 5/26/03); and MD S 209 states that, for an individual with dual eligibility for Medicaid and Medicare, the Maryland Medical Assistance Program will reimburse a provider the entire amount of the program fee for outpatient mental health treatment, including any amount ordinarily withheld as a psychiatric exclusion and any copayment not covered under Medicare (NCSL, 6/9/03).

**Massachusetts** – The state faces a budget gap of about $3 billion in fiscal 2004. A legislative conference committee currently is working behind closed doors to finalize the state budget for the next fiscal year, beginning July 1. Gov. Mitt Romney has indicated he wants to use some of the federal money for the Prescription Advantage program, a drug subsidy program for senior citizens as well as restoring coverage to the 36,000 long-term unemployed adults who lost Medicaid eligibility April 1 (NCSL, 6/23/03).

**Michigan** – Governor Jennifer Granholm's administration is considering a plan that would allow the state to seize the property of Michigan's Medicaid recipients after they die, as reimbursement for the money spent on their care. According to the state Senate Fiscal Agency, an estate-recovery program could recoup up to $29 million a year for Michigan (NCSL, 5/26/03). In addition, the Detroit Medical Center (DMC) has requested that Gov. Granholm transfer $86 million of the additional Medicaid funds it expects to receive so that DMC could avoid planned cuts in staff and services. The state expects to receive $367 million in additional federal funds under the new tax cut legislation. DMC provides care to more than 25% of the state's Medicaid population and on May 20 announced plans to reduce health care services at its Detroit campus, including closing 300 beds and laying off 1,000 workers to offset financial losses. A Granholm spokesperson said the governor is unlikely to approve the request. (*Detroit Free Press*, 5/29/03).

**Minnesota** - During the first week of June Minnesota Governor Tim Pawlenty signed the FY 2004 Health and Human Services appropriation bill. The budget act contains sweeping changes for Minnesota's health care programs and includes the following actions: reduces eligibility for pregnant-women; reduces eligibility for children 1 through 18; liquidate $1 billion in tobacco settlement endowments; establish a prescription drug discount program with in the Department of Health and Human Services; require the county to refer applicants and enrollees to prescription drug program to the prescription assistance program offered by pharmaceutical companies; limit prescriptions supplies; limit the number of brand name prescriptions per enrollee; replace current formulary committee with pharmacy and therapeutic committee; committee is charged with

developing a Preferred Drug List; establish co-payments; establish a 6-month renewal for MinnestoaCare/GAMC eligibility; reduce reimbursement rates for hospitals and outpatient facilities; eliminate eligibility for undocumented immigrants; reduce from 175 percent to 150 percent eligibility for children who have health insurance that lacks certain types of coverage; and increase the nursing home surcharge per licensed bed (NCSL, 6/16/03).

**Mississippi** – The state recently opened up a center as part of a disease management program designed to save Medicaid $8.4 million a year (*AP*, 6/19/03).

**Missouri -** Governor Bob Holden vetoed several FY 2004 budget bills because of deep cuts in education and social programs. Now in special session, the House passed a proposal to eliminate social services jobs to save $18.75 million. The savings would be used to fund health care programs that had previously sustained budget cuts, including $5 million to nursing home owners who care for Medicaid patients. In addition, $314 million in federal aid would be placed in a reserve to cover any future revenue shortfalls. The Senate seems unlikely to approve the House plan and instead it will likely opt to use the federal aid to supplement health care (NCSL, 6/16/03).

**Montana -** Montana's top legislative attorney has rendered a legal opinion that the federal fiscal aid sent to the states cannot be put into a reserve account arguing that the money is required to be spent half towards Medicaid and half to "essential government services". This decision could cause some controversy in Montana, where Governor Jody Martz wanted to deposit it in a reserve account. Montana's Senate President Bob Keenan has come out in support of spending the federal fiscal aid on Medicaid and the University system (NCSL, 6/16/03). In addition, Medicaid benefits, which were cut in February including prosthetic limbs, eyeglasses, hearing aids, dentures and dental care, will be restored July 1 (NCSL, 6/23/03).

**Nebraska -** The budget passed by the Legislature calls for a $343 million tax increase, including cigarette and alcohol tax increases, which will allow for growth in Medicaid spending. Governor Johanns vetoed the entire budget bill, but legislators voted to override his vetoes (NCSL, 6/2/03).

**Nevada -** The majority of the state's FY 2003-2005 budget has been signed into law, with the exception of the education budget and possible tax increases. Governor Guinn has given legislators until June 25th to resolve their differences and come back for another special session (NCSL, 6/16/2003). In addition: Governor Guinn signed a bill in May that requires pharmacists to use generic drugs for state sponsored health programs (*AP/ Las Vegas Sun*, 5/26/2003); and state-imposed Medicaid reimbursement rate cuts have caused several pediatric surgeons to stop accepting Medicaid patients (NCSL, 5/26/03).

