

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

DHFS Reorganization and Program Restructuring (DHFS -- Departmentwide and Management and Technology)

[LFB Summary: Page 248, #8]

CURRENT LAW

The 1995-97 biennial budget act contained several provisions that resulted in the reorganization of the Department of Health and Social Services. First, the act transferred the Division of Economic Support and the Division of Vocational Rehabilitation to the Department of Industry, Labor and Human Development (now the Department of Workforce Development), and the Division of Youth Services to the Department of Corrections, effective July 1, 1996. Second, the act changed the name of the Department to the Department of Health and Family Services, effective July 1, 1996. Finally, the act directed the Department to submit a proposed plan of reorganization to the Department of Administration by April 1, 1996.

The Department's reorganization plan contained numerous recommendations, including: (a) dividing the Division of Community Services into two divisions, the Division of Children and Family Services and the Division of Supportive Living; (b) the creation of an Office of Strategic Finance to provide a central focus on allocating DHFS funds and managing implementation of federal block grants; and (c) creating a key process management capability reporting directly to the Office of the Secretary for the areas of case management, prevention services and long-term support coordination that affect more than one division.

GOVERNOR

Reduce funding by \$1,601,200 (-\$136,600 GPR, -\$232,200 FED and -\$1,232,400 PR) in 1997-98 and \$1,593,800 (-\$136,600 GPR, -\$232,200 FED and -\$1,225,000 PR) in 1988-89 and delete 2.93 positions (-0.45 GPR positions, -35.01 PR positions and -32.75 FED positions), beginning in 1997-98, to reflect the net effect of funding and position changes resulting from the reorganization.

Program Structure. Modify the Department's program structure as follows: (a) divide the current health services, planning, regulation and delivery program, which includes both state operations and aids/local assistance appropriations, into two programs, one composed of state operations appropriation, the other with aids and local assistance appropriations; (b) create a program for the Division of Children and Family Services (DCFS) by replacing the youth services program; (c) replace the Division of Community Services (DCS) state operations program with a state operations program for the Division of Supportive Living (DSL); and (d) replace the DCS aids and local assistance program with a program that includes aids and local assistance appropriations for programs administered by DSL.

Repeal of Current Appropriations. Repeal the current appropriations previously used to support: (a) studies of the cost-effectiveness of extending MA benefits under welfare reform; (b) projects to test the practicality and effectiveness of using, in health care settings, devices that are designed to prevent occupational puncture injuries; and (c) high-risk pregnancy grants. Repeal current statutory provisions relating to these programs. No funding was budgeted for these programs in the 1995-97 biennium.

Create Appropriations. Create two program revenue appropriations in DCFS. One appropriation would authorize DCFS to expend all moneys received from fees charged for providing state mailings, special computer services, training programs, printed material and publications for the costs of providing these services. The second would support the costs of licensing child welfare agencies, foster homes, treatment foster homes, group homes, day care centers and shelter care facilities. All moneys received for these licensing activities would be credited to the appropriation.

Create a gifts and grants appropriation in the health services planning, regulation and delivery aids and local assistance program which would authorize DHFS to provide aids to individuals for health services from all moneys DHFS receives from gifts, grants and bequests.

Create an appropriation in the DHFS general administration program that would authorize DHFS to expend all block grant moneys received from the federal government for the state administration of federal block grants for the purposes specified.

DISCUSSION POINTS

1. Since the time the Governor's budget was introduced, DHFS budget staff have reviewed the reallocation of staff and funding under the bill and have recommended changes to these reallocations for consideration by the Committee. In a April 21, 1997, letter to the Committee's Co-Chairs, the DHFS Secretary indicated that a number of changes are needed to this item.

2. These changes are requested to correct several types of errors. For example, the bill would transfer funding for state administration of medicare from the Division of Health to DSL. However, the positions were inadvertently transferred to the DSL federal project operations appropriation, rather than the DSL medicare state administration appropriation. Consequently, DHFS requests that positions and funding be transferred from federal project operations to medicare state administration. Other errors occurred because funding and positions affected by the Governor's recommendations relating to the reorganization were also affected by other items, such as program revenue and federal reestimates, and these recommendations were not reconciled.

3. In addition, DHFS staff have reviewed the activities of staff to ensure that: (a) positions that were formerly in the Division of Community Services are allocated to the appropriate division (DSL or DCFS); and (b) staff are supported from the appropriate funding sources. The DHFS requested changes to the bill reflect reassessments of the activities of current staff.

4. Finally, the DHFS recommendations include the transfer of additional support staff, such as auditors, accountants, purchasing agents and financial specialist positions, from program divisions to the general administration program to increase centralization of these activities within DHFS.

5. The net changes recommended by DHFS to the bill are summarized on the attachment.

6. In addition to the changes recommended by DHFS identified in the attachment, DOA staff request that two changes be made to this item. First, \$1,400 PR in 1997-98 and \$1,300 PR in 1998-99 should be transferred from the DSL appropriation for workshop fees to the DSL appropriation for the group home revolving loan fund. Second, the bill should be amended to correct a reference to the appropriation used to support the birth-to-three program.

The attachment indicates the annual fiscal and position changes to SB 77 which are necessary to properly align the Department's reorganization.

MODIFICATION TO BILL

Modify the Governor's recommendations to incorporate the annual changes identified in the attachment. In addition, transfer \$1,400 PR in 1997-98 and \$1,300 PR in 1998-99 from the DLS workshop fees appropriation to the group home revolving loan fund appropriation and correct a reference to the birth-to-three appropriation.

<u>Modification</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>TOTAL</u>
1997-99 FUNDING (Change to Bill)	-\$262,400	-\$1,066,000	\$1,390,200	\$61,800
1998-99 POSITIONS (Change to Bill)	0.20	-10.47	9.44	-0.83

Prepared by: Charles Morgan

MO# modification

BURKE	<input checked="" type="radio"/>	N	A
DECKER	<input checked="" type="radio"/>	N	A
GEORGE	<input checked="" type="radio"/>	N	A
JAUCH	<input checked="" type="radio"/>	N	A
WINEKE	<input checked="" type="radio"/>	N	A
SHIBILSKI	<input checked="" type="radio"/>	N	A
COWLES	<input checked="" type="radio"/>	N	A
PANZER	<input checked="" type="radio"/>	N	A
JENSEN	<input checked="" type="radio"/>	N	A
OURADA	<input checked="" type="radio"/>	N	A
HARSDORF	<input checked="" type="radio"/>	N	A
ALBERS	<input checked="" type="radio"/>	N	A
GARD	<input checked="" type="radio"/>	N	A
KAUFERT	<input checked="" type="radio"/>	N	A
LINTON	<input checked="" type="radio"/>	N	A
COGGS	<input checked="" type="radio"/>	N	A

AYE 16 NO 0 ABS 0

ATTACHMENT

Proposed Annual Changes to the Governor's Reorganization Proposal

<u>Appropriation</u>	<u>Source</u>	<u>Funding</u>	<u>Full-Time Equivalent Positions</u>
Health			
General Program Operations	GPR	-\$296,400	-5.50
Internal Services	PR	-170,900	-5.05
Care and Treatment Facilities			
General Program Operations	GPR	-16,100	-0.30
State Centers Operations	PR	-27,100	-0.50
Mental Health Institutes Operations	PR	-10,700	-0.20
Children and Family Services			
General Program Operations	GPR	-491,200	-8.35
Program Certification Operations	PR	-69,200	-1.00
Licensing and Support Services	PR	7,900	0.60
Child Care Development Block Grant Operations	PR	56,300	0.00
Interagency and Intra-agency Programs	PR	108,000	0.45
Federal Project Operations	FED	-51,000	-0.81
Substance Abuse Block Grant Operations	FED	-95,800	0.00
Social Services Block Grant Operations	FED	-273,100	-7.00
Federal Program Operations	FED	41,300	-1.50
State Foster Care and Adoption Operations	FED	-163,200	-3.00
Child Welfare Operations	FED	0	-1.00
Medical Assistance Operations	FED	7,500	0.50
Foster Grandparent Program	FED	-46,900	-1.00
Child Welfare Runaway Program	FED	0	-0.50
Supportive Living			
General Program Operations	GPR	-500	0.75
Home Health License Fees	PR	-18,600	-0.34
Program Certification Operations	PR	125,600	2.00
Licensing and Support Services	PR	-2,200	0.40
Interagency and Intra-agency Programs	PR	-71,300	-3.75
Federal Project Operations	FED	-3,173,900	-38.15
Substance Abuse Block Grant Operations	FED	58,100	0.00
Community Mental Health Block Grant Operations	FED	-58,100	-2.00
Social Services Block Grant Operations	FED	44,400	2.60
Medical Assistance State Administration	FED	38,100	0.40
Federal Program Operations	FED	-41,300	2.00
Medicare State Administration	FED	3,143,200	38.29
Medical Assistance Survey and Certification Operations	FED	-9,200	-0.30
Aging Program Operations	FED	46,900	1.00
General Administration			
General Program Operations	GPR	673,000	13.60
Administration and Support/Administration	PR	0	0.90
Administration and Support/Fiscal Services	PR	678,200	14.51
Administration and Support/Personnel	PR	89,100	1.64
Indirect Cost Reimbursements	PR	0	-0.22
Summary			
GPR		-\$131,200	0.20
FED		-533,000	-10.47
PR		<u>695,100</u>	<u>9.44</u>
Grand Total		\$30,900	-0.83

HEALTH AND FAMILY SERVICES

Nondiscrimination Against Religious Organizations

Motion:

Move to create statutory provisions relating to nondiscrimination against religious organizations as follows:

Purpose. Specify that the purpose of these provisions is to enable the Department of Health and Family Services (DHFS) to contract with, or distribute grants to, religious organizations on the same basis as any other nongovernmental provider without impairing the religious character of such organizations, and without diminishing the religious freedom of beneficiaries of services funded under such programs.

