



Legislative Fiscal Bureau

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TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: 2001 Assembly Bill 36 and Senate Bill 18: Funding for BadgerCare

2001 Assembly Bill 36 and Senate Bill 18 are companion bills that would increase funding for the BadgerCare program by \$13,542,500 GPR in 2000-01 to fund a projected deficit in the BadgerCare program benefits appropriation.

Summary of the Bills

Both bills would increase funding for the BadgerCare program by \$13,542,500 GPR in 2000-01 to fund a projected deficit in the BadgerCare benefits appropriation through June 30, 2001. Funding to continue the program in the 2001-03 biennium will be addressed separately as part of the Legislature's 2001-03 biennial budget deliberations.

Further, AB 36 and SB 18 would require the Department of Health and Family Services (DHFS) to lapse \$11,237,100 FED in federal income augmentation funds to the general fund no later than 30 days after the effective date of the bills.

Background

BadgerCare. 1999 Wisconsin Act 9 budgeted \$63,589,400 (\$22,356,500 GPR, \$40,033,600 FED and \$1,199,300 PR) in 1999-00 and \$97,636,600 (\$34,218,300 GPR, \$61,758,100 FED and \$1,660,200 PR) in 2000-01 to support program benefits under BadgerCare.

BadgerCare funds health care costs for families with household income at or below 185% of the federal poverty level (FPL). Once enrolled, families can remain enrolled as long as their household income does not exceed 200% of the FPL. Individuals that are eligible for the state's medical assistance (MA) program are not eligible for BadgerCare. In 2000, 185% of the FPL is

equivalent to \$26,178 for a family of three. The 2001 FPL is not expected to be available until February, 2001.

Federal funding for the program is available under MA and the state children's health insurance program (SCHIP). Federal MA funding is used to support services provided to adults on a 41% GPR/59% FED cost-sharing basis. Federal SCHIP funding is used to support services to children on a 29% GPR/71% FED cost-sharing basis. SCHIP funding is a block grant and therefore expenditures under SCHIP are limited by the amount of funding allocated to Wisconsin under federal law. The block grant funds are available for three years for expenditure by the states. After three years, any unused funding can be reallocated to other states. Federal law does not limit the amount of federal funding available to states under MA.

Program revenue (PR) funding is available from premiums paid by families enrolled in the program with incomes above 150% of the FPL.

The projected deficit in the BadgerCare benefits appropriation is the result of higher enrollment levels than projected and higher costs per enrollee than projected in Act 9.

Enrollment Projections. Under Act 9, it was assumed that approximately 64,500 persons would be enrolled in the program by December, 2000. The actual number of persons enrolled in the program by then was approximately 73,100, or approximately 13% more than had been projected in Act 9.

Additionally, adults comprise a greater proportion of the total BadgerCare caseload than had been projected in Act 9. Adults were expected to represent approximately 63% of the BadgerCare caseload in the estimates used for Act 9. However, as of December, 2000, adults represented approximately 70% of the total caseload. The higher proportion of BadgerCare enrollees who are adults increases GPR program costs in two ways: (a) on average, adults require a greater level of services than children; and (b) services for adults are reimbursed based on the MA matching rate, rather than the enhanced rate available for children under SCHIP.

Fee-for-Service Costs. Approximately 30% of BadgerCare enrollees receive services on a fee-for-service basis, which means that a provider bills the program for services provided to each enrollee. Because adults receive more services on average than children, the estimated average fee-for-service cost per individual exceeds the amounts projected in Act 9.

HMO Capitation Payments. Approximately 30% of BadgerCare enrollees receive services through an HMO. An HMO is paid a capitation rate for enrollees, which is generally intended to cover all services provided to enrollees. The average costs for capitation payments made on behalf of BadgerCare recipients also exceeds the amounts budgeted in Act 9. Act 9 provided funding to increase HMO capitation rates for BadgerCare by 3% at the beginning of each calendar year. However, HMOs were unwilling to renew their contracts for calendar year 2000 based on the Act 9 budgeted rates because the HMOs found that the average cost of providing services to BadgerCare

recipients is higher than the Act 9 budgeted rates. The final HMO contract for calendar year 2000 provides an increase of approximately 10%, rather than 3%, as budgeted in Act 9.

