



TennCare Budget Presentation

Fiscal Year 2010

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106th General Assembly

Legislative Committee Budget Hearings

Presented 2009



Program Update

- **MCOs Return to Full Risk**
 - Competitive bid process results in contracts with well capitalized MCOs
 - Integration of physical and behavioral health services
 - Strengthening of accountability and oversight

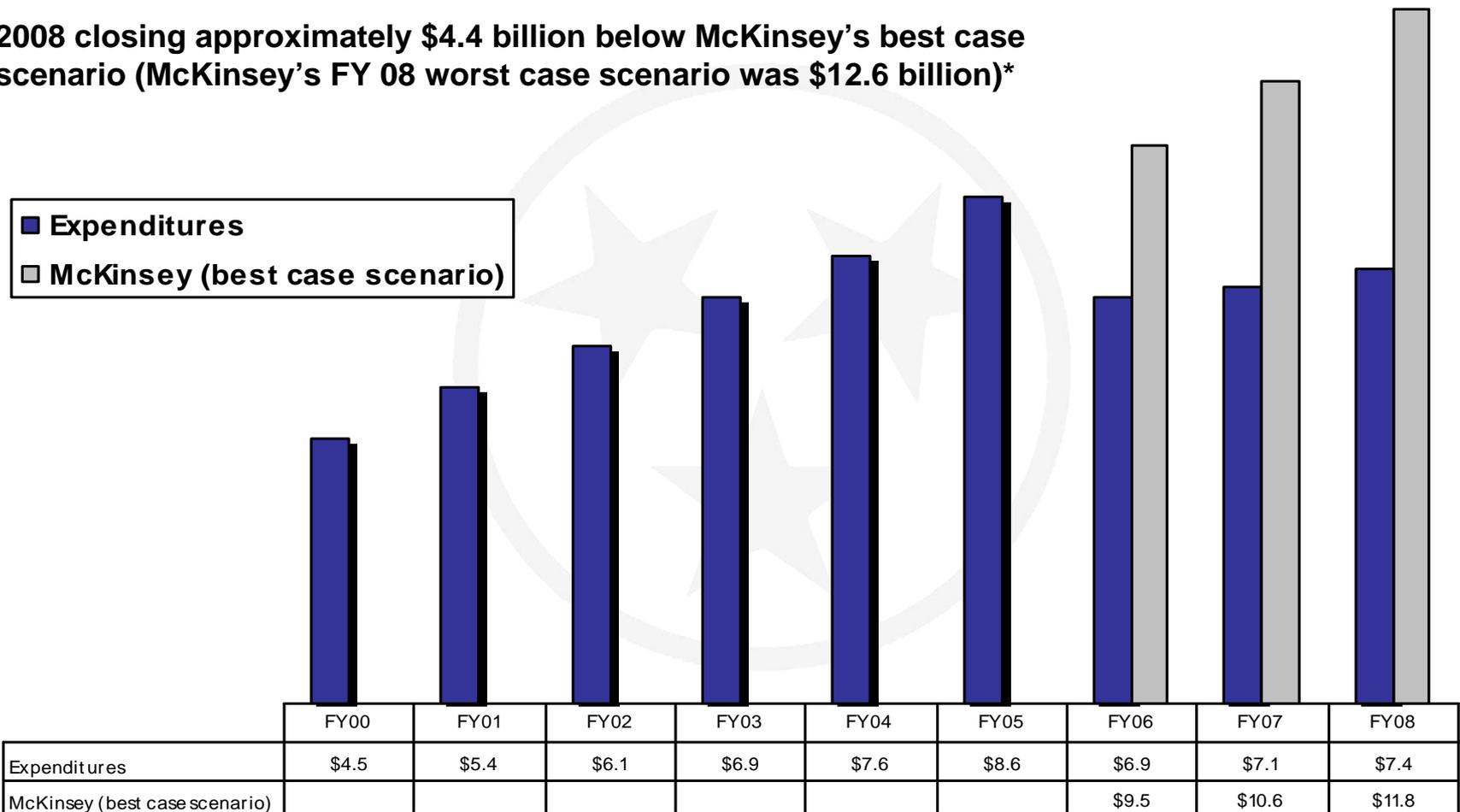
- **Long-Term Care Community Choices Progress**
 - More Tennesseans than ever receiving HCBS
 - Further development of network alternatives
 - Eligibility streamlined
 - Continuing to press federal officials for waiver approval

