



Legislative Fiscal Bureau

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July 18, 2013

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Health Services: 13.10 Request to Transfer Funding for Benefits Expenditures under the MA Program -- Agenda Item I

REQUEST

The Department of Health Services (DHS) requests the transfer of \$18,000,000 from the SeniorCare GPR appropriation under s. 20.435(4)(bv) to the GPR appropriation under s. 20.435(4)(b) to fund medical assistance (MA) benefits for the 2011-13 biennium.

BACKGROUND

SeniorCare. SeniorCare provides prescription drug benefits to Wisconsin residents ages 65 and older who do not qualify for prescription drug coverage under the MA program. Total funding budgeted for the program in the 2011-13 biennium was \$235,086,800 (\$60,111,800 GPR, \$61,807,600 FED, and \$113,167,400 PR).

GPR funding for SeniorCare is budgeted in a biennial appropriation. Absent legislative action, unexpended funding in that appropriation lapses to the general fund at the end of the state's fiscal biennium. Throughout much of 2012-13, DHS had projected that the SeniorCare GPR appropriation would end the 2011-13 biennium with an unexpended balance of approximately \$18.0 million. Based on those projections, the 2013-14 opening balance in the state's general fund, as reflected in 2013 Act 20 (the 2013-15 biennial budget act), assumes SeniorCare will lapse \$18.0 million to the general fund at the close of the 2011-13 biennium. The Department's updated projection is that SeniorCare will finish the 2011-13 biennium with an expended balance of \$23.3 million.

MA Benefits Funding. The state's MA program pays certified healthcare providers for the primary, preventive, acute, and long-term care services they provide to MA recipients. Funding for

the MA program is budgeted in a series of GPR, FED, SEG, and PR appropriations. In the 2011-13 biennium, net funding budgeted for MA benefits totaled approximately \$13,628,222,200 (\$3,907,150,500 GPR, \$8,274,012,600 FED, \$1,317,467,700 SEG, and \$129,591,400 PR).

The primary GPR appropriation for MA benefits under s. 20.435(4)(b) is a sum-certain, biennial appropriation. The Department indicates that the GPR share of MA benefit expenditures paid through June 30, 2013 exceeded budgeted funding for the 2011-13 biennium by approximately \$15.1 million. These excess GPR expenditures were paid from a departmental "clearing account."

DHS requests that the Committee transfer \$18.0 million of the projected unexpended balance in SeniorCare to the GPR appropriation for MA benefits so that the \$15.1 million that was paid from the departmental clearing account can be properly charged to the MA appropriation in the 2011-13 biennium, and to provide an additional \$2.9 million GPR to address any currently unanticipated expenses or revenue adjustments that arise during the year-end reconciliation period.

ANALYSIS

DHS estimates there will be an unexpended balance of approximately \$23.3 million in the SeniorCare GPR appropriation at the end of the 2011-13 biennium (the precise figure is contingent upon a final reconciliation and allocation of drug manufacturer rebates). This projected balance reflects a number of factors that have contributed to declining expenditures in the SeniorCare program in recent years. Those factors, which were discussed in the May 30, 2013 budget paper this office prepared for the Committee in connection with the 2013-15 SeniorCare base reestimate (LFB Budget Paper #323), include the following: (a) participation of Wisconsin seniors (including SeniorCare enrollees) in the federal Medicare Part D program; (b) enrollment shifts within SeniorCare away from participation in the higher-cost levels (1, 2a, and 2b) to participation in the lower-cost level (3; the "spend down" category); (c) reductions in the Medicare Part D "doughnut hole" as a result of the Patient Protection and Affordable Care Act, which may reduce program costs for individuals enrolled in both SeniorCare and Part D; and (d) an increased reliance on lower-cost generic drugs by program enrollees. In addition, drug rebates as a percentage of total SeniorCare expenditures have increased, thereby reducing the share of program costs borne by GPR and FED. These factors are reflected in the expenditure trends shown in Table 1.