Nondiscrimination Against Religious Organizations. Specify that if DHFS is authorized to distribute any grant to, or contract with, a nongovernmental entity, that nongovernmental entity can be a religious organization as long as the programs are implemented consistent with the Establishment Clause of the United States Constitution. Prohibit DHFS from discriminating against an organization on the basis that the organization has a religious character.

Religious Character and Freedom. Specify that a religious organization that receives a grant from, or contracts with DHFS retains its independence from federal, state and local governments, including such organization's control over the definition, development, practice and expression of its religious beliefs.

Prohibit DHFS from requiring a religious organization to: (a) alter its form of internal governance; or (b) remove religious art, icons, scripture, or other symbols as a condition of contracting with, or receiving a grant from DHFS.

Rights of Beneficiaries of Services. Specify that if an individual has an objection to the religious character of the organization or institution from which the individual receives, or would receive, assistance funded from a program supported with funding administered by DHFS, DHFS would provide the individual (if otherwise eligible for such assistance), within a reasonable period of time after the date of such objection, services from an alternative provider that is accessible to the individual and the value of which is not less than the value of the services which the individual would have received from such organization.

DEPARTMENT OF HEALTH AND FAMILY SERVICES

Applicability of County Liability for Protective Placements

Motion:

Move to extend the provisions of 1995 Wisconsin Act 92 to persons who were first committed to an institution prior to the effective date of that act, but who seek community-based services from a county after the effective date of Senate Bill 77.

Note:

1995 Wisconsin Act 92 limits counties' liability for the costs of protective placements and services provided under Chapter 55 of the statutes to available state and federal funds and county funds used to match state funds. In addition, Act 92 specifies that, even if funding is available, a court may consider additional factors, such as: (a) the reasonableness of the placement, given the cost and actual benefits in the level of functioning to be realized by the individual; (b) the limits of available state and federal funds and of county funds required to be appropriated to match state funds; and (c) the reasonableness of the placement given the number or projected number of individuals who will need protective placement and given the limited funds available.

Prior to Act 92, courts were required to make protective placements to the least restrictive environment, consistent with the needs of the person to be placed, and based on the following two factors: (a) the need of the person for health, social and rehabilitative services; and (b) the needed level of supervision.

The provisions of Act 92 first applied to a cause of action that arose on the bill's effective date (December 15, 1995). A circuit court has interpreted this provision to mean that the limited liability extended to counties under Act 92 does not apply to persons committed prior to the effective date of Act 92, who subsequently, as a result of a Watts review, seek protective placement services in a less restrictive setting from the county.

This motion would eliminate this "grandfather" provision and extend the liability limit to all persons who seek protective placement services from the county after the effective date of SB 77, even if that person was initially committed prior to the effective date of Act 92.

MO# 1531

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
² OURADA	Y	N	A
HARSDORF	Y	N	A
¹ ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 16 NO 0 ABS

HEALTH AND FAMILY SERVICES

"Other Facilities" for Sexually Violent Persons

Motion:

Move to incorporate into SB 77 changes to Chapter 980, as identified in the attachment to this motion, to delete current law provisions that authorize courts to place sexually violent persons in facilities other than the Wisconsin Resource Center or a secure mental health unit or facility.

Note:

This motion deletes reference to housing sexually violent persons (SVPs) in undefined "other facilities." Given the current s. 980 language, a court could require the Department to create a new type of facility to house SVPs. No funding is authorized for DHFS to create such facilities.

MO# 665

BURKE	(Y)	N	A
DECKER	(Y)	N	A
GEORGE	(Y)	N	A
JAUCH	(Y)	N	A
WINEKE	(Y)	N	A
SHIBILSKI	(Y)	N	A
COWLES	(Y)	N	A
PANZER	(Y)	N	A
JENSEN	(Y)	N	A
OURADA	(Y)	N	A
HARSDORF	(Y)	N	A
ALBERS	(Y)	N	A
GARD	(Y)	N	A
KAUFERT	(Y)	N	A
LINTON	(Y)	N	A
COGGS	(Y)	N	A

Motion #665

AYE 16 NO 0 ABS 0

SECTION 1. Section 980.06(2)(b) is amended to read:

An order for commitment under this section shall specify either institutional care ~~in a secure mental health unit or facility~~, as provided under s. 980.065, ~~or other facility~~ or supervised release. In determining whether commitment shall be for institutional care ~~in a secure mental health unit or facility or other facility~~ or for supervised release, the court may consider, without limitation because of enumeration, the nature and circumstances of the behavior that was the basis of the allegation in the petition under s. 980.02 (2) (a), the person's mental history and present mental condition, where the person will live, how the person will support himself or herself, and what arrangements are available to ensure that the person has access to and will participate in necessary treatment. The department shall arrange for control, care and treatment of the person in the least restrictive manner consistent with the requirements of the person and in accordance with the court's commitment order.

SECTION 2. Section 980.065 (Title) is amended to read:

Institutional care ~~Secure mental health unit or facility~~ for sexually violent persons.

SECTION 3. Section 980.065 is amended to read:

(1) The department ~~may~~ shall place a person committed to institutional care ~~a secure mental health unit or facility~~ under s. 980.06 (2) (b) at a mental health unit or facility including but not limited to a one of the following:

~~(a) The Wisconsin resource center established under s. 46.056.~~

~~(b) A secure mental health unit or facility at the Wisconsin resource center established under s. 46.056 or provided by the department of corrections under sub. (2).~~

(2) The department may contract with the department of corrections for the provision of a secure mental health unit or facility for persons committed under s. 980.06 (2) (b) to

institutional care ~~a secure mental health unit or facility~~. The department shall operate a secure mental health unit or facility provided by the department of corrections under this subsection and shall promulgate rules governing the custody and discipline of persons placed by the department in the secure mental health unit or facility provided by the department of corrections under this subsection.

SECTION 4. Section 980.08(1) and (4) are amended to read:

(1) Any person who is committed for institutional care ~~in a secure mental health unit or facility or other facility~~ under s. 980.06 may petition the committing court to modify its order by authorizing supervised release if at least 6 months have elapsed since the initial commitment order was entered, the most recent release petition was denied or the most recent order for supervised release was revoked. The director of the facility at which the person is placed may file a petition under this subsection on the person's behalf at any time.

(4) The court, without a jury, shall hear the petition within 30 days after the report of the court-appointed examiner is filed with the court, unless the petitioner waives this time limit. Expenses of proceedings under this subsection shall be paid as provided under s. 51.20 (18). The court shall grant the petition unless the state proves by clear and convincing evidence that the person is still a sexually violent person and that it is still substantially probable that the person will engage in acts of sexual violence if the person is not continued in institutional care ~~confined in a secure mental health unit or facility~~. In making a decision under this subsection, the court may consider, without limitation because of enumeration, the nature and circumstances of the behavior that was the basis of the allegation in the petition under s. 980.02 (2) (a), the person's mental history and present mental condition, where the person will live, how the person will support himself or herself and what arrangements are available to ensure that the person has access to and will participate in necessary treatment.

HEALTH AND FAMILY SERVICES

Consolidation of State Centers

Motion:

Move to create a commission to develop and recommend a plan, by January 1, 1998, for the consolidation of the three state centers for the developmentally disabled. Specify that the commission would consist of the following five members: (a) an appointee of the Governor; (b) the Speaker of the Assembly or designee; (c) the Assembly Minority Leader or designee; (d) the Senate Majority Leader or designee; and (e) the Senate Minority leader or designee. Specify that the recommendations of the commission would be binding on the Department of Health and Family Services unless, within 60 days following the submission of the plan, the plan is rejected by a majority vote of the Assembly and the Senate.

Note:

The Department of Health and Family Services operates three residential facilities for the care of persons with developmental disabilities. These facilities include Northern Wisconsin Center in Chippewa Falls, Central Wisconsin Center in Madison, and Southern Wisconsin Center in Union Grove (Racine County).

This motion would create a commission that would develop and recommend a plan by January 1, 1998, for the consolidation of these facilities. DHFS would be required to carry out the recommendations of the commission unless, within 60 days following submission of the plan to the Legislature, both the Assembly and Senate vote to reject the plan.

