Legislative Fiscal Bureau

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February 16, 2005

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 102/Senate Bill 64: Medical Assistance, SeniorCare, and BadgerCare Funding Adjustments

SUMMARY OF BILLS

Assembly Bill 102 and Senate Bill 64 are companion bills that would provide $132,034,000 GPR in 2004-05 to address a projected shortfall in state funding for benefits provided under the medical assistance (MA) program and SeniorCare, Wisconsin's prescription drug assistance program for residents 65 years of age and older. In addition, the bills would reduce, by $9,500,000 GPR in 2004-05, funding currently budgeted for BadgerCare, Wisconsin's health care program for certain individuals in low-income families with dependent children who are not eligible for MA.

The net effect of the bills would be to increase authorized GPR spending by $72,534,000 in 2004-05 and to transfer $50,000,000 in 2004-05 from the general fund to the MA trust fund. Consequently, the bills would reduce the estimated general fund balance by $122,534,000 in 2004-05.

FISCAL EFFECT

The projected shortfall in benefits funding for SeniorCare and the projected surplus in the BadgerCare appropriation were identified in the January 25, 2005, letter from this office to the Committee's Co-Chairs regarding projected general fund revenues and spending for 2004-05 and general fund revenues for the 2005-07 biennium. The funding amounts in the bills reflect these estimates.

In addition, the bills would provide $119.8 million in 2004-05 to partially address the projected $193.5 million shortfall in MA benefits funding that was identified in the January 25 letter. This funding would be provided by: (a) increasing GPR MA benefits funding by $69.8 million; and (b) transferring $50 million from the general fund to the MA trust fund to support the current authorized spending level from this source for MA benefits costs.

Finally, the bills would repeal the statutory $40 million general fund balance requirement for fiscal year 2004-05.

SeniorCare. It is estimated that an additional $12,234,000 will be needed to fully fund SeniorCare benefits through June 30, 2005. This projected shortfall is largely attributable to two factors. First, as passed by the Legislature, the 2003-05 biennial budget bill would have increased the copayment for brand name drugs from $15 to $20, reducing the general purpose revenue (GPR) costs of program benefits by an estimated $9.9 million in the biennium. Although the Governor vetoed this provision from the bill to maintain the $15 copayment, his veto was unable to restore GPR funding that had been deleted from the bill to reflect these projected savings. Consequently, the amount of GPR budgeted for SeniorCare benefits in the 2003-05 biennium was $9.9 million less than the projected costs of the program, based on the estimates of the enacted budget (2003 Act 33).

Second, the actual average cost of providing drugs to SeniorCare recipients has exceeded Act 33 budget projections. For example, as passed by the Legislature, the funding amounts assumed that the average state (GPR) and federal (FED) cost of providing benefits to SeniorCare recipients would be approximately $626 ($310 GPR and $316 FED) in 2003-04. The actual average state and federal cost of providing benefits to SeniorCare recipients in 2003-04 was $897 ($430 GPR and $467 FED), or approximately 43% greater than the budget estimate. This increase in the average costs is due to several factors, including greater costs borne by the program due to the partial veto regarding recipients' copayments.

Significantly fewer individuals have enrolled in SeniorCare in the 2003-05 biennium than had been projected under the Act 33 budget assumptions. As of the end of January, 2005, approximately 88,400 individuals were enrolled in the program, compared with 114,700 that were projected to be enrolled in the program at that time under the Act 33 budget assumptions. However, the higher average state costs of providing benefits to SeniorCare enrollees have more than offset the savings that would have otherwise occurred due to the lower enrollment.

BadgerCare. It is estimated that the GPR funding budgeted for BadgerCare will exceed projected costs by approximately $9,500,000. This surplus is primarily due to lower enrollment than had been projected in Act 33. Enrollment has decreased approximately 19.6% from its peak in March, 2004 (114,200), to the end of January (91,800).

This decrease may be due to a provision enacted in Act 33 that requires BadgerCare applicants to verify, in a manner specified by the Department of Health and Family Services (DHFS), from his or her employer: (a) his or her earnings; (b) whether the employer provides health care coverage for which the family is eligible; and (c) the amount that the employer pays, if any, toward the cost of the employee's coverage. DHFS began implementing this policy in May, 2004. Previously, after a family had applied for, and was determined to be eligible for, BadgerCare, DHFS sought verification by sending forms to employers.

Because the BadgerCare program is funded from a continuing appropriation, a surplus in any year does not lapse, but carries forward to the next fiscal year. Consequently, the bills would reduce funding for BadgerCare in 2004-05 to make this funding available to partially address the projected SeniorCare shortfall.

Medical Assistance. It is estimated that approximately $193.5 million in state funds will be needed to support projected MA benefits costs through June 30. 2005. This estimate has two components.

First, approximately $123.7 million will be needed to address a projected deficit in the MA trust fund, which supports a portion of the state's share of MA benefits costs. This deficit occurred because the state did not obtain federal approval to implement several initiatives enacted in 2003 Act 33 (the biennial budget act), which would have increased the amount of federal revenues deposited to the MA trust fund.

Second, approximately $69.8 million will be needed to support costs that exceed the amounts currently budgeted for MA benefits. Several factors have contributed to this projected shortfall, including caseload growth that exceeded Act 33 projections, increases in the cost of providing certain services, increases in the cost of paying Medicare Part A and Part B premiums that the state is required to pay on behalf of certain dually-eligible individuals.

By providing $119.8 million to address the projected MA shortfall, the bills would reduce, from $193.5 million to $73.7 million, the projected 2004-05 shortfall in MA benefits funding.

2004-05 General Fund Balance. If AB 102/SB 64 were to be enacted, the gross, ending balance of the general fund for 2004-05 would be an estimated $6.9 million.

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