TABLE 1

**SeniorCare Benefit Expenditures
2006-07 through 2012-13**

	Actual						Estimate
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
GPR	\$45,668,300	\$38,797,300	\$33,983,200	\$18,273,100	\$20,407,200	\$21,200,200	\$15,600,000
FED	41,875,500	33,476,700	50,696,300	16,741,000	23,130,600	15,382,300	14,700,000
PR	<u>53,198,000</u>	<u>54,780,900</u>	<u>40,033,800</u>	<u>79,682,300</u>	<u>64,348,800</u>	<u>51,614,800</u>	<u>50,200,000</u>
Total Expenditures	\$140,741,800	\$127,054,900	\$124,713,300	\$114,696,400	\$107,886,600	\$88,197,300	\$80,500,000
Percent Chg. From Prior Year	0.1%	-9.7%	-1.8%	-8.0%	-5.9%	-18.2%	-8.7%

As noted, DHS requests that \$18.0 million of the projected \$23.3 million unexpended year-end balance in SeniorCare be transferred to the appropriation under s. 20.435(4)(b) to fund MA benefit expenditures in the 2011-13 biennium. Approximately \$15.1 million of the requested transfer would be used to cover GPR expenditures DHS made in 2012-13 that were in excess of budgeted authority. DHS made these excess payments from a departmental "clearing account." The Legislative Audit Bureau (LAB) has indicated that while it is not uncommon for state agencies to temporarily pay certain expenses from clearing accounts, the accounts must be "cleared" by the end of the year by transferring the expenditures to the correct appropriation. The LAB has also indicated that such clearing accounts should not be used to make payments in excess of the funding budgeted by the Legislature, nor should a clearing account be allowed to maintain a negative balance from one state fiscal biennium to the next.

The remaining \$2.9 million of the requested \$18.0 million transfer is intended to address any unanticipated expense or revenue adjustments that may arise during the final year-end budget reconciliation process. Any portion of the \$2.9 million not required for those purposes would lapse to the general fund as part of the final 2011-13 budget reconciliation.

The Committee could approve the Department's request in full. Doing so would enable DHS to "clear" the \$15.1 million in excess GPR expenditures that occurred in 2012-13, and provide DHS a \$2.9 million GPR reserve for adjustments that might arise during the year-end reconciliation process (with any unexpended portion of that \$2.9 million lapsing back to the state's general fund). Under this alternative, the projected lapse from SeniorCare to the general fund would be approximately \$3.1 million, assuming the Committee also approves the Department's request to transfer \$2.2 million of the projected SeniorCare year-end balance of \$23.3 million to cover a shortfall in the Wisconsin funeral and cemetery aids program (WFCAP), as discussed in a separate paper. That \$3.1 million lapse from SeniorCare to the general fund would be approximately \$14.9 million less than is currently factored into the general fund's projected opening balance for 2013-14 under Act 20. (Alternative 1)

Alternatively, the Committee could reduce the amount of the requested transfer from SeniorCare to the MA program from \$18.0 million to \$15.1 million. Doing so would enable DHS

to "clear" the \$15.1 million in excess GPR expenditures that occurred in 2012-13, but it would not provide DHS the \$2.9 million GPR contingency reserve it requested. Under this alternative, the projected lapse from SeniorCare to the general fund would be approximately \$6.0 million, again assuming the Committee also approves the Department's request to transfer \$2.2 million of the projected SeniorCare balance to the WFCAP. The \$6.0 million lapse to the general fund under this alternative would be approximately \$12.0 million less than is currently factored into the general fund's projected opening balance for 2013-14 under Act 20. (Alternative 2)

The LAB has indicated that in its view, it would be improper for DHS to transfer or otherwise use funding budgeted by the Legislature in Act 20 for MA benefit costs in 2013-15 to cover program expenditures already paid by DHS in 2012-13. The LAB has also indicated that expenses temporarily paid from the Department's "clearing account" should be assigned to the correct MA benefits appropriation before the year-end budget reconciliation is concluded.

ALTERNATIVES

1. Approve the request, and transfer \$18.0 million GPR from the funding budgeted for SeniorCare benefits in the 2011-13 biennium to a GPR appropriation used to support MA benefit expenditures in the 2011-13 biennium.

2. Transfer \$15.1 million GPR from the funding budgeted for SeniorCare benefits in the 2011-13 biennium to a GPR appropriation used to support MA benefit expenditures in the 2011-13 biennium.

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