HEALTH AND FAMILY SERVICES

Departmentwide and Management and Technology

LFB Summary Items for Which No Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
1	Standard Budget Adjustments
5	Extensions and Conversion of Project Positions
7	Delete Vacant Positions
10	Information Technology -- Year 2000 Conversion
11	Financial Services Chargebacks
12	Information Systems Transfers

LFB Summary Items to be Addressed in Subsequent Papers

<u>Item #</u>	<u>Title</u>
3	Debt Service Reestimate
9	Information Technology Infrastructure Support and Transfer to DOA

LFB Summary Item for Introduction as Separate Legislation

<u>Item #</u>	<u>Title</u>
13	Denial of Licenses for Failure to Pay Child Support and Tax Delinquency

Health and Family Services

Medical Assistance

(LFB Budget Summary Document: Page 252)

LFB Summary Items for Which Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
1	Overview of Medical Assistance Program (Paper #420)
2	Medical Assistance Base Reestimate (Paper #421)
3(part)	Selected Provider Rate Increases (Paper #422)
3(part)	Nursing Home Rate Increases (Paper #423)
5	Nursing Home Formula Adjustments (Paper #424)
6	Nursing Homes -- Delicensing Beds and the Minimum Occupancy Standard (Paper #425)
--	Intergovernmental Transfer Program (Paper #426)
--	Reestimate of GPR Revenues From MA Reimbursement for the State Centers (Paper #427)
8(part)	County Support for Certain Residents at the State Centers (Paper #428)
4	Emergency Medical Services (EMS) Rates (Paper #429)
11	Dental Sealants (Paper #430)
12	Case Management Services for Women Aged 45 through 64 (Paper #431)
17	Medical Assistance Copayments (Paper #432)
18	Validation of Hospital DRG Claims (Paper #433)
23	Medical Assistance Eligibility Unit (Paper #434)
--	Medical Assistance Administrative Costs Resulting from Federal Welfare Reform (Paper #435)
--	Federal Matching Rate for MEDS Contract (Paper #436)

Budget Memo

Agency: DHFS - Medical Assistance

Staff Recommendations:

Paper No. 420: No Action Needed

Comment: This is just a summary of MA. Note, however, paragraph 5 which indicates that the expansion of Healthy Start will have no negative impact on the fund. Maybe you could have FB explain this situation, and also compliment Amie Goldman for her excellent papers.

Paper No. 421: Approve Modification to Bill

Comments: Thank FB for their detailed review of the MA benefits funding, and for making the necessary (and coincidentally cost-saving) corrections to DOA's estimates (see paragraphs 4, 5 & 6).

Also, you may want to highlight the issue raised in paragraph 7, and chastise DHFS for not doing a better job of getting the word out to potential recipients of health care under MA.

Paper No. 422: Part 1 (inpatient hospitals) - Alternative 1 (b) ^a
(at 2.1% in 97-98 & 2.5% in 98-99)

Comments: This alternative is the gov's recommendation with revised revenue estimates from FB (see paragraphs 3 & 5). Note: Milw County says they want 1(a), but they are wrong because 1(b) is the same but with FB reestimated numbers.

*busen motion
5% for dentists
2% across the board*

Part 2 (non-institutional providers)- Alternative 2 (b) ^a
(at 1% in 97-98 & 1% in 98-99)

Comments: Again, this is the gov's recommendation with revised revenue estimates from FB (see paragraph 7). Milw County supports 2(b).

Part 3 (pediatric hospitals) - Alternative 3(a) ✓
No action needed

Comments: Alt 3(a) is the gov's recommendation and is best for Children's Hospital. But FB makes a good case for alt 3(b) in paragraphs 8-12, and this would probably be acceptable on general policy grounds. Broydrick's office is working to get votes for alt 3(a), but Linton & Decker don't support you here (they want 3(b)).

Paper No. 423: Alternative 2 + Ourada motion
put extras into direct care

Comments: It seems reasonable to lower cost estimates and keep spending down (i.e. alt 3). Plus, it's good to limit DHFS's spending authority if not all \$ is absolutely necessary. (see paragraphs 7 & 8)

Also see paragraph 14 for argument to fund options other than nursing homes. This would be good policy. But, the Service Employees Union in Milwaukee supports alt 2.

Paper No. 424: Alternative 2(b) (with modifications, see below) & 3

Comments: Modifications - on page 8 (in chart), increase direct care maximum from 102% to 104.5%. Jauch will offer this motion, and your support for alt 2(b) is contingent upon approval of the Jauch motion.

If Jauch's motion fails, then you want to try and increase the direct care increment from 93% to 150%. AFL-CIO & Service Employees Union supports 2(b) with some % changes similar to those listed above. They want more than Jauch is offering, but Jauch doesn't think we can get the votes for their entire package.

Note: Milwaukee County wants 2(a) & 3 (but they should be ok with above compromise). Other Dems support alt 3 - you should take this up separately after alt 2 is taken care of.

Also, tell Jensen you will be calling on Jauch for a motion here - no co-chair agreement.

Paper No. 425: Alternative 3

Comments: Alt 2 approves the gov's recommendations with respect to de-licensing, plus it adds some reasonable contract provisions that the nursing homes want. (see paragraph 8). Moen & Linton want alt 2. Decker wants alt 3. Milwaukee County wants alt 1.

CWAG and the Milw County Coalition on Aging argue that you should either maintain current law (i.e. alt 3) or adopt their pipe dream motion, which would allow for the creation of a "community integration slot" for each bed that is banked. They argue that alternatives 1 & 2 would simply widen the gap between nursing homes and home care. Also, some of the inefficient nursing homes should probably close. We don't think anyone is offering CWAG's motion, so just vote for alt 3 from a good public policy standpoint. This will help weed out the underutilized (and possibly poorly run) nursing homes.

Burke Motion: Require DHFS to establish a nursing home occupancy rate by taking an average of the 3 most recent year's cost reports, rather than the current practice of using just the last year. (i.e. Nursing homes need to have 91% occupancy rate to get MA funding.) This motion is a recommendation of Sen. Moen's committee on Health & Human Services. To remind members, in lieu of discussion groups you asked Senate Chairs to make recommendations. You may want to have FB explain motion in more detail.

*ourada motion
1 + extras*

Paper No. 426: Alternative 2

Comments: Milwaukee County says they support alt 1, but we think they are wrong. Alt 2 should help the counties more. This provides reimbursement at higher than current levels. But, alt 1 would also be ok. (see paragraphs 5, 10 & 11)

Kathy Kuhn also says Ourada may have a motion they support.

Paper No. 427: Approve Modification to Bill

Paper No. 428: Alternative 3

Comments: FB makes a good case for alt 2 (see paragraph 7), but Milwaukee County "really, really" wants alt 4 (confidentially, they would also probably accept alt 3 as a compromise). Personally, we feel alt 2 is the best, but Ament may go ballistic.

Wineke may have motion to require counties to pay \$184 unless guardian objects. Other Dem staff felt this was ok, but we're pretty sure Milwaukee County won't like it.

Paper No. 429: Alternative 1 2

Comments: Alt 1 is the gov's recommendation, but there are some FB modifications included so action is needed. Milwaukee County wants alternative 1. Personally, we think alt 2 would also be acceptable. (see paragraphs 7 & 8) Decker & Linton want alt 3, because they don't want to help the ambulance companies in Milwaukee.

Paper No. 430: Part A -- Alternative 2

Comments: This is the gov's recommendation with a minor date change. Let's help kids have good teeth. (see paragraph 7)

Part B -- Alternatives 2

Comments: Make the insurance companies pay, plus improve access to quality dental care. (see paragraph 12). According to Alice O'Connor, dentists like alt B(2), but HMO's want alt B(3).

Paper No. 431: Alternative 1 (no action needed)

Comments: FB makes it sound like this isn't going to help many women, but why not give it a try (however, alt 2 would also be ok). (see paragraph 6)

Budget Memo

Agency: DHFS - Medical Assistance

Staff Recommendations:

Paper No. 420: No Action Needed

Comment: This is just a summary of MA. Note, however, paragraph 5 which indicates that the expansion of Healthy Start will have no negative impact on the fund. Maybe you could have FB explain this situation, and also compliment Amie Goldman for her excellent papers.

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Comments: Thank FB for their detailed review of the MA benefits funding, and for making the necessary (and coincidentally cost-saving) corrections to DOA's estimates (see paragraphs 4, 5 & 6)

Also, you may want to highlight the issue raised in paragraph 7, and chastise DHFS for not doing a better job of getting the word out to potential recipients of health care under MA.

Paper No. 422: Part 1 (inpatient hospitals) - Alternative 1(b)
(at 2.1% in 97-98 & 2.5% in 98-99)

Comments: This alternative is the gov's recommendation with revised revenue estimates from FB (see paragraphs 3 & 5). Note: Milw County says they want 1(a), but they are wrong because 1(b) is the same but with FB reestimated numbers.