- **Federal Update**
 - American Recovery and Reinvestment Act offsetting the need for some reductions
 - Monitoring the discussion of health care reform



Total Expenditures FY 2000-2008

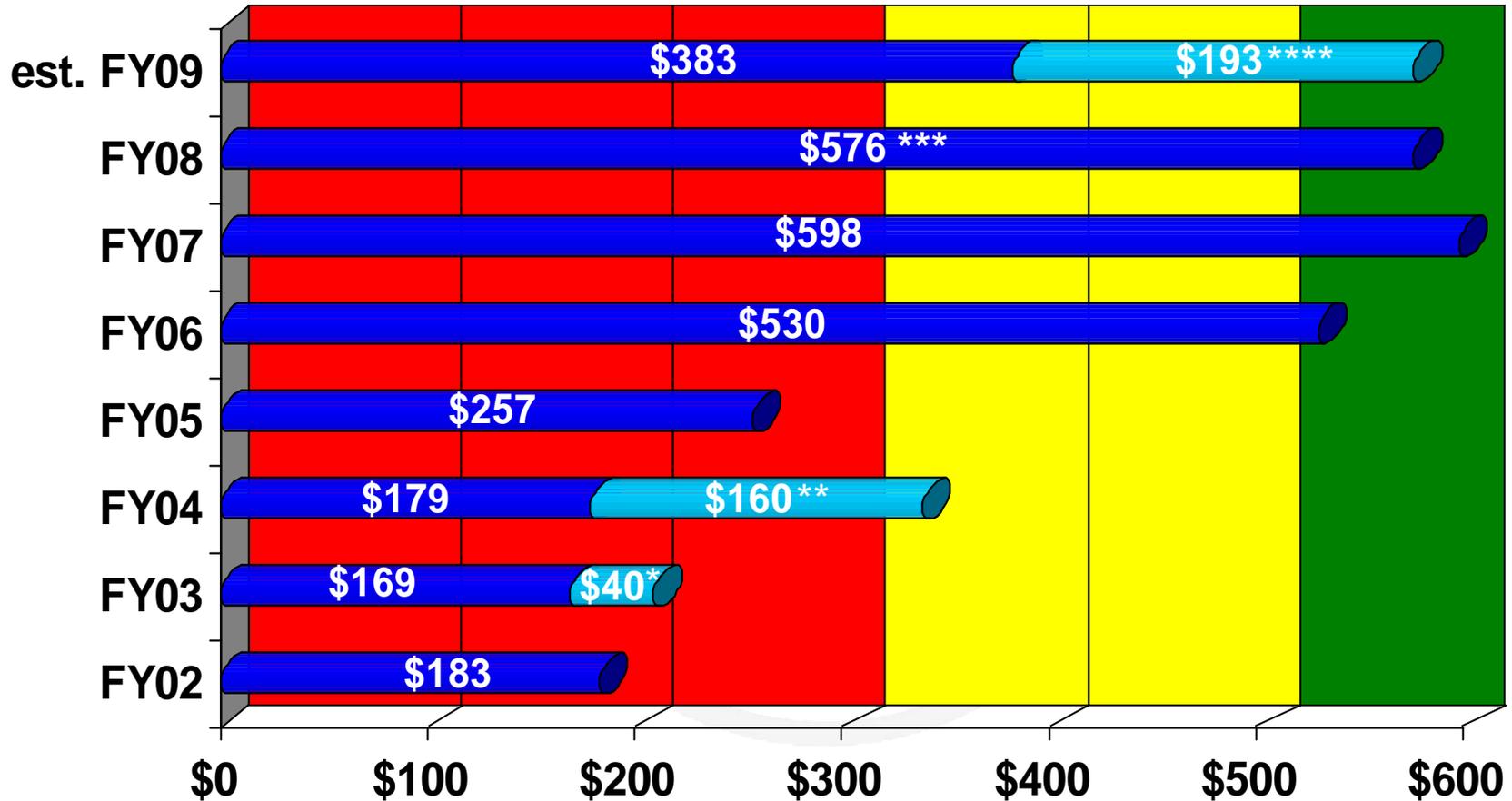
- 2008 closing approximately \$4.4 billion below McKinsey's best case scenario (McKinsey's FY 08 worst case scenario was \$12.6 billion)*



* 'Achieving a Critical Mission in Difficult Times – TennCare's Financial Viability' – McKinsey & Company, Dec. 11, 2003 – Appendix – B-15



TennCare Reserve Balance in Millions FY 2002-2009



* FY2003 - The state received \$40m related to a one-time federal match rate increase of 2.95%.

