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# KENTUCKY CABINET FOR HEALTH AND FAMILY SERVICES

**Budget Overview for the Department for Medicaid Services**  
**Prepared for the Budget Review Subcommittee on Health and Family Services**

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# Kentucky Medicaid at a Glance

- Approximately 1,612,898 eligible Kentuckians (as of December 2021)
  - 124,697 children covered under KCHIP
  - 590,096 adults over age 18 covered under Medicaid expansion (ACA)
  - 898,105 covered under traditional (Non-ACA), including Medicaid eligible children
- Over 59,300 enrolled providers
- \$14.6 billion in total SFY 2021 expenditures (administrative and benefits combined)

# What makes up the budget for the Department for Medicaid Services (DMS)?

- The overall budget is made up of two completely separate budgets:
  - **Benefits Budget (Department 748):**
    - FFS Mandatory Services
    - FFS Optional Services
    - Managed Care Capitation Payments (MCO and NEMT)
    - “Below the Line” items
    - Potential funding for Additional Budget Requests (ABRs)
  - **Administration Budget (Department 746):**
    - Contracts
    - State Share Transfers
    - Advance Planning Documents (APDs)
    - Personnel, Travel, and Operating Costs
    - Potential funding for Additional Budget Requests (ABRs)

# Administration Budget

DMS receives various levels of federal funding based on the Federal Medical Assistance Percentages (aka FMAP or FFP). However, the level of funding is handled differently based on the activity:

- Most administrative costs for DMS are matched at 50%
- 90% federal funding for necessary investments in information technology (via APDs)
- 75% federal match for operating expenses (via APDs)
  - DMS also receives 75% match on the payroll for skilled professional medical positions (i.e. pharmacists and nurses)

# Administration Budget (cont.)

	SFY 2020 ACTUAL	SFY 2021 ACTUAL	SFY 2022 Budgeted	SFY 2023 Gov. Rec. (HB285)	SFY 2024 Gov. Rec. (HB285)
General Fund	\$58,701,818	\$59,304,800	\$59,310,400	\$65,505,400	\$66,197,300
Restricted Agency Funds	\$4,262,989	\$10,643,664	\$12,568,700	\$55,261,400	\$48,678,500
Federal Funds	\$137,671,677	\$152,392,789	\$165,864,500	\$282,849,400	\$281,933,500
<b>TOTAL</b>	<b>\$200,636,484</b>	<b>\$222,341,253</b>	<b>\$237,743,600</b>	<b>\$403,616,200</b>	<b>\$396,809,300</b>

- The above budget appropriations provides funding for:
  - Employee Cost of Living Adjustments
  - Implementation of a Basic Health Plan
  - Administrative costs related to the HCBS 10% FMAP Reinvestment project contained in the CMS approved spending plan or Kentucky
  - Administrative costs related to further develop Medicaid Information Technology

# Benefits Budget

- The projected benefit expenditures are developed via a consensus forecasting group:
  - Department budget staff (DMS CFO and Fiscal Management Staff)
  - Cabinet Budget Staff (CHFS Budget Director and Office of Finance and Budget)
  - Economists from the Governor’s Office of Policy Management (GOPM Staff)
  - State Budget Director’s staff (Deputy State Budget Director and Budget Officers)
- By using historical data and various forecasting models, this group collectively projects and estimates Medicaid MCO enrollment (by MCO rate cell) and FFS expenditures (by category of service).
- The MCO enrollment projections are then placed into a cash model using estimated rates to estimate the MCO spend.
- The final product from this exercise is the “Consensus Forecast” that makes up the benefits budget projections.

# Benefits Budget (cont.)

DMS receives various levels of federal funding for benefits based on the Federal Medical Assistance Percentages (aka FMAP or FFP). The following are the blended rates assumed in our budget projection:

		<b>Blended Federal Match</b>			<b>Blended State Match</b>		
		<b>SFY 2022</b>	<b>SFY 2023</b>	<b>SFY 2024</b>	<b>SFY 2022</b>	<b>SFY 2023</b>	<b>SFY 2024</b>
Traditional Medicaid*		77.23%	72.32%	72.17%	22.78%	27.69%	27.83%
CHIP		84.06%	80.62%	80.52%	15.94%	19.38%	19.48%
Expansion		90.00%	90.00%	90.00%	10.00%	10.00%	10.00%

# Benefits Budget (cont.)

	SFY 2020 ACTUAL	SFY 2021 ACTUAL	SFY 2022 Budgeted	SFY 2023 Gov. Rec. (HB285)	SFY 2024 Gov. Rec. (HB285)
<b>General Fund</b>	\$1,983,649,500	\$2,018,893,700	\$1,934,395,200	\$1,979,330,200	\$2,420,964,600
<b>Restricted Agency Funds</b>	\$478,112,303	\$662,841,886	\$1,510,913,700	\$1,571,412,300	\$1,368,480,900
<b>Federal Funds</b>	\$9,381,017,327	\$11,703,230,341	\$11,483,841,700	\$11,680,185,100	\$11,999,338,100
<b>TOTAL</b>	\$11,842,779,130	\$14,384,965,927	\$14,929,150,600	\$15,230,927,600	\$15,788,783,600