Part 2 (non-institutional providers)- Alternative 2(b)
(at 1% in 97-98 & 1% in 98-99)

Comments: Again, this is the gov's recommendation with revised revenue estimates from FB (see paragraph 7). Milw County supports 2(b).

Part 3 (pediatric hospitals) - Alternative 3(a)
No action needed

Comments: Alt 3(a) is the gov's recommendation and is best for Children's Hospital. But FB makes a good case for alt 3(b) in paragraphs 8-12, and this would probably be acceptable on general policy grounds. Broydrick's office is working to get votes for alt 3(a), but Linton & Decker don't support you here (they want 3(b)).

Paper No. 423: Alternative ¹² or ³

Comments: It seems reasonable to lower cost estimates and keep spending down (i.e. alt 3). Plus, it's good to limit DHFS's spending authority if not all \$ is absolutely necessary. (see paragraphs 7 & 8)

Also see paragraph 14 for argument to fund options other than nursing homes. This would be good policy. But, the Service Employees Union in Milwaukee supports alt 2.

Paper No. 424: Alternative 2 ^a ~~(b)~~ ^{or b} (with modifications, see below) & 3

Comments: Modifications - on page 8 (in chart), increase direct care maximum from 102% to 104.5%. Jauch will offer this motion, and your support for alt 2(b) is contingent upon approval of the Jauch motion.

If Jauch's motion fails, then you want to try and increase the direct care increment from 93% to 150%. AFL-CIO & Service Employees Union supports 2(b) with some % changes similar to those listed above. They want more than Jauch is offering, but Jauch doesn't think we can get the votes for their entire package.

Note: Milwaukee County wants 2(a) & 3 (but they should be ok with above compromise). Other Dems support alt 3 - you should take this up separately after alt 2 is taken care of.

Also, tell Jensen you will be calling on Jauch for a motion here - no co-chair agreement.

Paper No. 425: Alternative 3

Comments: Alt 2 approves the gov's recommendations with respect to de-licensing, plus it adds some reasonable contract provisions that the nursing homes want. (see paragraph 8). Moen & Linton want alt 2. Decker wants alt 3. Milwaukee County wants alt 1.

CWAG and the Milw County Coalition on Aging argue that you should either maintain current law (i.e. alt 3) or adopt their pipe dream motion, which would allow for the creation of a "community integration slot" for each bed that is banked. They argue that alternatives 1 & 2 would simply widen the gap between nursing homes and home care. Also, some of the inefficient nursing homes should probably close. We don't think anyone is offering CWAG's motion, so just vote for alt 3 from a good public policy standpoint. This will help weed out the underutilized (and possibly poorly run) nursing homes.

Burke Motion: Require DHFS to establish a nursing home occupancy rate by taking an average of the 3 most recent year's cost reports, rather than the current practice of using just the last year. (i.e. Nursing homes need to have 91% occupancy rate to get MA funding.) This motion is a recommendation of Sen. Moen's committee on Health & Human Services.

Paper No. 426: Alternative 2

Comments: Milwaukee County says they support alt 1, but we think they are wrong. Alt 2 should help the counties more. This provides reimbursement at higher than current levels. But, alt 1 would also be ok. (see paragraphs 5, 10 & 11)

Kathy Kuhn also says Ourada may have a motion they support.

Paper No. 427: Approve Modification to Bill

Paper No. 428: Alternative 3

Comments: FB makes a good case for alt 2 (see paragraph 7), but Milw County "really, really" wants alt 4 (confidentially, they would also probably accept alt 3 as a compromise). Personally, we feel alt 2 is the best, but Ament may go ballistic.

Wineke may have motion to require counties to pay \$184 unless guardian objects. Other Dem staff felt this was ok, but we're pretty sure Milw County won't like it.

Paper No. 429: Alternative 1

Comments: Alt 1 is the gov's recommendation, but there are some FB modifications included so action is needed. Milwaukee County wants alternative 1. Personally, we think alt 2 would also be acceptable. (see paragraphs 7 & 8) Decker & Linton want alt 3, because they don't want to help the ambulance companies in Milwaukee.

Paper No. 430: Part A -- Alternative 2

Comments: This is the gov's recommendation with a minor date change. Let's help kids have good teeth. (see paragraph 7)

Part B -- Alternatives 2

Comments: Make the insurance companies pay, plus improve access to quality dental care. (see paragraph 12). According to Alice O'Connor, dentists like alt B(2), but HMO's want alt B(3).

Paper No. 431: Alternative 1 (no action needed)

Comments: FB makes it sound like this isn't going to help many women, but why not give it a try (however, alt 2 would also be ok). (see paragraph 6)

Paper No. 432: Part A -- Alternative 2
Part B -- Alternative 2
Part C -- Alternative 3
Part D -- Alternative 1

Comments: All Dem staff seemed to agree with these alternatives. Decker may also have a motion to exempt diabetes test strips from the co-pay.

Paper No. 433: Alternative 1

Comments: State needs to fund this systems to achieve cost savings in the future. Alt 1 is the gov's recommendation, but there are some modifications so action is needed (see paragraphs 3, 7 & 8)

Paper No. 434: Alternative 2

Comments: Alt 2 is a modified gov's recommendation. (see paragraphs 4, 5 & 6).

Paper No. 435: Alternative 2

Comments: Make DHFS come back to JFC when they have a plan to spend this money - then the issue can be reviewed in more detail. This is just good budgeting. (see paragraphs 1, 3 & 6)

Paper No. 436: Alternative 1

Comments: (see paragraphs 3 & 4). We think alt 2 would also be ok.

For items that FB didn't prepare papers on, **no action is needed**, since you are working off the gov's bill.

Wineke may have a motion to delicense beds at developmentally disabled centers if someone is kicked out.

NOTE: Remove Item 10 from the list (i.e. so you maintain current law). This is recommended by Sen. Moen's committee. The issue is how many days you get before your MA benefits are cut off after you are notified of termination - the gov's proposal is pretty austere (i.e. after 10 days, no benefits). Current law allows for a more of a buffer zone (30 days).

NOTE: Coggs wants Item 27 removed from the list.

To: Joint Committee on Finance
From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Overview of Medical Assistance Program Expenditures (DHFS -- Medical Assistance)

DISCUSSION POINTS

1. The medical assistance program is jointly financed with state and federal funds and administered by the state within federal guidelines pertaining to eligibility, types and range of services, payments levels for services and administrative operating procedures. Payments for services are made by the state to the individuals or entities that furnish the services.

The program supports the costs of providing acute and long-term care to persons who are aged, blind, disabled, children, members of families with dependent children and pregnant women who meet specified financial and nonfinancial criteria. Persons enrolled in the MA program are entitled to have payment made by the state for covered, medically necessary services furnished by certified providers.

2. The state receives matching payments from the federal government for expenditures made for covered services and administration. The rate of federal matching funds, or federal financial participation (FFP), is based upon a formula which compares a state's per capita income to national per capital income. The FFP rate is recalculated annually. The minimum federal share for any state is 50%. Wisconsin's per capita income has been increasing relative to the national per capital income over the past few years and, therefore, its FFP has been declining. In federal fiscal year (FFY) 1996-97, Wisconsin's FFP rate was 59.0%. For FFY 1997-98, Wisconsin's FFP is 58.84% and in FFY 1998-99 it is expected to be 58.55%.

3. Approximately \$4.9 billion (all funds) is budgeted for MA program benefits in the 1995-97 biennium. Of this total, approximately \$907.9 million in 1995-96 and \$943.9 million in 1996-97 represents state GPR funding for the program. The GPR MA benefits appropriation is a biennial appropriation. Therefore, any surplus (deficit) which occurs in the first year of the

biennium is carried forward to the second year of the biennium. Any surplus (deficit) remaining in the appropriation at the end of the biennium is credited to the state's general fund.

4. A number of factors make it difficult to budget for the MA program. Fluctuations in the economy, the overall health of the population, and changes in medical technology and practice are not easily predicted and each of these factors could have a significant impact on overall program expenditures. In addition, over the course of the biennium, the Department implements administrative policies that affect program costs.

As recently as 1991-92, MA program expenditures exceeded the funding that was budgeted for the program in that year. However, over the past few years, actual program expenditures have been less than the budgeted amounts.

5. On April 24, 1997, this office prepared a memorandum for the Committee which, on a preliminary basis, identified a number of major GPR expenditure items of SB 77 that needed adjustment. The memorandum suggested that the medical assistance appropriation would lapse \$17.7 million, in 1996-97, more than was anticipated in the construction of SB 77. Also, it was indicated that the amounts budgeted for MA in 1997-99 overstated projected expenditures by \$12.6 million.

Since the April 24 memorandum, two things have occurred which will impact the MA appropriation for 1997-99. First, on May 5, 1997, the Joint Committee on Finance voted to expand eligibility for the healthy start program to cover children born after September 30, 1983, living in families with income up to 200% of the federal poverty level, effective January 1, 1998. The cost of this MA expansion is estimated to be \$34.5 million GPR for the biennium. Second, this office has now completed a thorough review of amounts needed in the MA appropriation under SB 77 for 1997-99. Current reestimates of MA benefit expenditures are \$31.1 million GPR less than the amounts in the bill.