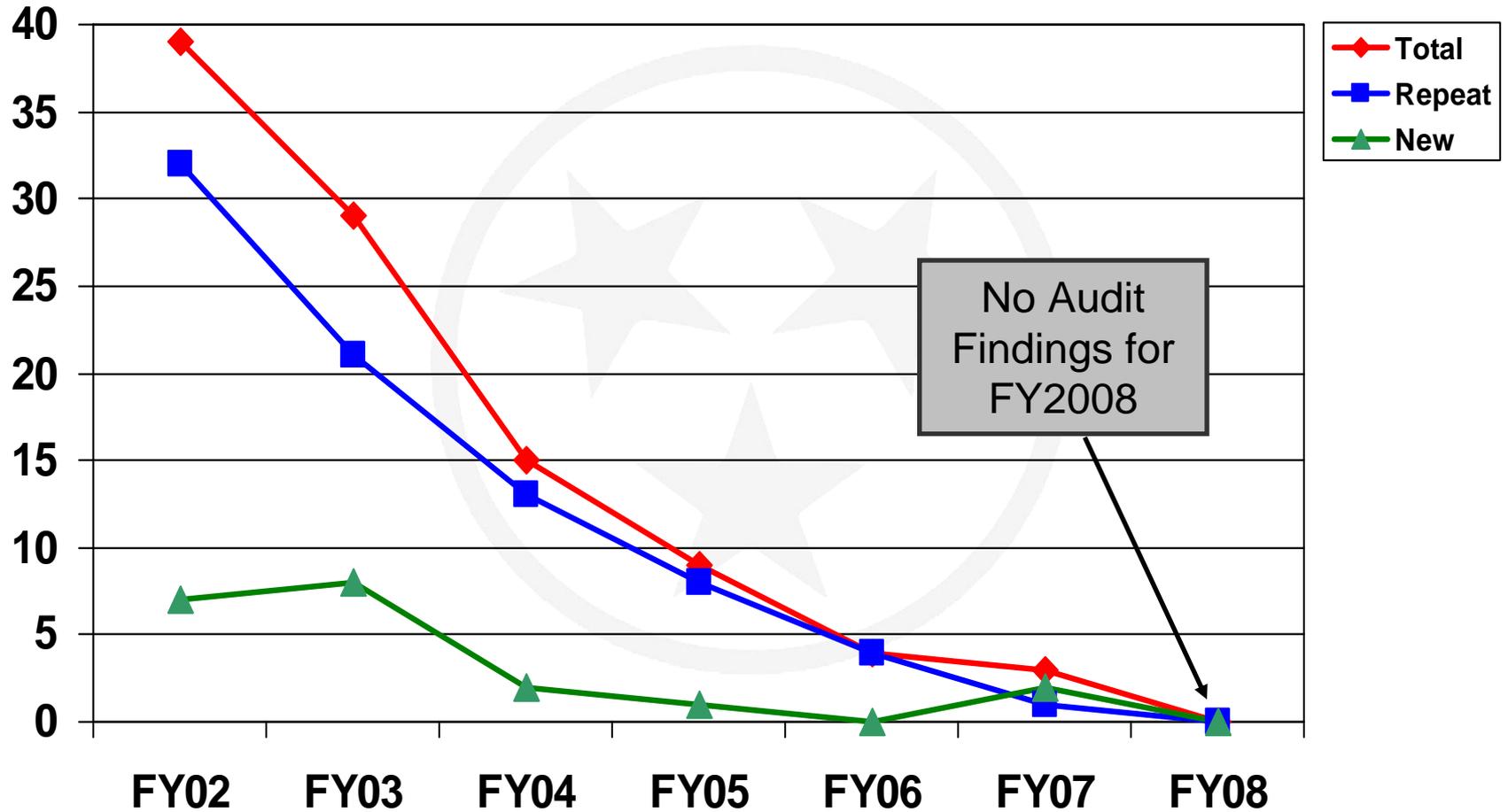
** FY2004 - The state received \$160m related to the same 2.95% adjustment.

*** FY2008 - Total does not reflect \$76m of the TennCare reserve used by F&A to close the broader state budget for FY2008.