- The SFY 2022 funding listed above reflects the appropriations currently budgeted but does not include the current year appropriation increase requests as follows:
  - \$709.1 million federal fund appropriation to cover the 6.2% FMAP for SFY 2022
  - \$16.7 million total appropriation to cover 10% FMAP Reinvestment (\$12.1 million in federal funds and \$4.6 million in restricted funds)



# Benefits Budget (cont.)

	SFY 2023			SFY 2024		
	HB285 (Gov Rec)	HB1	Difference	HB285 (Gov Rec)	HB1	Difference
Baseline	\$ 14,855,349,200	\$ 14,855,349,200	\$ -	\$ 14,540,867,800	\$ 14,540,867,800	\$ -
Extend \$29/day for Price Based Nursing Facilities	\$ 150,000,000	\$ 150,000,000	\$ -	\$ 150,000,000	\$ 150,000,000	\$ -
HCBS 10% FMAP Reinvestment	\$ 65,745,100	\$ 65,745,100	\$ -	\$ 49,047,900	\$ 49,047,900	\$ -
Implementation of a Basic Health Plan	\$ 116,100,000	\$ 116,100,000	\$ -	\$ 232,200,000	\$ 232,200,000	\$ -
Growth	\$ 31,489,200	\$ 31,489,200	\$ -	\$ 792,179,700	\$ 792,179,700	\$ -
additional Michelle P Slots	\$ 8,298,000	\$ 1,659,600	\$ (6,638,400)	\$ 16,596,000	\$ 3,319,200	\$ (13,276,800)
additional SCL Slots	\$ 3,946,100	\$ 3,946,100	\$ -	\$ 7,892,200	\$ 7,892,200	\$ -
HCBS Waiver Services Funding Initiatives	\$ -	\$ 48,311,000	\$ 48,311,000	\$ -	\$ 71,505,000	\$ 71,505,000
	<u>\$ 15,230,927,600</u>	<u>\$ 15,272,600,200</u>	<u>\$ 41,672,600</u>	<u>\$ 15,788,783,600</u>	<u>\$ 15,847,011,800</u>	<u>\$ 58,228,200</u>

- HB1 closely aligns with the Governor’s Recommended budget (HB285) with the following differences:
  - Michelle P Waiver Slots
    - ❖ Governor’s Recommended provides funding for 500 additional slots over the biennium while HB1 only provides funding for 100 additional slots
  - SCL Waiver Slots
    - ❖ Governor’s Recommended and HB1 both provide funding for 100 additional slots over the biennium
  - HCBS Waiver Services Funding Initiatives

# 1915(c) Waiver Long Term Reimbursement Considerations

## The American Rescue Plan Act (ARPA) is a one-time investment

- ARPA provides a **temporary 10% increase in federal funding** for Medicaid-funded HCBS services
- Use of funds must **align with a spending plan** submitted to and approved by CMS (partially approved 9/30/21) and **cannot be used for** reimbursement modifications not attested to within the documented plan (e.g., HB1 substitute 1)

## CMS requires an approved, justifiable rate methodology

- CMS does allow ARPA funding to be used for increased rates but does not permit flat, across the board (applied to all services and providers) increases that are justified within a documented rate methodology
- The **rate methodology needs to be demonstrated to and approved by CMS** in order to secure federal matching (e.g., waiver amendment and approval process required)
- A **rate study has been initiated by DMS** but will not be completed until fall 2022 (as the process entails a provider survey, which will take time) with the proposed rates and methodology subject to CMS review and approval, which is subject to CMS processes and timing

## Appendix K-driven rates are temporary and not the long-term base rate

- The current rates are based on approved **emergency Appendix K** increases
- The **current temporary rate increases will not qualify for federal funding at the close of the pandemic** as they are approved through Appendix K

# Fiscal Analysis of 1915(c) 10% Rate Increases

- **Currently HB1, substitute 1, provides some federal fund appropriations only**
  - In order to draw down federal funds, additional general funds will be necessary to implement the 10% rate increases
    - ❖ \$40.3 million in SFY 2023
    - ❖ \$95.2 million in SFY 2024
  - Based on this fiscal analysis, the funding provided for the additional slots in HB1 will only cover:
    - ❖ **SCL**: 43 additional slots in SFY 2023 and 34 additional slots in SFY 2024
    - ❖ **Michelle P**: 44 additional slots in SFY 2023 and 36 additional slots in SFY 2024
  - Current language states to use funding from the enhanced FMAP funds for Home and Community Based Services authorized by Section 9817 of the American Rescue Plan Act of 2021.
    - ❖ This type of rate increase was not included in the approved spending plan and will also require CMS approval.
- **Language in HB1, substitute 1, does not include the statement “pending CMS approval” which places the state into great financial risk**
  - If CMS approval is not obtained, the rate increase will be all state funds.
  - There will be challenges toward receiving CMS approval for this type of rate increase (documented on previous slide). However, with the absence of this language the state could be lawfully held to provide the increase without CMS approval.

# **QUESTIONS and/or Comments?**