The net effect of the healthy start expansion and the reestimate of 1997-99 MA benefit expenditures is to increase the MA benefits appropriation of SB 77 by \$3.4 million GPR. The information is shown in the following table.

[The table content is illegible due to extreme blurriness and low contrast in the original document.]

**1997-99 MA Appropriation
(\$ in Millions)**

	<u>1997-98</u>	<u>1998-99</u>	<u>1997-99</u>
SB 77	\$905.3	\$916.5	\$1,821.8
Healthy Start Expansion	10.4	24.1	34.5
Reestimate	<u>-15.1</u>	<u>-16.0</u>	<u>-31.1</u>
Revised SB 77	\$900.6	\$924.6	\$1,825.2
 Revised vs. SB 77	 -\$4.7	 \$8.1	 \$3.4

The figures above reflect changes, to date, of the MA, GPR benefits appropriation for 1997-99. In addition, it is anticipated that the 1996-97 MA appropriation will lapse \$18.7 million above the opening general fund balance amounts reflected in SB 77. This is the sum of \$17.7 million from the April 24 memorandum, adjusted by an additional \$1.0 million in the recent reestimate.

The papers that follow this overview address issues related to the medical assistance program, as contained within the Governor's 1997-99 budget recommendations.

Prepared by: Amie T. Goldman

To: Joint Committee on Finance
From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Medical Assistance Base Reestimate (DHFS -- Medical Assistance)

[LFB Summary: Page 255, #2]

CURRENT LAW

In 1996-97, the adjusted base funding level for medical assistance (MA) benefits is \$943,855,900 GPR and \$1,561,417,000 FED.

GOVERNOR

Decrease MA benefits funding by \$70,418,600 (\$38,594,300 GPR and \$31,824,300 FED) in 1997-98 and \$44,275,100 (\$27,403,600 GPR and \$16,871,500 FED) in 1998-99 to reflect reestimates of the projected cost for MA benefits funding in the 1997-99 biennium under current law. This base reestimate incorporates the following major adjustments:

a. *Reestimate of 1996-97 Base Year Costs:* Reduce base funding by \$37,533,300 GPR and \$50,415,700 FED in 1997-98 and \$14,838,200 GPR and \$14,140,600 FED in 1998-99 to reflect lower than projected spending for the 1996-97 base year than the budgeted amount.

b. *Decreased Federal Matching Rate:* Increase GPR funding and decrease FED funding by \$7,895,400 in 1997-98 and by \$3,960,100 in 1998-99 to reflect a projected decrease in the federal matching rate, from the current rate of 59.17% to 58.84% in 1997-98 and 58.54% in 1998-99.

c. *Higher IGT Payments:* Decrease GPR funding and increase FED funding by \$15,676,000 in 1997-98 and by \$8,169,400 in 1998-99 to reflect: (a) the effect of a recent

change in the claiming of federal matching funds under the intergovernmental transfer program for unreimbursed MA expenses of county-operated nursing homes; and (b) a reestimate of county losses available for use under the IGT program.

d. *Caseload Changes:* Decrease funding by \$1,733,600 GPR and \$2,035,600 FED in 1997-98 and by \$12,145,600 GPR and \$17,028,400 FED in 1998-99 to reflect projected changes in caseloads. Most of the decrease in caseload occurs in the AFDC-related group (families with dependent children).

e. *Intensity Changes:* Increase funding by \$8,453,200 GPR and \$12,846,400 FED in 1997-98 and \$3,789,500 GPR and \$10,088,200 FED in 1998-99 to meet higher projected average costs per MA-eligible resulting from such factors as greater use of MA services, use of new and more expensive services and a population shift to groups that heavily utilize MA services.

A summary of the Governor's caseload and service intensity assumptions are summarized in the following two tables.

SB 77
MA Caseload By Eligibility Category

Category	Actual 1995-96	Projected			Percent Change From Previous Year		
		1996-97	1997-98	1998-99	1996-97	1997-98	1998-99
Aged	50,846	49,659	48,470	47,195	-2.33%	-2.39%	-2.63%
Disabled	101,075	101,934	102,970	103,977	0.85	1.02	0.98
AFDC	253,068	223,955	201,708	177,198	-11.50	-9.93	-12.15
Other	66,786	76,875	85,476	94,669	15.11	11.19	10.76
Total Caseload	471,775	452,423	438,624	423,039	-4.10%	-3.05%	-3.55%

SB 77
MA Intensity, By Service Category

<u>Service</u>	<u>Projected Annual Change</u> <u>1997-98 and 1998-99</u>
Dental	2.96%
Durable Medical Equipment/Supplies	3.53
Drugs	4.41
Family Planning	-9.27
Home Health Services	-3.05
Inpatient Hospital Services	2.94
Laboratory and X-Rays	2.44
Mental Health	19.99
Outpatient Hospital Services	0.21
Outpatient Hospital Services--Psychiatric	-10.60
Personal Care	2.35
Physicians	6.82
Therapies	-1.89
Transportation--Emergency	1.87
Transportation--Nonemergency	4.59
Other	2.66

DISCUSSION POINTS

1. In preparing its estimate of the costs to continue the MA program in the 1997-99 biennium, the administration reviewed 1995-96 actual spending for each MA service category and caseload data for each MA eligibility group. In addition, the administration identified historical changes in the average cost of services and used this information to prepare estimates of the cost to continue program changes implemented in the 1995-97 biennium.

2. This office used a similar methodology in developing cost estimates for the MA program in 1997-99. In addition to a reestimate of base funding for the program, this reestimate reflects adjustments related to projected caseload and service intensity for the 1997-99 biennium, based upon more recent information. The caseload projections were developed using information on actual caseloads through April, 1997, and a review of long-term trends in caseload growth. Intensity estimates were developed by reviewing changes in the average costs of services per eligible recipient during the past several years and information regarding programmatic changes during this time period.

3. The following table identifies current estimates of caseload and intensity changes for the 1997-99 biennium.

Reestimates of MA Caseload

Category	Actual	Projected			Percent Change From Previous Year		
	1995-96	1996-97	1997-98	1998-99	1996-97	1997-98	1998-99
Aged	50,846	49,373	48,139	47,176	-2.9%	-2.5%	-2.0%
Disabled	101,075	101,032	101,032	101,032	<0.1	0.0	0.0
AFDC	253,068	211,704	169,944	149,064	-16.3	-19.7*	-12.3*
Other	66,785	79,432	97,460	109,401	18.9	22.7*	12.3*
Total	471,775	441,541	416,575	406,673	-6.4%	-5.7%	-2.4%

*Note: Reflects a shift of individuals from the AFDC-related to the healthy start-related category. Therefore, the combined caseload reduction for these groups is projected to be -8.2% in 1997-98 and -3.3% in 1998-99.

Reestimates of MA Intensity

Service	Projected Annual Change 1997-98 and 1998-99
Dental	-1.50%
Durable Medical Equipment and Supplies	-1.00
Drugs	7.00
Family Planning	-2.76
Home Health Services	-1.00
Inpatient Hospital Services	0.00
Laboratory and X-Rays	0.00
Mental Health	5.00
Outpatient Hospital Services	1.33
Outpatient Hospital Services -- Psychiatric	-5.57
Personal Care	0.00
Physician and Clinic Services	1.18
Therapies	-2.00
Transportation -- Emergency	0.00
Transportation -- Nonemergency	5.36
Other	10.00

4. Based on current estimates of 1996-97 base funding and 1997-98 and 1998-99 caseload and intensity reestimates, funding provided in the bill should be decreased by a total of \$15,056,500 GPR and increased by \$19,889,400 FED in 1997-98 and decreased by \$15,967,700 GPR and increased by \$25,889,400 FED in 1998-99 from the amounts estimated by the Governor.

5. The major factor accounting for the change is that caseload declines accelerated in 1996-97 and were not fully reflected in the Governor's estimate. The current estimate for base

MA spending in 1996-97 is \$16.9 million GPR less than estimated by the Governor. This difference is maintained in each year of the 1997-99 biennium.

6. The current estimate shows a decline in GPR costs for MA compared to the Governor, but shows an increase in federal costs. The reason for this disparity is that the Governor's estimate does not include the federal funds (\$52 million in 1996-97) that match locally-supported CIP IB slots.

7. The Committee should be aware that the dramatic declines in AFDC-related caseload may, in part, be attributable to misunderstandings related to MA eligibility among recipients, county workers and providers as a result of federal welfare reform and the Wisconsin Works program. To the extent that this is true, and DHFS is able to re-educate and re-enroll recipients through outreach, the caseload decline may be moderated. At this time, it is difficult to predict the effects of increased DHFS outreach efforts on MA caseload.