**** FY2009 - This is the estimated expenditure from the reserve. The amount consists of \$126m F&A will use to close the General Fund and \$67m that was earmarked in the FY08 the appropriation bill for one-time expenses related to hospital uncompensated care, mental health infrastructure and mental retardation services. The actual figure will not be final until 6/30/09.



Audit Findings FY 2002-2008





American Recovery and Reinvestment Act

- Federal funds to help create and save jobs during the 9-quarter “recession adjustment period” - Oct. 1st 2008 to Dec. 31st 2010
 - Increases our FMAP (Federal Medical Assistance Percentage) rate by 8.892 percentage points - from about 65% to about 74%
 - 6.2% points increase standard for all states
 - Additional adjustment tied to unemployment rates (~2.7% points calculated for TN)
 - Only applies to medical assistance payments
- \$1.1 billion total estimated increase in federal funds over 9 quarters
 - This is a fluid figure based on expected expenditures
 - FY09 ~ \$300 million
 - FY10 ~ \$550 million
 - FY11 ~ \$200 million
 - Able to offset some potential budget reductions
 - Non-recurring funds - helpful but not a “cure-all”



American Recovery and Reinvestment Act

- Other Benefits -

- Positive CMS Regulation Changes

- Delays case management and provider tax regulations by 3 months (to July 1st 2009)
- Implies intent to cancel pending regulations detrimental to CPE, GME, and the rehabilitation option

- Funds available for health IT and incentive payments to providers

- Still awaiting federal guidance for details

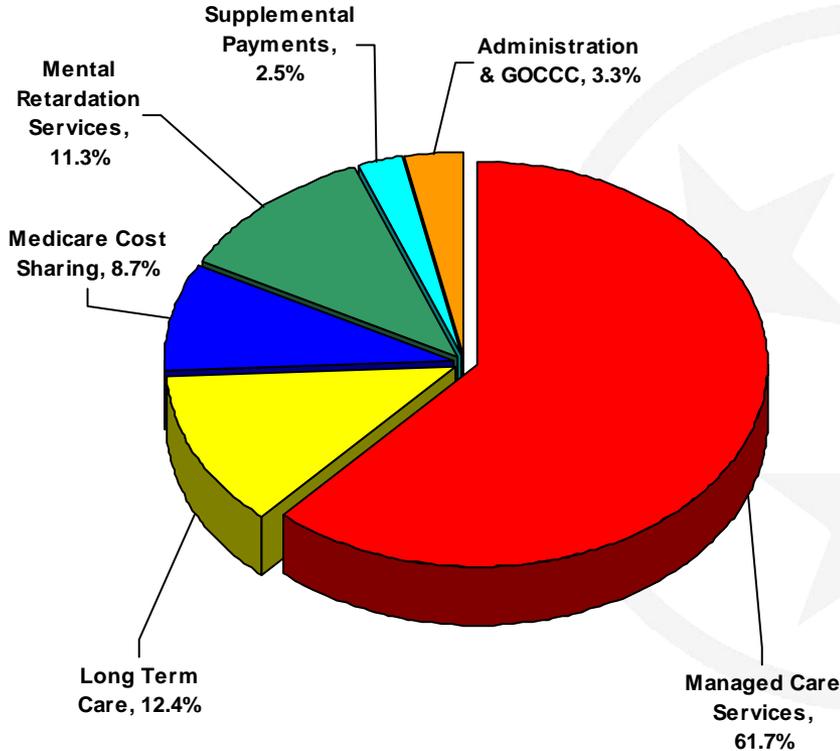


American Recovery and Reinvestment Act

- Requirements-
 - States CANNOT make eligibility categories more restrictive than standards in place on July 1, 2008
 - There are significant accountability rules and reporting requirements
 - No money may be placed in Rainy Day or Reserve Funds
 - Increased rate only applies to medical assistance payments
 - Prohibits the increased FMAP rate on any eligibility expansion



Budget Request FY 2010



Program Area	Expenditures
Managed Care Services (MCOs, PBM, DBM, etc...)	\$4,714,343,100
Long Term Care Services	949,565,600
Medicare Cost Sharing	667,638,700
Mental Retardation Services	861,197,800
Supplemental Payments	193,374,100
Administration & GOCCC	250,054,500
Total	\$7,636,173,800

State	\$1,975,934,000
Federal	5,428,969,900
Other	231,269,900



FY 2010 Budget Reductions and Add-Backs (State Dollars)

