

MEMORANDUM

TO: Legislative Coordinating Council and Governor Laura Kelly

FROM: Division of the Budget and Kansas Legislative Research Department

DATE: April 20, 2022

SUBJECT: Spring 2022 Human Services Consensus Caseload Estimates for FY 2022 and FY 2023

The Division of the Budget, Department for Children and Families (DCF), Department of Health and Environment (KDHE), Department for Aging and Disability Services (KDADS), and the Kansas Legislative Research Department (Consensus Group) met on April 14, 2022, to revise the estimates on human services consensus caseload expenditures for FY 2022 and FY 2023. The caseload estimates include expenditures for Temporary Assistance for Needy Families, the Reintegration/Foster Care Contracts, KanCare Regular Medical Assistance, and KDADS Non-KanCare. A chart summarizing the estimates for FY 2022 and FY 2023 is included at the end of this memorandum.

The starting point for the April 2022 estimates was the budget approved by the 2022 Legislature for FY 2022 and FY 2023, as represented in House Sub. for Sub. for SB 267. The estimate for FY 2022 is an increase of \$110.4 million from all funding sources, and a State General Fund decrease of \$12.6 million, compared to the FY 2022 approved amount. The estimate for FY 2023 is an increase of \$221.5 million from all funding sources and a State General Fund increase of \$61.3 million above the FY 2023 approved amount. **The combined estimate for FY 2022 and FY 2023 is an all funds increase of \$331.9 million, and a State General Fund increase of \$48.7 million, above the approved amount.**

The administration of KanCare within the state is accomplished by KDHE maintaining financial management and contract oversight, including regular medical services, while KDADS administers the Medicaid Waiver programs for disability services, as well as long-term care services, mental health and substance abuse services, and the state hospitals. In addition, the Department of Corrections (DOC) administers the part of KanCare related to youth in custody. The DOC KanCare expenditures have been included in the KDHE budget since FY 2018. Throughout this memorandum, KanCare Medical estimates include all Medicaid KanCare expenditures for all agencies.

FY 2022

For FY 2022, the revised estimate for all human service consensus caseloads is \$4.1 billion from all funding sources, including \$1.1 billion from the State General Fund. This is an all funds increase of \$110.4 million, and a State General Fund decrease of \$12.6 million, compared to the budget approved by the 2022 Legislature.

Temporary Assistance for Needy Families and Foster Care

The FY 2022 estimate for the Temporary Assistance for Needy Families (TANF) program is \$10.5 million, all from federal funds, which is an increase of \$1.5 million above the approved amount. The caseload increase is attributed to the elimination of COVID-19 stimulus funds and reduced unemployment benefits post pandemic. Estimated expenditures for the Foster Care program in FY 2022 are \$254.9 million, including \$167.4 million from the State General Fund. The estimate is a decrease of \$4.1 million from all funding sources, and a decrease of \$6.6 million from the State General Fund. The caseload is projected to decrease by 3.8 percent in FY 2022 and is in large part attributed to the Families First Prevention Services Act. As this program continues to grow, foster care caseloads are expected to decrease further. It is estimated that contract costs will continue to fluctuate based on acuity levels and service needs of children which can impact placement costs and needed supports.

KanCare Medical

The FY 2022 estimate for KanCare Medical is \$3.8 billion from all funding sources, including \$942.7 million from the State General Fund. This an increase of \$114.4 million from all funding sources, and a State General Fund decrease of \$6.0 million, compared to the budget approved by the 2022 Legislature. The KanCare Medical estimate includes medical expenditures for KDHE and KDADS.

The KanCare Medical all funds increase is partially attributable to an increase in capitation expenditures from continued member growth. The increase is a result of higher estimated population growth as compared to estimates made last fall due to an extension of the Public Health Emergency (PHE) which extends federal restrictions on removing individuals from Medicaid until the end of the month in which the PHE ends, as a condition of accepting the increase of 6.2 percentage-points in the Federal Medical Assistance Percentage (FMAP) match rate. Since the October 2021 estimates, additional months of actual population data under the PHE have been received. For FY 2022 actuals through February 2022, caseload populations have grown at an average of 3,559 members per month. For FY 2021 this average was at 3,487 members per month. Based on this data, it is now estimated that the number of KanCare Medicaid members could exceed 420,000 by the end of FY 2022.

The all funds increase is also attributable to new pandemic-related policies mandated by the federal Centers for Medicare and Medicaid Services (CMS) and agency policy changes for certain optometry and global pregnancy services. Increased estimates for disproportionate share (DSH) payments to hospitals, as well as Medicare buy-in payments, also contributed to the increase. Additional funding, based upon current cost reports, is included for Certified Community Behavioral Health Clinics (CCBHCs) estimated expenditures. An offset to the all funds increase is a reduction in the estimate for the Support and Training to Employ People Successfully (STEPS) pilot program, as the program has not grown as quickly as originally expected after implementation. STEPS is an

extension of the working healthy program that allows individuals between the ages of 16 and 65 who meet the Social Security Administration definition of disability and are not being served by a home and community-based services waiver, to receive supportive employment services.

