

# **lowacare Medicaid Reform Act House File 841**

Last Action:

**House Floor**

April 20, 2005

## **Executive Summary Only**

**An Act relating to health care reform, including provisions relating to the medical assistance program, providing appropriations, providing effective dates, and providing for retroactive applicability.**

**Fiscal Services Division  
Legislative Services Agency**

### **NOTES ON BILLS AND AMENDMENTS (NOBA)**

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**EXECUTIVE SUMMARY  
NOTES ON BILLS AND AMENDMENTS**

**HOUSE FILE 841  
IOWACARE MEDICAID REFORM ACT**

**IOWACARE PROGRAM**

- Establishes the Iowacare Program, which includes a limited expansion of the Medical Assistance (Medicaid) Program, various reforms in the Medicaid Program, and appropriations.

- Specifies that the Bill does not take effect unless federal matching funds are received.

**MEDICAID EXPANSION**

- Beginning July 1, 2005, expands eligibility for the Medical Assistance Program for adults (ages 19 through 64) to 200% of the Federal Poverty Level, with the following limitations:

- Enrollment in the Program may be capped and services may be limited to remain within the amount appropriated.

- Covered benefits are limited to inpatient and outpatient hospital services, physician or licensed nurse practitioner services, dental services, and transportation only when offered by the provider. Further limits the services to specific diagnostic and procedure codes specified by the Department of Human Services (DHS).

- Requires Iowacare enrollees to receive a medical examination and personal health assessment within 90 days of enrollment. The Program will also include access to a pharmacy assistance clearinghouse and a 24-hour medical information hotline to assist members in making choices about emergency room usage.

- Limits covered providers to the University of Iowa Hospitals and Clinics (UIHC), Broadlawns Hospital in Polk County, and the four State Mental Health Institutes (MHIs).

- Requires Iowacare enrollees to pay a monthly premium not to exceed one-twelfth of five percent of the member's annual income for a minimum of four months.

- Requires Disproportionate Share Hospitals and Indirect Medical Education funds to be allocated to the hospitals. This funding will supplement the Medicaid expansion funding and ensure the hospitals are held harmless under the new Program.

**REBALANCING LONG-TERM CARE**

- Beginning July 1, 2005, increases the level of care requirements for Medicaid reimbursed Nursing Facility services, but maintains the level of care requirements for Home and Community-Based Waiver services.

- By July 1, 2007, requires the DHS to develop and implement a case-mix reimbursement rate system for Intermediate Care Facilities for the Mentally Retarded.

- Requires the DHS to provide services to 300 children that require behavioral health care and meet level of care requirements. This is similar to requirements in HF 538 (Behavioral Health Waiver).

**EXECUTIVE SUMMARY  
NOTES ON BILLS AND AMENDMENTS**

**HOUSE FILE 841  
IOWACARE MEDICAID REFORM ACT**

**HEALTH PROMOTION  
PARTNERSHIPS**

- Beginning July 1, 2006, requires the DHS to implement a strategy to provide dietary counseling to assist members with weight loss.
- By October 1, 2006, requires the DHS to develop a strategy for expanding utilization of electronic medical records.
- By January 1, 2007, requires the DHS to implement a provider incentive payment program.
- By January 1, 2007, requires the DHS to work with other entities to assess the physical health of persons with mental retardation or developmental disabilities.
- By July 1, 2007, requires the DHS to implement a Program reduce smoking among Medicaid recipients with a goal of less than one percent for children, and less than 10.0% for adults.
- By July 1, 2008, requires Medicaid recipients to have a dental home and receive preventive dental care.

**IOWA MEDICAID ENTERPRISE**

- Requires the DHS to provide annual reports on the cost and quality of care provided through Medicaid, and the performance of each component of the Iowa Medicaid Enterprise (fiscal agent contract).
- Establishes a Clinicians Advisory Panel to review and make recommendations on clinically appropriate health care utilization.
- Establishes a Health Care Services Pricing Advisory Council to review and make recommendations on the pricing of Medicaid services.

**GOVERNANCE**

- Establishes a legislative Medical Assistance Projections and Assessment Council to make quarterly cost projections for the Medicaid Program, and review quarterly reports on all aspects of the Medicaid expansion. The Council is also required to assure that the expansion population is managed within the appropriation under the assumption that no supplemental funding will be provided.
- Requires the DHS, Department of Management, and the Legislative Services Agency to provide a joint consensus projection annually for submission to the Council. By December 15 of each fiscal year, requires the Council to agree to a projection of expenditures for the fiscal year beginning the following July 1.