FY10 cuts mitigated by Recovery Act funds

Budget Item	Reduction	Add-Back
GOCCC	(\$866,600)	\$866,600
HCBS Waiver Administration	(944,900)	944,900
Information Systems - Defer Upgrade	(458,200)	458,200
Memphis City Schools Health Program	(250,000)	250,000
UT Pharmacy Contract	(97,800)	97,800
Critical Access Supplemental Payments	(3,475,200)	2,586,200
Essential Access Supplemental Payments	(34,752,000)	25,862,000
Graduate Medical Education	(17,376,000)	12,931,000
Meharry Grants	(4,737,600)	4,293,100
Perinatal Grants	(2,272,800)	2,272,800
DCS Reductions	(4,034,800)	2,998,500
DMRS Reductions	(12,675,300)	8,659,700
Dental Rates	(3,939,200)	2,931,500
MCO Admin Rates	(7,684,400)	5,718,600
Medicare Part A Rates	(12,354,500)	9,194,000
Nursing Home Rates	(22,857,900)	17,010,600
PACE Rate	(304,500)	226,600
Private ICF-MR Rates	(2,432,600)	1,810,300
Provider Medical and Behavioral Rates	(75,990,100)	56,550,900

(207,504,400) 155,663,300

FY10 cuts

Budget Item	Reduction
30-Day Retro Reimbursement to Nursing Homes	(\$13,761,800)
Auto-Inflators in Provider Contracts	(521,300)
Electronic Payment and Remittance Advices	(500,000)
F&A OIG Reduction	(199,600)
LTC Activities of Daily Living Requirement	(16,376,500)
Medically Needy - Postpone Expansion	(11,373,400)
Medstat Contract	(600,000)
Shared Health Contract	(6,000,000)

(49,332,600)

- All items on this slide were cut from the proposed FY10 budget, however funding for the items listed in the chart to the left was fully restored by non-recurring Recovery Act funds.
- Because the FMAP rate increased by 8.892 percentage points, less state dollars are needed to fully restore certain items. This results in the reduction figure not matching the add-back figure in some instances.
- For further detail and explanation of budget items please refer to the Appendix.



Budget Highlights

- Budgets for a projected 3% increase in Medicaid enrollment due to national economic downturn
- Increases Medicare Part B crossover reimbursement from 80% of Medicare allowable to 85% - affecting ambulance, durable medical equipment, and all other Medicare Part B providers
- Replaces the loss of federal CPE funds for nursing homes with recurring state appropriations
- Annualizes recurring funding for 2,300 HCBS slots partially funded in FY 2009



Conclusion

- TennCare is fortunate to be in a strong financial and operational position
- The Governor has stressed the importance of leaving the state on a good financial footing for the future
- We must continue to monitor and respond to increased needs due to the nation-wide economic downturn



Appendix

**Base Budget Reduction and Restoration Plans
All Funding Sources and Net Position Adjustment for Fiscal Year 2009-2010**

318.00 - TennCare Program

Red. Nbr	Description	State Appropriation						Total Reduction	Net Positions		
		General Fund		Dedicated	Total	Federal	Other		Filled	Vacant	Total
		Recurring	Non-Recurring								
1	Medstat Contract Eliminate the TennCare portion of the Medstat contract, which provides decision support services to the bureau. The bureau has developed an in-house analytics capacity.										
318.65	TennCare Administration	-600,000	0	0	-600,000	-600,000	0	-1,200,000	0	0	0
2	Shared Health Contract Eliminate the Shared Health contract for the on-going maintenance of an electronic medical records system.										
318.66	TennCare Services	-6,000,000	0	0	-6,000,000	-6,000,000	0	-12,000,000	0	0	0
3	Memphis City Schools Eliminate funding for the Memphis City Schools comprehensive school health program. The program provides consultation and case management. Medically necessary services will be provided through the MCOs. In fiscal year 2009-2010, services are continued with a non-recurring appropriation.										
318.65	TennCare Administration	-250,000	250,000	0	0	0	0	0	0	0	0
4	University of Tennessee Pharmacy Contract Eliminate funding for the contract with the University of Tennessee college of pharmacy to provide additional clinical oversight of the pharmacy program. In fiscal year 2009-2010, the contract will be continued with a non-recurring appropriation.										
318.65	TennCare Administration	-97,800	97,800	0	0	0	0	0	0	0	0
5	Electronic Payment and Remittance Mandate that all providers accept payments and remittance advice from TennCare electronically, which would result in mail/printing savings.										
318.65	TennCare Administration	-500,000	0	0	-500,000	-500,000	0	-1,000,000	0	0	0
6	HCBS Waiver Administration Streamline the Home and Community-Based Services (HCBS) program for the elderly and disabled by direct contracts between TennCare and the Area Agencies on Aging and Disability. Administration of the program is currently done by a contract with the Commission on Aging and Disability. Administrative responsibilities have been altered due to implementation of the Long Term Care Community Choices Act of 2008. In fiscal year 2009-2010, the contract with the Commission on Aging and Disability will be continued with a non-recurring appropriation. (See Aging Reduction #1.)										
318.67	Waiver and Crossover Services	-944,900	944,900	0	0	0	0	0	0	0	0
7	Information Systems Defer technology upgrades to the Medicaid Management Information System (MMIS). Upgrades in fiscal year 2009-2010 will be funded by a non-recurring appropriation.										
318.65	TennCare Administration	-458,200	458,200	0	0	0	0	0	0	0	0
8	Medically Needy Category Postpone indefinitely the expansion of the medically needy category.										
318.66	TennCare Services	-11,373,400	0	0	-11,373,400	-21,353,900	0	-32,727,300	0	0	0
9	Provider Contracts with Auto-Inflators Prohibit managed care organizations from including auto-inflator clauses in contracts with providers in their networks.										