Income Augmentation Revenue. "Income augmentation revenues" are unanticipated federal funds DHFS receives under Titles IV-E (foster care), XVIII (Medicare) and XIX (Medicaid) of the federal Social Security Act as reimbursement for costs that were initially paid with state or local revenue.

On August 31, 2000, DHFS submitted to the Secretary of the Department of Administration (DOA) a proposed plan for the use of the \$11,237,100 in federal income augmentation revenue that were generated through the end of the previous state fiscal year, as provided under s. 46.46 (2) of the statutes. In a letter dated September 15, 2000, DOA Secretary Lightbourn informed the Committee's Co-Chairs that he did not approve the plan submitted by DHFS and that, instead, the Governor's 2001-03 executive budget would include recommendations relating to the use of these revenues. On October 10, 2000, the Co-Chairs informed Secretary Lightbourn that they had no objections to the Secretary's planned use of the funds, but asked the Secretary, in preparing the Governor's 2001-03 budget recommendations, to be cognizant of the concerns of DHFS Secretary Llean and others regarding an expected shortfall in the appropriation for the BadgerCare program. The Co-Chairs suggested to Secretary Lightbourn that some amount of the income augmentation revenues be set aside in anticipation that the Legislature could act in January, 2001, to address the projected shortfall in the BadgerCare appropriation.

Fiscal Effect

Both bills would increase funding provided for BadgerCare benefits by \$13,542,500 GPR in 2000-01. Further, both bills would require DHFS to lapse \$11,237,100 in federal income augmentation revenues to the general fund within 30 days of the effective date of the bill. As a result, the estimated balance of the general fund at the end of the 1999-01 biennium would be decreased by \$2,305,400.

On Friday, January 19, 2001, DHFS received notice from the Secretary of the U.S. Department of Health and Human Services (DHHS) that the state received approval of its request to waive a provision of federal law that prohibits the use of SCHIP funds for services provided to adults. This waiver approval allows DHFS to use SCHIP funds for adults in families with household incomes above 100% of the FPL. DHFS must continue to claim the MA matching rate of approximately 59% for adults with incomes at or below 100% of the FPL. This waiver is expected to reduce projected GPR expenditures by \$2,030,300 in 2000-01. As a result, the amount of GPR budgeted in each bill can be reduced by this amount to \$11,512,200 in order to fund the projected deficit in this biennium. (Assembly Substitute Amendment 1 to AB 36 provides this amount. As a result, the projected balance of the general fund would be decreased by \$275,100, rather than \$2,305,400 as under the original bill.) The waiver would remain in effect through March 31, 2004.

DHHS approval of the state's waiver is contingent on the state's agreement to certain terms and conditions. DHFS has 30 days to accept the terms and conditions of the waiver. A few of the terms and conditions of the waiver approval are described below.

First, the state cannot close enrollment, establish waiting lists or decrease BadgerCare eligibility standards while the waiver is in effect. If the state does any of these things, the DHHS approval to use the SCHIP funding for certain adults is terminated. Therefore, the costs of any proposed changes to BadgerCare eligibility standards would have to take into account the cost of using federal MA funds to support services for adults with income greater than 100% of the FPL instead of federal SCHIP funds, as approved under the waiver.

Further, by July 1, 2001, the state must implement, on a statewide basis, a mail-in, simplified application procedure for MA and BadgerCare. Currently, eligibility is determined based on a face-to-face interview with a county employee.

Additionally, the state must eliminate the current asset limit requirement for certain low-income families under MA no later than 60 days after the enactment of the state's biennial budget for the 2001-03 biennium. Currently, for certain families, in order to be eligible for MA, the family must have countable assets that total less than \$1,000. Under BadgerCare, there is no such asset limit for eligibility. DHFS estimates that this change would increase MA benefits costs by approximately \$387,400 GPR and \$540,600 FED annually.

It is worth noting that while the waiver approval reduces the total amount of GPR required to fund BadgerCare in the current and next biennia, this anticipated GPR savings may not be available after that. Under the waiver, expenditures from the SCHIP block grant are expected to exceed the state's annual block grant allocation. Because the state is able to carry forward unused SCHIP funds for up to three years, the total amount of SCHIP funding for BadgerCare under the waiver is expected to be sufficient until at least federal fiscal year 2004-05. However, in following years, projected SCHIP expenditures could exceed available SCHIP revenue if the state continued to operate under the approved waiver.

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