**ENHANCING THE FEDERAL-STATE  
PARTNERSHIP**

- Specifies that Medicaid payments to providers be based on actual costs and that providers retain 100.0% of the payments earned. This provision forecloses future Intergovernmental Transfers (IGTs) that are being discontinued by the federal government.

**EXECUTIVE SUMMARY  
NOTES ON BILLS AND AMENDMENTS**

**HOUSE FILE 841  
IOWACARE MEDICAID REFORM ACT**

**ENHANCING THE FEDERAL-STATE  
PARTNERSHIP (CONTINUED)**

- Requires the DHS to contract a Certified Public Accountant to report the State’s compliance with the above requirement, implementation of new provider taxes, and that the State is not recycling federal Medicaid funds.
- Establishes the Account for Health Care Transformation. The Account will receive revenue from two financing proposals previously enacted by the General Assembly and waiting federal approval. If approved, the two proposals provide approximately \$40.0 million in one-time federal funds that are deposited in the Fund.
- Requires a separate subaccount for Iowacare premiums.
- The Bill specifies that the one-time funds will be used only for costs associated with the Iowacare Act, including the Health Promotion Partnerships and other new requirements in the Bill.
- Establishes the Iowacare Account. The Account is a pass-through account for appropriations to UIHC, Broadlawns Hospital, and the MHIs under the Iowacare Program. The funding sources for the appropriations are State matching funds and the following federal revenues:
  - Federal Medicaid funds for the new Medicaid expansion program.
  - Federal Disproportionate Share Hospitals (DSH) funds.
  - Federal Indirect Medical Education (IME) funds.
- Requires the three entities to be paid in one-twelfth monthly allotments. At the close of each fiscal year the DHS will determine how much of the total payments to each facility are due to Medicaid expansion, DSH, IME, and other State funds.
- Requires Broadlawns Hospital to transfer \$34.0 million in property tax collections to the Iowacare Account annually. This \$34.0 million provides the State match for approximately \$53.2 million in Federal matching funds under the Medicaid expansion, DSH, and IME Programs.
- Requires an agreement between Broadlawns Hospital and the DHS to be finalized by July 1, 2005
- Requires the State and any county utilizing Broadlawns Hospital mental health services to continue to pay Broadlawns Hospital for mental health services for the Medicaid expansion population. The payment is based on the per day amount per patient paid in FY 2005.
- Specifies that no provision in the Iowacare Act may be construed as an entitlement.
- Requires an audit by the State Auditor by January 1, 2010, and repeals the Program on June 30, 2010.
- Requires the DHS, at its discretion, to make payments for one-time costs specifically resulting from implementing the Act.

**IOWACARE ACCOUNT**

**LIMITATIONS**

**EXECUTIVE SUMMARY  
NOTES ON BILLS AND AMENDMENTS**

**HOUSE FILE 841  
IOWACARE MEDICAID REFORM ACT**

**CORRESPONDING PROVISIONS**

**PHARMACY COPAYMENTS**

**MEDICAL AND SURGICAL  
TREATMENT OF INDIGENT  
PERSONS AND OBSTETRICAL AND  
NEWBORN INDIGENT CARE**

**STATE MEDICAL INSTITUTION**

**APPROPRIATIONS – IOWACARE  
ACCOUNT**

- Makes various conforming changes and requirements necessary for the DHS to implement the Iowacare Act, including applying for waivers from the federal Center for Medicare and Medicaid Services (CMS).
- Adjusts current Medicaid Program copayments for prescription drugs to conform to the Preferred Drug List implemented January 15, 2005.
- Restores language related to obstetrical and newborn indigent patient care within the Department of Public Health.
- Eliminates the Indigent Care Program (also known as the State Papers Program) within the UIHC and makes conforming changes. The Indigent Care Program is being replaced by the Iowacare Medicaid expansion. The Program is also supplemented by the new DSH and IME Programs established under this Bill.
- Establishes a State Medical Institution comprised of the four MHIs and the State Resource Centers at Glenwood and Woodward. This does not affect the operations of the facilities. The change will allow federal Medicaid matching funds and federal DSH funds to be used by the MHIs.
- Appropriates \$93.2 million from the Iowacare Account for FY 2006, including:
  - \$27.3 million to the UIHC.
  - \$40.0 million to Broadlawns Hospital. Of this amount, \$36.0 million is allocated in 12 equal, monthly payments. Any amount above \$36.0 million is allocated if federal matching funds are available, up to \$40.0 million.
  - A total of \$25.9 million to the four MHIs, including:
    - \$9.1 million to the Cherokee MHI.
    - \$2.0 million to the Clarinda MHI.
    - \$9.0 million to the Independence MHI.
    - \$5.8 million to the Mount Pleasant MHI.
- The appropriations are a combination of State and federal matching funds. The source of the State match for all appropriations is the Broadlawns Hospital property tax levy of \$34.0 million. The federal matching funds are derived from the Medicaid expansion, DSH, and IME. The amount from each source will be determined over the course of the fiscal year based on the number enrolled and amount expended for the Medicaid expansion. Amounts not covered by the Medicaid expansion funds will come from DSH, IME, and if necessary, 100.0% State funds to fund the entire appropriations.