* - An asterisk next to the reduction number indicates those items restored using funds from the American Recovery and Reinvestment Act of 2009, U.S. Public Law 111-5.

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		Recurring	Non-Recurring								
318.66	TennCare Services	-521,300	0	0	-521,300	-978,700	0	-1,500,000	0	0	0
10	30-Day Retroactive Eligibility										
	Eliminate the practice of granting 30-day retroactive eligibility on pre-admission evaluation applications for long term care services. Savings would be reflected in the absence of retroactive facility payments.										
318.68	Long Term Care Services	-13,761,800	0	0	-13,761,800	-25,838,200	0	-39,600,000	0	0	0
11	Long Term Care Eligibility Criteria										
	Require four activities of daily living (ADL) deficiencies to qualify for nursing home and HCBS programs. Currently, individuals are required to have one ADL deficiency to meet eligibility criteria, as enacted in the Long Term Care Community Choices Act of 2008.										
318.68	Long Term Care Services	-16,376,500	0	0	-16,376,500	-30,747,500	0	-47,124,000	0	0	0
12	Essential Access Hospital Payments										
	Eliminate funding for Essential Access Hospital supplemental payments for uncompensated care. In fiscal year 2009-2010, payments will be made from a non-recurring appropriation.										
318.66	TennCare Services	-34,752,000	25,862,000	0	-8,890,000	8,890,000	0	0	0	0	0
13	Graduate Medical Education										
	Eliminate funding for Graduate Medical Education payments to teaching hospitals and affiliated medical universities. In fiscal year 2009-2010, payments will be made from a non-recurring appropriation.										
318.66	TennCare Services	-17,376,000	12,931,000	0	-4,445,000	4,445,000	0	0	0	0	0
14	Meharry Hospital and Medical College Grants										
	Eliminate recurring funds for the Meharry Hospital Grant (\$3,000,000 state appropriations) and reduce by half the Meharry Medical College Grant (\$5,000,000 total; \$1,737,600 state appropriations). For fiscal year 2009-2010, these grants will be funded with non-recurring dollars.										
318.66	TennCare Services	-4,737,600	4,293,100	0	-444,500	444,500	0	0	0	0	0
15	Critical Access Hospital Payments										
	Eliminate funding for Critical Access Hospital supplemental payments for uncompensated care. In fiscal year 2009-2010, payments will be made from a non-recurring appropriation.										
318.66	TennCare Services	-3,475,200	2,586,200	0	-889,000	889,000	0	0	0	0	0
16	Perinatal Grants										
	Eliminate funding for perinatal grants to university hospitals for outreach and education. All medically necessary services to women and babies will still be provided through the MCOs. In fiscal year 2009-2010, the grants will be made from a non-recurring appropriation.										
318.65	TennCare Administration	-2,272,800	2,272,800	0	0	0	0	0	0	0	0
17	TennCare Share of DMRS Reductions										
	Division of Mental Retardation Services reductions as a part of the total TennCare reduction.										
318.67	Waiver and Crossover Services	-11,860,800	9,452,400	0	-2,408,400	4,090,200	0	1,681,800	0	0	0
318.68	Long Term Care Services	-814,500	-792,700	0	-1,607,200	-3,801,800	0	-5,409,000	0	0	0

