

## **Oklahoma Health Care Authority SFY2011 Budget Perspective**

In state fiscal year 2010, the Oklahoma Health Care Authority trimmed more than \$38 million in state funds from the SoonerCare program including \$4.3 million from its administrative costs. The last \$5 million of the budget reduction came in the form of a 3.25 percent overall provider rate cut effective April 1. These cuts ultimately resulted in a total program reduction of more than \$110 million because of the corresponding reduction in federal Medicaid matching funds not including the loss of an additional \$38 million in federal economic stimulus money.

Looking ahead to state fiscal year 2011, the Oklahoma Health Care Authority estimates it will need \$1.098 billion in state funds to run the program as statutorily directed to cover the increasing growth in the number of people and the increased utilization of health care services. The agency expects to serve more than 894,000 Oklahomans in the upcoming fiscal year, 200,000 more people than served in state fiscal year 2005.

We have been asked to assume an appropriation of \$937 million, less 10 percent (or \$94 million) for a revised appropriation of \$843 million as the state funding level for July 1. With this assumption, the agency estimates it will need \$255 million in program cuts to achieve a balanced budget.

### **What is the economic impact of the reduction?**

Based on the methodology used by the National Center for Rural Health Works, OSU in the report issued in January 2007, "The Economic Impact of the Medicaid Program on Oklahoma's Economy," the loss of \$255 million state dollars (at the standard federal medical assistance percentage "FMAP" of 64.43 percent) would result in the following potential economic impact:

- Health Care Provider Revenue Lost: \$717 million;
- Direct Jobs Impacted: 17,000 direct jobs in jeopardy (with direct income of \$382 million lost);
- Indirect Jobs Impacted: 9,900 indirect jobs in jeopardy (with indirect income of \$217 million lost);
- Impact on State Sales Tax, State Income Tax and Other Taxes: \$87 million potentially lost.

This does not include the additional loss of more than \$100 million from federal economic stimulus money for the six-month period of July through December 2010.

### **If we assume Oklahoma does intend to continue its SoonerCare (Medicaid) program, then the following cuts are required to file a balanced budget.**

Optional adult benefits such as end stage renal disease treatment (ESRD/dialysis), pharmacy, behavioral health, dental, durable medical equipment and other services such as podiatry and eye care can be eliminated at the state's option. However, it will shift costs to mandatory benefit expenditures. For example, without appropriate medication, members will become more critically ill and require much more expensive medical treatment.

<u>Optional Service</u>	<u>People Served (adults)</u>	<u>State Dollars</u>
ESRD/dialysis	2,000	(\$4.9 million)
Prescription drugs	110,000	(\$55.5 million)
Behavioral health	20,000	(\$12.3 million)
Durable Medical Equipment (DME)	56,000	(\$12.4 million)
Dental	27,000	(\$6.4 million)
Other (podiatry, eye care, etc.)		(\$1 million)
Assuming total elimination of all optional benefits (state share)		(\$92.5 million)
(Note: savings are unrealistic as it shifts to mandatory benefit services)		
Balance on overall provider rate reductions (19 percent cut)		(\$162.5 million)

At a 10 percent reduction level, a \$92.5 million reduction in optional services (which does not result in real savings) leaves \$162.5 million left to be cut primarily from what the agency pays for services to adults and children. This would result in an overall provider rate reduction of 19 percent. In state fiscal year 2011, the agency estimates an annual savings of \$8.7 million state dollars for each percentage point cut in overall provider rates.

To file a balanced budget at the 10 percent reduction level, the agency must reduce the program by \$255 million state dollars which requires a total program reduction of more than \$1 billion dollars due to the loss of federal Medicaid matching dollars. A 10 percent cut in appropriation below current year base is actually a 30 percent cut due to the need to fund the unavoidable increase in qualified people and increase in people accessing services. It also slashes the total OHCA SoonerCare (Medicaid) program by almost one-third (\$3.5 billion - \$1 billion = \$2.5 billion).

This would impact more than 10,000 contracted physicians and another 3,500 physician groups in clinics. The agency contracts with more than 1,100 pharmacies, 900 dentists, 350 nursing facilities, 1,000 behavioral health providers and 700 hospitals. Anecdotally, we know that there are nursing homes, pharmacies and behavioral health providers whose Medicaid revenue comprises more than 80 percent of their total revenue.

According to a recent Oklahoma State Medical Association survey, more than two-thirds of physicians will stop seeing SoonerCare members if rates are cut 10 percent.

- How many hospitals and nursing homes, many of which are the largest employers in many communities across Oklahoma, can stay financially viable with a 19 percent reduction in Medicaid rates in addition to Medicare cuts at the federal level? (Remember, the current rate cut is 3.25 percent.)
- How many locally-owned pharmacies can afford to keep their doors open?
- How many physicians and dentists will decide they can no longer afford to see nearly 900,000 Oklahomans with a SoonerCare card?