**EXECUTIVE SUMMARY  
NOTES ON BILLS AND AMENDMENTS**

**HOUSE FILE 841  
IOWACARE MEDICAID REFORM ACT**

**APPROPRIATIONS – ACCOUNT FOR  
HEALTH CARE TRANSFORMATION**

- Appropriates \$4.1 million from the Account for Health Care Transformation for FY 2006, including:
  - \$136,500 for medical examinations and development of personal health improvement plans.
  - \$150,000 for the Medical Information Hotline.
  - \$150,000 for the Insurance Cost Subsidy Program.
  - \$50,000 for the Health Care Account Program.
  - \$100,000 for Electronic Medical Records.
  - \$550,000 for other Health Care Partnership activities.
  - \$100,000 for required audits, performance evaluations, and studies related to the Program.
  - \$910,000 for the DHS administrative costs of implementing the Program, eligibility determination, system changes, and other start-up costs.
  - Transfers \$2.0 million to the Iowacare Account for the State match for payments to Broadlawns Hospital in excess of \$34.0 million.

**EFFECTIVE DATES**

- The provisions requiring the DHS to apply for waivers from the federal CMS take effect upon enactment.
- All other provisions do not take effect unless the DHS receives CMS approval of required waivers and State Plan Amendments for the Medicaid Program.

**DEAPPROPRIATIONS**

- If the Iowacare Act is enacted, the FY 2006 State General Fund appropriations to the UIHC Indigent Care Program and the MHIs will be reduced by amounts equal to the appropriations from the Hospital Trust Fund, including:
  - \$27.3 million for the UIHC
  - \$25.9 million to the MHIs.
- The funds are transferred to the Medical Assistance (Medicaid) Program to offset the loss in revenue to the State resulting from the elimination of IGTs. The total estimated revenue loss to the State is \$66.1 million.
- In addition, the Bill deappropriates \$22.9 million from the Hospital Trust Fund to Medicaid in FY 2006.

**FISCAL IMPACT**

- The IGTs were estimated to provide approximately \$66.1 million in State revenue to the Medicaid Program in FY 2006. The elimination of IGTs by the CMS results in an estimated State shortfall in the Medicaid Program of \$66.1 million in FY 2006. This would have resulted in a FY 2006 supplemental appropriation need.