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		Recurring	Non-Recurring								
	Sub-Total TennCare Share of DMRS Reductions	-12,675,300	8,659,700	0	-4,015,600	288,400	0	-3,727,200	0	0	0
18	TennCare Share of DCS Reductions Department of Children's Services reductions as a part of the total TennCare reduction.										
318.66	TennCare Services	-4,034,800	2,998,500	0	-1,036,300	340,100	0	-696,200	0	0	0
19	Governor's Office of Children's Care Coordination Reduce funding for contracts in the Governor's Office of Children's Care Coordination. In fiscal year 2009-2010, the contracts will be continued with a non-recurring appropriation.										
318.80	Governor's Office of Children's Care Coordination	-866,600	866,600	0	0	0	0	0	0	0	0
20	Medicare Part A Reimbursement Reduce reimbursement on a recurring basis for the Medicaid portion of Medicare Part A crossover services. Institutional crossover services would be reduced \$17,684,700 (\$6,145,800 state dollars), and dialysis services \$17,865,700 (\$6,208,700 state dollars). For fiscal year 2009-2010, these rates will be funded with non-recurring appropriations.										
318.67	Waiver and Crossover Services	-12,354,500	9,194,000	0	-3,160,500	3,160,500	0	0	0	0	0
21	Nursing Home Rates Reduce all nursing home reimbursement rates on a recurring basis by seven percent. For fiscal year 2009-2010, these rates will be funded with non-recurring appropriations.										
318.68	Long Term Care Services	-22,857,900	17,010,600	0	-5,847,300	5,847,300	0	0	0	0	0
22	MCO Administration Rate Reduce the amount of funding on a recurring basis included for managed care organization (MCO) administration, including claims processing. For fiscal year 2009-2010, these rates will be funded with non-recurring appropriations.										
318.66	TennCare Services	-7,684,400	5,718,600	0	-1,965,800	1,965,800	0	0	0	0	0
23	Provider Reimbursement and Co-Pay Reduce recurring MCO capitation rates with instructions to reduce provider payments by a set percentage. A co-pay would be instituted to effect a seven percent reduction in cost. For fiscal year 2009-2010, these rates will be funded with non-recurring appropriations.										
318.66	TennCare Services	-75,990,100	56,550,900	0	-19,439,200	19,439,200	0	0	0	0	0
24	Dental Provider Rate Reduce dental provider rates on a recurring basis by seven percent. For fiscal year 2009-2010, these rates will be funded with non-recurring appropriations.										
318.66	TennCare Services	-3,939,200	2,931,500	0	-1,007,700	1,007,700	0	0	0	0	0
25	Private ICF-MR Rates Reduce reimbursement rates for privately owned and operated Intermediate Care Facilities for the Mentally Retarded (ICF-MR) on a recurring basis by seven percent. For fiscal year 2009-2010, these rates will be funded with non-recurring appropriations.										
318.68	Long Term Care Services	-2,432,600	1,810,300	0	-622,300	622,300	0	0	0	0	0

* - An asterisk next to the reduction number indicates those items restored using funds from the American Recovery and Reinvestment Act of 2009, U.S. Public Law 111-5.

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		Recurring	Non-Recurring								
26	PACE Capitation Rates										
	Reduce capitation rates for the Program of All-Inclusive Care for the Elderly (PACE), a managed care HCBS program for the elderly and disabled located in Hamilton County, on a recurring basis by seven percent. For fiscal year 2009-2010, these rates will be funded with non-recurring appropriations.										
318.67	Waiver and Crossover Services	-304,500	226,600	0	-77,900	77,900	0	0	0	0	0
27	F&A - Office of Inspector General (F&A Proposal)										
	TennCare share of reductions proposed in Finance and Administration, Office of Inspector General. (See F&A Reduction #6.)										
318.65	TennCare Administration	-199,600	0	0	-199,600	-199,600	0	-399,200	0	0	0
Sub-Total TennCare Program		-256,837,000	155,663,300	0	-101,173,700	-38,800,200	0	-139,973,900	0	0	0

* - An asterisk next to the reduction number indicates those items restored using funds from the American Recovery and Reinvestment Act of 2009, U.S. Public Law 111-5.