8. Because of this concern, the current estimate assumes a slowing of the historical decline in the AFDC/other (primarily healthy start) groups. The total number of eligibles in the AFDC and other groups declined from 317,172 in April, 1996, to 281,561 in April, 1997, a decline of 35,611 individuals (11.7%). The current estimate projects that this combined group will decline from 281,561 in April, 1997, to 267,404 in January, 1998, a decline of 14,157 over nine months, which represents an annual decrease of 6.7%. From January, 1998, to the end of the 1997-99 biennium, the estimate assumes a 3.3% decline in this combined group.

MODIFICATION TO BILL

1. Adjust MA benefits funding by deleting \$15,056,500 GPR and providing \$19,889,400 FED in 1997-98 and deleting \$15,967,700 GPR and providing \$25,889,400 FED in 1998-99 to reflect reestimates of the cost to continue the current MA program in the 1997-99 biennium.

<u>Modification</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
1997-99 FUNDING (Change to Bill)	- \$31,024,200	\$45,778,800	\$14,754,600

Prepared by: Richard Megna and Amie Goldman

MO# modification

2	BURKE	N	A
	DECKER	N	A
	GEORGE	N	A
	JAUCH	N	A
	WINEKE	N	A
	SHIBILSKI	N	A
	COWLES	N	A
	PANZER	N	A
	JENSEN	N	A
	OURADA	N	A
	HARSDORF	N	A
	ALBERS	N	A
	GARD	N	A
	KAUFERT	N	A
	LINTON	N	A
	COGGS	N	A

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To: Joint Committee on Finance
From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Selected Provider Rate Increases (DHFS -- Medical Assistance)

[LFB Summary: Page 256, #3(part)]

CURRENT LAW

Inpatient Hospital Services. Under the state's medical assistance (MA) program, inpatient hospital services are paid on a prospective payment system, commonly referred to as a diagnosis-related group (DRG) system. Under this system, each hospital determines the patient diagnosis and bills MA for the DRG related to a specific condition and/or treatment. Each DRG is assigned a weight which measure the relative resources required by a typical patient.

Hospitals are also reimbursed for allowable capital costs on a prospective basis. A hospital's capital payment is calculated by dividing the hospital's total capital costs, based on the most recent audited cost report, by the hospital's total costs, resulting in a ratio of capital costs to total costs. The total MA inpatient costs for the hospital are then multiplied by this ratio to yield an annualized MA-related capital costs figure. The amount is currently reduced by 15%. Certain rural hospitals are exempt from this capital reduction.

Non-Institutional Providers. Noninstitutional providers, including physicians, dentists and home health agencies, are paid the lesser of: (a) their usual and customary charges; or (b) maximum fees established by DHFS for each procedure. Changes in the maximum fee schedules are made by DHFS to implement modifications to rates authorized by the Legislature.

GOVERNOR

Provide \$14,806,300 (\$6,088,300 GPR and \$8,718,000 FED) in 1997-98 and \$26,426,600 (\$10,936,700 GPR and \$15,489,900 FED) in 1998-99 to increase MA rates paid to selected providers. The following table summarizes the percentage increase in rates compared to the rates under current law and state and federal funding which would be budgeted to support these increases.

TABLE 1

Governor's Recommended MA Rate Increases

<u>Service Category</u>	<u>1997-98</u>			<u>1998-99</u>		
	<u>Rate Increase</u>	<u>Funding GPR</u>	<u>Funding FED</u>	<u>Rate Increase</u>	<u>Funding GPR</u>	<u>Funding FED</u>
Inpatient Hospitals						
Acute Care						
Capital Payment		\$904,600	\$1,295,400		\$910,500	\$1,289,500
Rate Increase	2.1%	2,115,600	3,029,400	2.5%	4,717,500	6,681,500
IMD Hospitals						
Capital Payment		60,900	87,100		61,200	86,800
Pediatric Hospitals		822,400	1,177,600		827,700	1,172,300
Non-Institutional Providers						
	1.0	2,184,800	3,128,500	1.0	4,419,800	6,259,800
Total		\$6,088,300	\$8,718,000		\$10,936,700	\$15,489,900

DISCUSSION POINTS

Inpatient Hospitals

1. As Table 1 illustrates, the bill would increase rates for acute care inpatient hospital services by 2.1% in 1997-98 and an additional 2.5% in 1998-99. In addition, the bill would increase payment for allowable capital costs from 85% to 95% for all inpatient hospitals.

2. Federal law requires state MA programs to provide payment rates for hospitals and nursing facilities that are "reasonable and adequate" to meet the costs incurred by "efficiently and economically operated" facilities in providing care that meets federal and state quality and safety standards. This requirement of federal law is frequently referred to as the "EEO requirement" or the "Boren Amendment."

3. Federal law does not specify methods states must use to demonstrate compliance with the Boren Amendment. For this reason, DHFS cannot provide assurance that the rate of reimbursement for hospitals established in this budget will be sufficient to meet the federal EEO requirement. However, the administration's proposal is intended to ensure that Wisconsin continues to comply the EEO requirement by providing increases in inpatient hospital rates to reflect the projected increase in the cost of inpatient hospital services.

4. The National Conference of State Legislatures, the National Governor's Association and others have long advocated for the repeal of the Boren Amendment. The recent federal balanced budget agreement between the President and Congressional leadership includes a provision which would repeal the Boren Amendment. While it is expected that the repeal of the Boren Amendment will be included in the 1997-98 federal budget, it is also possible that the amendment will be replaced with other provisions relating to the adequacy of hospital reimbursement.

5. The current estimate of the Governor's recommendation to increase hospital rates is \$99,800 (\$46,300 GPR and \$53,500 FED) in 1997-98 and \$220,600 (\$90,400 GPR and \$130,200 FED) more than the funding provided in the bill for this rate increase. Table 2 summarizes the estimated cost of providing alternative rate increases for inpatient hospital services.

TABLE 2

**Alternative Hospital Rate Increases
(As Reestimated)**

Rate Increase		Change to Bill			
		1997-98		1998-99	
1997-98	1998-99	GPR	FED	GPR	FED
0%	0%	-\$2,115,600	-\$3,029,400	-\$4,717,500	-\$6,681,500
1	1	-1,086,100	-1,561,400	-2,640,400	-3,738,700
2	2	-56,700	-93,300	-542,600	-766,600
2.1*	2.5*	46,300	53,500	90,400	130,200
3	3	972,800	1,374,700	1,575,900	2,234,845

*Governor's recommendation as reestimated.

Non-Institutional Providers

6. The Governor recommends a 1% increase in 1997-98 and an additional 1% increase in 1998-99 for all services provided by non-institutional providers. The following MA benefits and services would receive rate increases under the Governor's recommendation: (a) ambulance transportation; (b) certified nurse anesthetist; (c) chiropractic; (d) dental; (e) durable medical

equipment and disposable medical supplies; (f) drugs; (g) end stage renal disease; (h) family planning; (i) federally-qualified health clinics; (j) early and periodic screening diagnostic and testing (HealthCheck) services; (k) hearing aids; (l) home health; (m) hospice; (n) laboratory and x-ray; (o) outpatient hospital psychology and mental health; (p) personal care; (q) physicians and clinics; (r) podiatrist; (s) prenatal care coordination; (t) rural health clinic; (u) transportation by specialized medical vehicle; (v) therapies; and (w) vision.

7. The current estimate of the Governor's recommendation to increase rates for non-institutional services is \$88,700 (\$36,500 GPR and \$52,200 FED) in 1997-98 and \$178,500 (\$73,000 GPR and \$105,500 FED) in 1998-99 more than the funding providing in the bill for these rate increases. Table 3 summarizes the estimated cost of providing alternative rate increases for non-institutional services.

TABLE 3

**Alternative Non-Institutional Provider Rate Increases
(As Reestimated)**

<u>Rate Increase</u>		<u>Change to Bill</u>			
		<u>1997-98</u>		<u>1998-99</u>	
<u>1997-98</u>	<u>1998-99</u>	<u>GPR</u>	<u>FED</u>	<u>GPR</u>	<u>FED</u>
0%	0%	-\$2,184,800	-\$3,128,500	-\$4,419,800	-\$6,259,800
1%*	1%*	36,500	52,200	73,000	105,500
2%	2%	2,257,900	3,233,000	4,610,600	6,534,200
2.5%	2.5%	3,368,500	4,823,400	6,896,100	9,772,300
3%	3%	4,479,200	6,413,700	9,192,900	13,026,200

*Governor's recommendation as reestimated.

Pediatric Hospitals

8. In addition to the rate increase for acute care inpatient hospitals, the bill also provides \$2 million (all funds) annually to fund a rate increase for pediatric hospital services. Hospitals that have more than 12,000 all-payer intensive care unit and general pediatric days per year would be eligible for a 12.9% increase to their base funding. Under this recommendation, it is estimated that \$1,862,000 would be provided to Children's Hospital of Wisconsin and \$138,000 would be provided to University Hospital of Wisconsin in each year. However, the bill contains no provisions relating to these supplemental hospital payments.