**New Hampshire -** Governor Craig Benson has vetoed the $8.8 billion FY 2004 budget, saying the legislature needs to make $60 million in spending cuts for it to be fiscally responsible. His veto brought lawmakers back on June 30th to either override his veto or pass a continuing resolution to avoid a government shutdown when the new fiscal year begins. The budget passed by the legislature would increase overall spending by 8 percent to $8.8 billion when federal money, gasoline taxes and other funding sources are factored in. The House fell four votes short of over riding the veto and has passed a Continuing Resolution that will allow the state government to operate through September 10 at 2 percent above FY 2003 spending levels (NCSL, 7/1/03).

**New Jersey –** Governor McGreevy's original FY 2004 budget proposal removed 63,000 people of 175,000 people from the state's FamilyCare program in order to save $76 million. The governor also proposed to: eliminate dental coverage; eliminate chiropractic care; charge all patients, except pregnant women, a $3 co-pay for prescriptions; implement generic substitution; and reduce personal care hours for the elderly and disabled from 40 hours to 25 hours. The compromise legislation now pending in the legislature takes the following actions on the governor's proposals: restores Medicaid coverage for parents under FamilyCare; restores the optional benefits the governor proposed to eliminate; restores the proposed cut in nursing home reimbursement rates; implements a provider tax on nursing homes; and provides for mandatory increases for FQHCs (NCSL, 7/1/03).

**New Mexico -** State legislators have passed legislation directing the Human Services Department (HSD) to identify options for limiting, reducing, or eliminating Medicaid services; conduct an external analysis of Medicaid prescription drug use; evaluate the feasibility of including other state-only program beneficiaries in Medicaid; and to create a Medicaid waiver program to provide prescription drugs to persons with incomes less than 185 percent FPL who are 65 years of age or older or who are disabled (NCSL, 6/16/03). In addition, HSD has announced that it is reinstating payments to school districts for administrative services under a program that finances services such as speech, physical, occupational and nutritional therapy for some disabled students. The program will be renamed “Medicaid School-based Services” (NCSL, 5/26/03).

**New York -** The New York Assembly and Senate voted to override Gov. George Pataki's veto of the budget act, restoring $782 million for Medicaid, public health and the state's Health Care Reform Act (NCSL, 5/26/03). Hoping to reduce Medicaid spending in the next budget, Senate Majority Leader Joseph Bruno and Minority Leader David Paterson recently announced the formation of a bipartisan task force that will focus on the fastest-growing categories of Medicaid spending: long-term care, acute care and pharmaceuticals (NCSL, 6/9/03).

**North Carolina –** In late June, lawmakers tentatively approved a $14.8 billion FY 2004 budget. Health and Human Service items addressed in the FY 2004 budget proposal

include: reducing the Medicaid enrollment forecast for FY 2004 based on actual reduced growth rates in FY 2003. This saves $219 million; using $191.6 million of federal state assistance funds to reduce state funding of Medicaid; eliminating inflationary increases for Medicaid providers and public agencies; diverting $62.5 million from Medicaid reserve to meet program costs; savings of $31.8 million from the following prescription cost control measures: prior authorization for certain classes of drugs, maximum allowable costs for generic drugs; preferred drugs list encouraged by the Medicaid program and voluntarily accepted by physicians and encouragement by pharmacists to use generic prescriptions in place of name brand (NCSL, 7/1/03).

**North Dakota** – In May, the state enacted several pieces of legislation relating to Medicaid: Senate passed legislation - requires DHS to provide medical assistance to children, families and pregnant women without considering assets; directs DHS to establish income levels for minors, based on the age of the minors, at amounts, no less than required by federal law, that provide an income level for all minors born before September 30, 1983, equal to 100% FPL in the month for which eligibility for medical assistance benefits is being determined and that do not exceed legislative appropriations for that purpose; requires that any aged or disabled individual who is eligible for home and community-based living must be allowed to choose the type of service that best meets that individual's needs; stipulates that an individual is not eligible to receive benefits for elderly and disabled services if, at any time before or after making application, the individual or the individual's spouse has made any assignment or transfer of any asset for the purpose of making that individual eligible for the benefits. House passed legislation - establishes a medical assistance drug use review program and drug prior authorization program within DHS and provides for a legislative council study of medical assistance pharmacy benefit management (NCSL, 6/9/03).