**EXECUTIVE SUMMARY  
NOTES ON BILLS AND AMENDMENTS**

**HOUSE FILE 841  
IOWACARE MEDICAID REFORM ACT**

**FISCAL IMPACT (CONTINUED)**

- This \$66.1 million in federal revenue has drawn approximately \$115.0 million in federal matching funds, for a total of \$181.1 million in total funds for the Medicaid Program.
- Under current law, the Indigent Care Program, the MHIs, and Broadlawns Hospital utilize \$89.2 million in 100.0% State and county funds to provide coverage to approximately 30,000 indigent and uninsured Iowans.
- House File 841 establishes a new, limited Medicaid coverage group to provide care to these 30,000 Iowans. The new Program is structured to serve the same number of Iowans, but with 63.6% federal matching funds, reducing the State/county cost to serve 30,000 Iowans to approximately \$34.0 million.
- This estimated State and county savings of \$55.2 million is transferred to the Medicaid Program to help offset the loss of the \$66.1 million in IGT revenues, for a remaining net cost of \$12.9 million. This assumes that the Program is able to draw federal matching funds for 100.0% of the Program cost.
- The Medicaid Expansion Program will likely not cover all 30,000 Iowans. The DSH and IME funds are to offset what is not covered by the Medicaid expansion. However, DSH and IME funds are limited by federal rules. The amount that will be covered by Medicaid expansion versus DSH and IME funds is not known. If DSH and IME funds are not sufficient to fully cover any gap between the amount appropriated and the amount covered by the Medicaid expansion, the remaining gap would be covered by 100.0% State funds. This would increase the cost to the State above the \$12.9 million net cost estimated if federal matching funds are available for the entire Program.
- House File 841 appropriates from the Hospital Trust Fund the same amount that is deappropriated to ensure the four MHIs, UIHC, and Broadlawns Hospital are held harmless. The institutions are guaranteed to receive these payments in one-twelfth installments annually. However, it is possible that the hospitals covered by the Iowacare Act and/or hospitals not covered by the Iowacare Act may experience a net increase in uncompensated care due to the potential redistribution of uninsured patients among hospitals statewide.
- Any net cost due to these changes is not addressed in HF 841 or HF 825 (FY 2006 Health and Human Services Appropriations Bill) and would need to be addressed in an FY 2006 supplemental appropriation to the Medical Assistance (Medicaid) Program. Broadlawns Hospital receives a guaranteed net increase of \$2.0 million as a result of this Bill, with the opportunity for an increase of \$6.0 million if expenditures are federally matchable. The financing is based on the \$6.0 million being funded with \$2.0 million of State funds (from the Health Care Transformation Fund) and \$4.0 million federal matching funds. It is uncertain whether it will be possible to fully match the \$6.0 million increase. Any unmatched amounts would add to the net cost of the Bill as discussed above.
- In addition to the net State General Fund impact, \$40.0 million in one-time federal funds are deposited in the Fund for Health Care Transformation. The Bill specifies that the monies will be used for implementation of the Iowacare Act.

# Summary Data

## General Fund

H.F. 841	Estimated FY 2005 <u>(1)</u>	Gov Rec FY 2006 <u>(2)</u>	House Action FY 2006 <u>(3)</u>
Education	\$ 27,284,584	\$ 27,284,584	\$ -27,284,584
Health and Human Services	<u>43,882,052</u>	<u>43,974,752</u>	<u>27,284,584</u>
Grand Total	<u>\$ 71,166,636</u>	<u>\$ 71,259,336</u>	<u>\$ 0</u>



# Education

## General Fund

H.F. 841	Estimated	Gov Rec	House Action
	FY 2005	FY 2006	FY 2006
	(1)	(2)	(3)
<b><u>Regents, Board of</u></b>			
Indigent Patient Program: UIHC	\$ 27,284,584	\$ 27,284,584	\$ -27,284,584

# Health and Human Services

## General Fund

H.F. 841	Estimated FY 2005	Gov Rec FY 2006	House Action FY 2006
	(1)	(2)	(3)
<b><u>Human Services, Department of</u></b>			
<b>Medical Services</b>			
Medicaid Increase	\$ 0	\$ 0	\$ 53,158,795
<b>MH/MR/DD/BI</b>			
Cherokee MHI	12,986,389	13,074,889	-9,098,425
Clarinda MHI	7,439,591	7,439,591	-1,977,305
Independence MHI	17,324,891	17,329,091	-9,045,894
Mt. Pleasant MHI	6,131,181	6,131,181	-5,752,587
<b>Total MH/MR/DD/BI</b>	43,882,052	43,974,752	-25,874,211
<b>Total Health and Human Services</b>	\$ 43,882,052	\$ 43,974,752	\$ 27,284,584

# Health and Human Services

## Non General Fund

H.F. 841	Estimated FY 2005 <u>(1)</u>	Gov Rec FY 2006 <u>(2)</u>	House Action FY 2006 <u>(3)</u>
<b><u>Human Services, Department of</u></b>			
UIHC Indigent Patient-ICA	\$ 0	\$ 0	\$ 27,284,584
Broadlawns Hospital-ICA	0	0	40,000,000
Cherokee MHI-ICA	0	0	9,098,425
Clarinda MHI-ICA	0	0	1,977,305
Independence MHI - ICA	0	0	9,045,894
Mt. Pleasant MHI-ICA	0	0	5,752,587
Medical Exams - HCTA	0	0	136,500
Medical Hotline - HCTA	0	0	150,000
Insurance Subsidy - HCTA	0	0	150,000
Health Care Account - HCTA	0	0	50,000
Elec. Med. Records - HCTA	0	0	100,000
Partner Activities - HCTA	0	0	550,000
Audits Studies - HCTA	0	0	100,000
DHS Administration - HCTA	0	0	910,000
Hospital Trust Fund	0	0	-22,900,000
<b>Total Health and Human Services</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 72,405,295</b>