9. The administration provided a rate increase targeted primarily for Children's Hospital in order to address the unique position of Children's Hospital. Based on recent hospital cost reports submitted to DHFS, approximately 53% of Children's Hospital's patient days were

attributable to MA patients. This was the highest MA utilization rate reported to DHFS for that year. Approximately 50% of Children's Hospital's revenues are derived from the MA program.

Children's Hospital is the sole provider of certain pediatric procedures. For example, Children's Hospital is the only regional pediatric emergency/trauma center serving children with acute illness and severe injuries. Children's Hospital is also the only hospital in the state which performs pediatric bone marrow transplants. While Children's Hospital is located in Milwaukee County, it provides services to MA children who reside elsewhere in the state. According to information provided by the hospital, it serves 64% of MA-eligible children statewide who need inpatient hospital services. In southeast Wisconsin, 80% of MA-eligible children requiring hospitalization are served at Children's Hospital.

10. While Children's Hospital's MA utilization rate is the highest in the state, there are a number of hospitals in Milwaukee and other areas of the state which serve significant numbers of MA-eligible and low-income patients. DHFS collects hospital-specific information related to MA utilization rates for nearly all Wisconsin hospitals and calculates the percentage of patient days attributable to MA recipients. This information is used by the Department to calculate disproportionate share payments under the MA program. Disproportionate share payments are adjustments made to a hospital's DRG base rate and other hospital expenses, if the hospital provides a disproportionate share of services to MA-eligible and low-income patients.

In 1996-97, hospitals with an MA utilization rate above 19.3% qualified for a disproportionate share payment under the MA program. Including Children's Hospital, 19 in-state and six out-of-state hospitals qualified for this payment. University Hospital of Wisconsin, which would also benefit from the Governor's recommended pediatric hospital rate increase, had an MA utilization rate of approximately 11%.

11. Since the disproportionate share payment adjustment for any hospital is based on that hospital's MA utilization rate, it could be argued that this system currently provides compensation to Children's Hospital to address the magnitude of its MA utilization rate. In other words, because Children's Hospital's MA utilization rate is higher than any hospital in the state, its disproportionate share payment adjustment is higher than any hospital in the state.

12. While most Wisconsin hospitals, including Children's Hospital, are non-profit facilities, hospital revenue and gains can and do exceed expenses and losses at many facilities. The Office of Health Care Information (OHCI) collects financial information on most Wisconsin hospitals. Table 4 summarizes MA utilization rates, disproportionate share adjustments, profit margins and net income for each of the 19 in-state disproportionate share hospitals. Net income is defined as the excess (or deficit) of revenue and gains minus expenses and losses. The profit margin data represents the hospital's net income as a percent of total revenue and nonoperating gains (losses). Data from the most recent OHCI Wisconsin hospital guide and data collected by DHFS were used to compile the following table.

TABLE 4

1996-97 Disproportionate Share Hospitals

<u>Hospital</u>	<u>City</u>	<u>MA Utilization Rate</u>	<u>Disproportionate Share Adjustment</u>	<u>1995 Profit Margin</u>	<u>1995 Net Income</u>
Statewide Average		10.84%		4.80%	
Children's Hospital of Wisconsin	Milwaukee	53.30	5.50	8.20	\$13,023,268
Sinai Samaritan	Milwaukee	44.58	4.86	1.80	3,390,331
Libertas	Green Bay	43.24	4.76	11.50	160,844
Northwest General	Milwaukee	32.20	3.95	2.80	350,607
Charter	West Allis	29.46	3.75	19.30	1,972,755
Milwaukee County Mental Health	Milwaukee	29.03	3.72	0.00	0
Brown County Mental Health	Green Bay	26.88	3.56	0.00	0
Froedtert Hospital	Milwaukee	26.87*	3.56	5.30	8,428,000
St. Luke's	Racine	25.26	3.44	-9.30	-4,124,657
Sacred Heart	Tomahawk	24.54	3.39	9.00**	3,455,262**
St. Mary's Hill	Milwaukee	23.43	3.30	-14.50	-726,791
Stoughton	Stoughton	22.77	3.26	1.70	193,478
Bellin Psychiatric	Green Bay	22.74	3.25	12.50	1,116,248
Mendota	Madison	22.40	3.23	-5.40	-1,755,066
Winnebago	Winnebago	21.15	3.14	-5.50	-1,596,637
Memorial Medical Center	Ashland	20.10	3.06	6.20	1,583,716
St. Josephs	Chippewa Falls	19.58	3.02	3.70	989,664
Luther	Eau Claire	19.44	3.01	6.00	4,455,956
St. Joseph's	Milwaukee	19.44	3.01	5.90	10,047,386

* Combined with data from John Doyne Hospital

**Combined with data from Saint Mary's Hospital, Rhinelander.

Source: OHCI 1995 Hospital Guide and DHFS.

As this table illustrates, Children's Hospital receives an additional 5.5% on all of its payments under the MA program as a disproportionate share adjustment. This table also illustrates that Children's Hospital's profit margin is approximately 70% higher than the average profit margin for all hospitals.

In 1996-97, \$4.7 million in disproportionate share payments was paid to the 25 in- and out-of-state disproportionate share hospitals. Of this total, \$1,118,000 was paid to Children's Hospital.

For these reasons, the Committee could deny the Governor's recommendation to provide a pediatric hospital rate increase targeted for Children's Hospital and University Hospital of Wisconsin.

13. Another argument for providing a pediatric hospital rate increase could be that the current reimbursement system does not adequately reimburse hospitals for pediatric inpatient services. Children's Hospital has asserted that MA reimbursement does not cover a sufficient proportion of the hospital's costs for services provided to MA recipients. Therefore, as an alternative to the Governor's proposal, the Committee may want to provide \$2.0 million annually to increase rates for pediatric inpatient services, but delete the Governor's recommendation to target this increase to hospitals with more than 12,000 all-payer intensive care unit and general pediatric days. If the Committee chose this alternative, all hospitals, including Children's Hospital and University Hospital of Wisconsin, which provide pediatric inpatient hospital services to MA recipients would benefit from the rate increase.

ALTERNATIVES TO BILL

1. Inpatient Hospitals

1a. Approve the Governor's recommendation to increase rates for acute care inpatient hospital services by 2.1% in 1997-98 and 2.5% in 1998-99. In addition, increase payment for allowable capital costs from 85% to 95%. Finally, increase MA benefits funding by \$99,800 (\$46,300 GPR and \$53,500 FED) in 1997-98 and \$220,600 (\$90,400 GPR and \$130,200 FED) in 1998-99 to reflect the current estimated cost of this rate increase.

<u>Alternative 1a</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
1997-99 FUNDING (Change to Bill)	\$384,400	\$605,400	\$989,800

1b. Modify the Governor's recommendation, relating to rate increases for inpatient hospital services, based on one of the options in the following table.

Alternative Hospital Rate Increases (As Reestimated)

<u>Rate Increase</u>		<u>Change to Bill</u>			
<u>1997-98</u>	<u>1998-99</u>	<u>1997-98</u>		<u>1998-99</u>	
		<u>GPR</u>	<u>FED</u>	<u>GPR</u>	<u>FED</u>
0%	0%	-\$2,115,600	-\$3,029,400	-\$4,717,500	-\$6,681,500
1	1	-1,086,100	-1,561,400	-2,640,400	-3,738,700
2	2	-56,700	-93,300	-542,600	-766,600
2.1*	2.5*	46,300	53,500	90,400	130,200
3	3	972,800	1,374,700	1,575,900	2,234,800

*Governor's recommendation as reestimated.

2. Non-institutional Providers

2a. Approve the Governor's recommendation to provide a 1% increase in 1997-98 and an additional 1% increase in 1998-99 for all services provided by non-institutional providers. In addition, increase MA benefits funding by \$88,700 (\$36,500 GPR and \$52,200 FED) in 1997-98 and \$178,500 (\$73,000 GPR and \$105,500 FED) in 1998-99 to reflect the current estimated cost of this rate increase.

<u>Alternative 2a</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
1997-99 FUNDING (Change to Bill)	\$109,500	\$157,700	\$267,200

2b. Modify the Governor's recommendation, relating to rate increases for non-institutional services, based on one of the options in the following table.

**Alternative Non-Institutional Provider Rate Increases
(As Reestimated)**

<u>Rate Increase</u>		<u>Change to Bill</u>			
<u>1997-98</u>	<u>1998-99</u>	<u>1997-98</u>		<u>1998-99</u>	
		<u>GPR</u>	<u>FED</u>	<u>GPR</u>	<u>FED</u>
0%	0%	-\$2,184,800	-\$3,128,500	-\$4,419,800	-\$6,259,800
1%*	1%*	36,500	52,200	73,000	105,500
2%	2%	2,257,900	3,233,000	4,610,600	6,534,200
2.5%	2.5%	3,368,500	4,823,400	6,896,100	9,772,300
3%	3%	4,479,200	6,413,700	9,192,900	13,026,200

*Governor's recommendation as reestimated.