**Ohio –** In mid-May, Gov. Bob Taft proposed a variety of Medicaid reductions to save $1.1 billion over the two-year state budget. These reductions include: freezing reimbursement rates for nursing homes, hospitals and other Medicaid providers; discontinuing dental, podiatry and other optional services for 800,000 adults; and eliminating Medicaid coverage for 50,000 working parents. The Ohio House plan calls for continuing the optional coverage for 800,000 adults, lifting the rate freeze for pediatric hospitals, and increasing reimbursement rates for nursing homes and intermediate care facilities for the mentally retarded (NCSL, 6/9/03).

**Oklahoma -** The Legislature has passed its FY 2004 budget and has appropriated $439 million for the state's Health Care Authority. This amount is said to be $10 million short of a current services level, which means that eligibility levels will likely be reduced. The extent of the cuts will not be known until the authority's board meets in June (5/19/03).

**Oregon -** The Oregon legislature does not expect to pass a FY 2004 budget until mid-July at the earliest. A continuing resolution has been introduced and will likely pass, allowing the state government to continue to operate through August. Two bills, HB 2511 and SB 540, to restructure the Oregon Health Plan are pending before the Joint Ways and Means Committee. The two bills not only prioritize services, but for the first time groups of enrollees. The compromise to these bills will have dramatic fiscal impact for Oregon and therefore the FY 2004 budget is held up until the issue is resolved. Hearings may not be held on the two bills in Joint Ways and Means until August (NCSL, 7/1/03).

**Pennsylvania -** A majority of the FY 2004 budget has been enacted. Lawmakers and Governor Rendell are still re-working some areas that were vetoed. These portions are not likely to pass by June 30th. The Pennsylvania legislature passed a lean FY 2004 budget that includes the following: eliminates certain payments to hospitals including: outpatient DSH payments totaling $60 million; graduate Medical Education totaling $75 million; and community Access Payments to hospitals totaling $56.2 million; and freezing reimbursement rates for physicians. The legislature did provider for a moderate Medicaid nursing home reimbursement rate increase. The state has yet to decide how to use the federal state assistance funds in the federal tax cut legislation. The governor has requested a plan from the legislature (NCSL, 7/1/03).

**Rhode Island -** The Rhode Island House of Representatives passed the FY 2004 appropriation Friday, June 27th. The Senate took up the budget bill on Monday and is expected to pass the budget Tuesday, July 1st. Barring any major differences between the House and Senate passed budget bills the Legislature expects to send the FY 2004 budget to Governor Donald Carceri by Wednesday, July 2nd. The state did not cut Medicaid eligibility or services or benefit levels, however they were unable to provide any increases in provider reimbursement rates (NCSL, 7/1/03).

**South Carolina -** The state Legislature raised fees and used $265 million in federal aid to pass the $5.3 billion state budget. The final budget keeps Medicaid spending at FY 2003 levels using budget shifts and $127 million in federal aid. Governor Mark Sanford has until June 30th to sign or veto the budget bill (NCSL, 6/16/03).

**Tennessee** - The Senate approved a portion of the Governor's budget plan that cuts funding for most state agencies by 9 percent while providing a slight increase to cover the rising costs of TennCare (NCSL, 6/2/03).

**Texas -** Governor Rick Perry compromised with Comptroller Strayhorn and vetoed several items in the budget so that it would "balance". The Comptroller then certified the budget and the governor signed the FY 2004 – 2005 budget. The Medicaid policy changes in the FY 2004 budget include: reduces by 15 percent the number of hours of support services for elderly and disabled persons in community care; maintains

continuous eligibility period for children at six months; provides that more thorough procedures (such as using information from consumer reporting agencies, appraisal districts, or vehicle registration records) to verify assets may be implemented; requires a personal interview for initial and renewed eligibility determination if requested by the applicant; otherwise allows a personal interview for eligibility determination only if eligibility cannot be determined through mail correspondence; allows establishment of cost-sharing based on federal maximum levels; discontinues coverage for adult pregnant women above 158% of the federal poverty level; discontinues coverage for adult clients with incomes above 17% of the federal poverty level (medically needy); allows establishment of prior authorization requirements for high-cost medical services; directs the implementation of "disease management" efforts; directs that a Preferred Drug List (PDL) be implemented, with prior authorization required for prescribed drugs not on PDL; allows establishment of four brand-name and 34-day brand-name supply limits for clients previously eligible for unlimited prescriptions (does not affect current three-prescription limits for certain clients)

In addition, the budget also: discontinues coverage for certain optional Medicaid services for adults over age 21 including eyeglasses, hearing aids, podiatric and chiropractic services; decreases reimbursement rates by 5% for Medicaid acute care providers such as physicians, hospitals, and HMOs; decreases reimbursement rates by 2.2% to 3.5% for non-acute care providers such as nursing homes, community care providers and ICF-MR providers.