3. Pediatric Hospitals

3a. Approve the Governor's recommendation to provide \$2,000,000 annually to fund a 12.9% rate increase for hospitals that have more than 12,000 all-payer intensive care unit and general pediatric days per year.

3b. Modify the Governor's recommendation by deleting the requirement that the rate increase be provided to hospitals with more than 12,000 all-payer intensive care and general pediatric days per year. In addition, direct DHFS increase inpatient hospital reimbursement for pediatric services by \$2,000,000 annually.

3c. Maintain current law.

<u>Alternative 3c</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
1997-99 FUNDING (Change to Bill)	- \$1,650,100	- \$2,349,900	- \$4,000,000

Prepared by: Amie T. Goldman

MO# _____

BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE _____ NO _____ ABS _____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

Revision to LFB Paper #422 -- Selected Provider Rate Increases (DHFS -- Medical Assistance)

[LFB Summary: Page 256, #3(part)]

Subsequent to the preparation of LFB paper #422, it was discovered the Governor's recommended 1% rate increase for non-institutional providers included services which are currently reimbursed under a cost-based formula. Reimbursement for federally qualified health centers (FQHCs), rural health clinics and end-stage renal disease services are reimbursed based on their costs and, therefore, should not have been included in the provider rate increase estimate.

In addition, a technical correction is required related to the rate increase provided for drugs. MA reimbursement for drugs is cost-based. Pharmacists and physicians are reimbursed the lesser of: (a) the usual and customary charge; or (b) the amount that would result using a variety of formulas, including the estimated acquisition cost minus 10%. Reimbursement for over-the-counter drugs is limited to the amount paid for non-prescription generic drugs. In addition, pharmacists and physicians are paid a dispensing fee for each prescription. Therefore, the 1% increase should apply to the dispensing fee, rather than to the total reimbursement for the prescription, as assumed in SB 77.

SB 77 provides \$2,184,800 GPR and \$3,128,500 FED in 1997-98 and \$4,419,800 GPR and \$6,259,800 FED in 1998-99 to support a 1% rate increase for non-institutional providers. The current estimated cost of a 1% rate increase for non-institutional providers is \$1,388,500 GPR and \$1,988,300 FED in 1997-98 and \$2,808,400 GPR and \$3,978,900 FED in 1998-99.

In addition, the box in Alternative 1a of that paper needs to be modified to accurately reflect the funding in the text.

The alternatives to LFB paper #422, as corrected, are as follows:

ALTERNATIVES TO BILL

1. Inpatient Hospitals

Revised 1a. Approve the Governor's recommendation to increase rates for acute care inpatient hospital services by 2.1% in 1997-98 and 2.5% in 1998-99. In addition, increase payment for allowable capital costs from 85% to 95%. Finally, increase MA benefits funding by \$99,800 (\$46,300 GPR and \$53,500 FED) in 1997-98 and \$220,600 (\$90,400 GPR and \$130,200 FED) in 1998-99 to reflect the current estimated cost of this rate increase.

<u>Alternative 1a</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
1997-99 FUNDING (Change to Bill)	\$136,700	\$183,700	\$320,400

1b. Modify the Governor's recommendation, relating to rate increases for inpatient hospital services, based on one of the options in the following table.

Alternative Hospital Rate Increases (As Reestimated)

<u>Rate Increase</u>		<u>Change to Bill</u>			
<u>1997-98</u>	<u>1998-99</u>	<u>1997-98</u>		<u>1998-99</u>	
		<u>GPR</u>	<u>FED</u>	<u>GPR</u>	<u>FED</u>
0%	0%	-\$2,115,600	-\$3,029,400	-\$4,717,500	-\$6,681,500
1	1	-1,086,100	-1,561,400	-2,640,400	-3,738,700
2	2	-56,700	-93,300	-542,600	-766,600
2.1*	2.5*	46,300	53,500	90,400	130,200
3	3	972,800	1,374,700	1,575,900	2,234,800

*Governor's recommendation as reestimated.

2. Non-institutional Providers

Revised 2a. Move the Governor's recommendation to provide a 1% increase in 1997-98 and an additional 1% increase in 1998-99 for all services provided by non-institutional providers. In addition, decrease MA benefits funding by \$1,936,500 (\$796,300 GPR and \$1,140,200 FED)

in 1997-98 and \$3,892,300 (\$1,611,400 GPR and \$2,280,900 FED) in 1998-99 to reflect the current estimated cost of this rate increase.

<u>Alternative 2a</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
1997-99 FUNDING (Change to Bill)	- \$2,407,700	- \$3,421,100	- \$5,828,800

Revised 2b. Modify the Governor's recommendation, relating to rate increases for non-institutional services, based on one of the options in the following table.

**Alternative Non-Institutional Provider Rate Increases
(As Reestimated)**

<u>Rate Increase</u>		<u>Change to Bill</u>			
		<u>1997-98</u>		<u>1998-99</u>	
<u>1997-98</u>	<u>1998-99</u>	<u>GPR</u>	<u>FED</u>	<u>GPR</u>	<u>FED</u>
0%	0%	-\$2,184,800	-\$3,128,500	-\$4,419,800	-\$6,259,800
1*	1*	-796,300	-1,140,200	-1,611,400	-2,280,900
2	2	592,300	847,900	1,225,000	1,737,500
2.5	2.5	1,286,500	1,842,100	2,653,600	3,761,700
3	3	1,980,800	2,836,200	4,089,300	5,795,600

*Governor's Recommendation as Reestimated

3. Pediatric Hospitals

3a. Approve the Governor's recommendation to provide \$2,000,000 annually to fund a 12.9% rate increase for hospitals that have more than 12,000 all-payer intensive care unit and general pediatric days per year.

3b. Modify the Governor's recommendation by deleting the requirement that the rate increase be provided to hospitals with more than 12,000 all-payer intensive care and general pediatric days per year. In addition, direct DHFS increase inpatient hospital reimbursement for pediatric services by \$2,000,000 annually.

3c. Maintain current law.

Alternative 3c	GPR	FED	TOTAL
1997-99 FUNDING (Change to Bill)	-\$1,650,100	-\$2,349,900	-\$4,000,000

Prepared by: Amie T. Goldman

Alt.

<p>MO# <u>2a</u></p> <p>2 BURKE DECKER GEORGE 1 JAUCH WINEKE SHIBILSKI COWLES PANZER</p> <p>JENSEN OURADA HARSDORF ALBERS GARD KAUFERT LINTON COGGS</p> <p>AYE <u>7</u> NO <u>9</u> ABS <u>0</u></p>	<p>MO# <u>1a</u></p> <p>2 BURKE DECKER GEORGE 1 JAUCH WINEKE SHIBILSKI COWLES PANZER</p> <p>JENSEN OURADA HARSDORF ALBERS GARD KAUFERT LINTON COGGS</p> <p>AYE <u>15</u> NO <u>1</u> ABS <u>0</u></p>	<p>MO# <u>3a</u></p> <p>2 BURKE DECKER GEORGE JAUCH WINEKE SHIBILSKI COWLES PANZER</p> <p>1 JENSEN OURADA HARSDORF ALBERS GARD KAUFERT LINTON COGGS</p> <p>AYE <u>12</u> NO <u>4</u> ABS <u>0</u></p>
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MO#	BURKE	DECKER	GEORGE	JAUCH	WINEKE	SHIBILSKI	COWLES	PANZER	JENSEN	OURADA	HARSDORF	ALBERS	GARD	KAUFERT	LINTON	COGGS	AYE	NO	ABS
	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A			
	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N			
	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y			

↑
hillover

HEALTH AND FAMILY SERVICES

Non-Institutional Provider Rate Increases

Motion:

Provide \$722,000 GPR and \$1,033,700 FED in 1997-98 and \$1,490,000 GPR and \$2,113,000 FED in 1998-99 to support the costs of a 2% rate increase in 1997-98 and an additional 2% rate increase in 1998-99 for all services provided by non-institutional providers except dentists, and a 5% rate increase in each year for services provided by dentists.

Note:

Senate Bill 77 would provide a 1% increase in each year of the biennium for all services provided by non-institutional providers.

This motion would instead provide a 2% annual rate increase for noninstitutional providers except dentists, and a 5% annual rate increase for services provided by dentists.

[Change to Bill: \$2,212,000 GPR and \$3,146,600 FED]

MO# 1115

BURKE	(Y)	N	A
DECKER	(Y)	N	A
GEORGE	(Y)	N	A
JAUCH	(Y)	N	A
WINEKE	(Y)	N	A
SHIBILSKI	(Y)	N	A
COWLES	(Y)	N	A
PANZER	(Y)	N	A
1 JENSEN	(Y)	N	A
2 OURADA	(Y)	N	A
HARSDORF	(Y)	N	A
ALBERS	(Y)	N	A
GARD	(Y)	N	A
KAUFERT	(Y)	N	A
LINTON	(Y)	N	A
COGGS	(Y)	N	A

AYE 16 NO 0 ABS 0