The SCHIP policy changes in the FY 2004 budget include: continues coverage for all currently covered populations including state-funded populations; maintains income eligibility at 200% of Federal Poverty Level ($36,800 for a family of four); eliminates deductions to income so that eligibility is based on gross income; restricts eligibility for families at or above 150% of Federal Poverty Level to those with assets within allowable levels; allows establishment of cost-sharing (i.e., co-pays and monthly premiums) at federal maximum levels; changes term of coverage (continuous eligibility period) from 12 months to 6 months; establishes a 90-day waiting period between eligibility determination and coverage; reduces provider payment rates by 5 percent:
 directs that a Preferred Drug List (PDL) be implemented, with prior authorization required for prescribed drugs not on PDL; and limits the benefit package to coverage of basic health care services (NCSL, 7/1/03).

**Utah -** HHS recently approved Utah's plan to help as many as 6,000 low-income workers purchase health insurance through their employers. The approval will allow Utah to provide monthly subsidies to workers who have access to employer-sponsored health insurance but cannot afford the cost. Workers must have annual incomes less than 150% of the federal poverty level to qualify for the subsidies (HHS News Release, 5/30/03).

**Vermont -** The budget bill includes the following changes to the state Medicaid program: replaces cost sharing with a set of premiums for medical and pharmacy benefits under VHAP; maintains no asset test for eligibility; eliminates the six-month guaranteed eligibility in managed care; suspends vision care coverage; increases some SCHIP premiums; converts the supplemental dental plan into base fee plan; continues the SCHIP employer buy-in plan; and increases the hospital tax and subsequently increases hospital reimbursement rates. Vermont lawmakers have passed the state FY 2004 budget and were able to avoid bigger cuts because of better than expected revenues, $84 million in federal aid, and use of money from reserve accounts (NCSL, 6/16/2003).

**Washington -** On June 26, Governor Gary Locke signed the budget. The following is an outline of the major components of health care in the budget: Collecting monthly premiums for children's medical, dental and vision coverage at the following levels: $15 per child per month for incomes between 100-150 percent FPL; $20 per child per month for incomes up to 200 percent FPL; and $25 per child per month for incomes up to 250 percent FPL. The budget also limits new enrollment in the Basic Health Plan; eliminates the Medically Indigent Program; reduces the scope of adult dental benefits by approximately 25 percent; limits Managed Care rate increases to 1.5 percent in calendar year 2004 and 5.0 percent in calendar year 2005; develops a preferred drugs list for use in state purchased health care programs to prioritize the purchase of less costly, safe, and effective brands, and by creating a financial incentive for manufacturers of more expensive; increases eligibility verification for Medical Assistance services from every 12 to every 6 months; and increases grant payments to hospitals by $29.2 million to mitigate the effect of the elimination of the Medically Indigent program (NCSL, 7/1/03).

**West Virginia** - West Virginia's cigarette tax was raised to 55 cents May 1. The additional $60 million in state revenue expected from the cigarette tax increase will go toward the state's Medicaid budget. The extra revenue will be used to draw a 3-to-1 match in federal dollars and plug a $240 million hole in the state budget (NCSL, 5/19/03).

**Wisconsin -** The health care package approved by lawmakers calls for a 7% increase in spending. The proposal would raise the monthly assessment charged nursing homes and other care facilities; impose new limits on state-paid autism care; increase enrollment fees, deductibles, and co-payments for SeniorCare participants; and increase costs for BadgerCare participants (NCSL, 6/9/03). Wisconsin's FY 2004 budget has been pending before Governor Doyle for nearly two weeks (NCSL, 6/16/03 and 7/1/03).

**Wyoming** - Wyoming legislators recently approved $42 million in additional funds to expand access to about 8,000 beneficiaries, mostly children, as well as a new prescription drug assistance program and higher Medicaid hospital reimbursements (*AP/ Wyoming Tribune- Eagle*, 5/19/2003). The $42 million includes $25 million set aside last year for an anticipated drop in federal matching funds (NCSL, 5/26/03).

NOTE: For information on the District of Columbia, South Dakota, and Virginia please see previous reports.

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The Kaiser Commission on Medicaid and the Uninsured was established by The Henry J. Kaiser Family Foundation to function as a policy institute and forum for analyzing health care coverage, financing and access for the low-income population and assessing options for reform. The Henry J.Kaiser Family Foundation is an independent national health care philanthropy and is not associated with Kaiser Permanente or Kaiser Industries.