The State General Fund decrease is primarily attributable to the federal Families First Coronavirus Response Act which provides states a temporary 6.2 percentage-point increase to the FMAP. The increased FMAP is in effect for all of FY 2022, raising the FY 2022 FMAP from its base of 60.04 percent to 66.24 percent. The extension of the increased FMAP through all of FY 2022 is a change from the October 2021 estimates. Under the October 2021 caseload estimates, it was assumed the increased FMAP would be in effect for the first, second, and third quarters of FY 2022. This change represented a savings of approximately \$35.0 million for KDHE and \$35.0 million for KDADS from the Fall 2021 estimate to the current estimate for FY 2022. The temporary increase in the FMAP began on January 1, 2020 and extends through the last day of the calendar quarter in which the PHE is declared terminated by the federal Department of Health and Human Services. The federal Centers for Medicare and Medicaid Services will inform states when the PHE period for COVID-19 ends. The caseload estimates include enhanced funding through September 2022 as the current PHE is scheduled to continue through July of 2022.

Partially offsetting the State General Fund reduction is a decrease of \$13.6 million in the estimate of revenue from the Medical Assistance Fee Fund (HMO Privilege Fee) and a \$1.8 million decrease from the Nursing Facility Provider Assessment (Bed Tax) that is available to offset State General Fund obligations based upon Spring 2022 consensus revenue estimates.

Expenditures for Medicaid Expansion are not included in the KanCare Medical estimates for FY 2022 or FY 2023. While the additional funding for Medicaid expansion was included in the Governor's recommended budget for FY 2023, the funding was not approved by the 2022 Legislature. House Sub. for Sub. for SB 267 does include provisions so that funding can be added if Medicaid expansion legislation were to pass prior to the end of the 2022 Legislative Session. Because the expansion of Medicaid eligibility was not approved by the 2022 Kansas Legislature at the time of the Consensus Group meeting, the money was not factored into the estimated caseload expenditures for either fiscal year.

KDADS Non-KanCare

The estimate for KDADS Non-KanCare is \$38.0 million, including \$24.6 million from the State General Fund. This is a decrease of \$1.4 million from all funding sources from the amount approved by the 2022 Legislature. The decrease is primarily attributable to a correction to the state match rate for waiver assessments and is a decrease in federal funds only.

FY 2023

The FY 2023 revised estimate is \$4.4 billion from all funding sources, including \$1.4 billion from the State General Fund. The estimate is a change from the amount approved by the 2022 Legislature, reflecting an all funds increase of \$221.5 million, including \$61.3 million from the State General Fund.

Temporary Assistance for Needy Families and Foster Care

The FY 2023 estimate for the Temporary Assistance for Needy Families (TANF) program is \$10.7 million, all from federal funds, which is an increase of \$2.1 million above the approved amount. The caseload increase is attributed to the elimination of COVID-19 stimulus funds and reduced unemployment benefits post pandemic. Estimated expenditures for the Foster Care program in FY 2023 are \$272.0 million, including \$187.6 million from the State General Fund. The estimate is a decrease of \$2.0 million from all funding sources, and a decrease of \$5.4 million from the State General Fund. The caseload is projected to decrease by 2.8 percent in FY 2023 and is in large part attributed to the Families First Prevention Services Act. As this program continues to grow, foster care caseloads are expected to decrease further. It is estimated that contract costs will continue to fluctuate based on acuity levels and service needs of children which can impact placement costs and needed supports.

KanCare Medical

The FY 2023 estimate for KanCare Medical is \$4.1 billion from all funding sources, including \$1.2 billion from the State General Fund. The estimate is an increase from the amount approved by the 2022 Legislature of \$217.9 million, including \$64.3 million from the State General Fund.

The all funds increase is largely due to increased KanCare capitation expenditures as populations continue to grow, resulting in an all-time high member population. As mentioned above, federal rules are in place during the PHE that restrict the removal of individuals from Medicaid until the end of the month in which the public health emergency ends. It is expected that the growth in membership will remain higher than normal in FY 2023 even after the end of the PHE as eligibility staff at the Kansas Department of Health and Environment (KDHE) begin to reinstate the redetermination process for all Medicaid recipients. While redeterminations will be processed as soon as possible, it will take some time for membership to return to baseline levels after the PHE is ended.

Similar to FY 2022, the all funds increase is also attributable to new pandemic-related policies mandated by CMS and agency policy changes for certain optometry and global pregnancy services. Increased estimates for DSH payments to hospitals, as well as Medicare buy-in payments, also contributed to the increase. Also contributing to the increase in cost is the transition of community mental health services to a CCBHC model. CCBHCs would receive a daily, clinic-specific rate when at least one of the nine required demonstration services has been provided to a Medicaid beneficiary. The rate is intended to reimburse providers their expected cost share for providing those services. The actual cost per day will be determined through negotiations with KDADS, CMS, and the CCBHCs, using provider cost projections as a starting point. Upon initial review of the calculated daily rates, provider cost estimates are significantly higher than what was appropriated for this program. State agencies are actively partnering with interested stakeholders to determine a solution to manage cost expectations, while maintaining the fidelity of the new program. Any adjustments as a result of those solutions will be reflected during the next caseload meeting in the fall. Additionally, the increase includes funding to fully rebase the nursing facility daily rate. After review of nursing facility cost reports, the agency found the amount appropriated was slightly lower than is current estimate based on actual costs.

An offset to the all funds increase is a reduction in the estimate for the STEPS pilot program. As mentioned previously the program has not grown as quickly as originally expected after implementation.

In addition to the factors discussed above, also contributing to the State General Fund increase is a decrease of \$21.7 million in the estimate of revenue from the Medical Assistance Fee Fund (HMO Privilege Fee) and a \$1.8 million decrease from the Nursing Facility Provider Assessment (Bed Tax), which is used to offset State General Fund obligations.

The State General Fund increase is partially offset by the extension of the temporary 6.2 percentage-point increase to the FMAP through the first quarter of FY 2023. The U.S. Department of Health and Human Services announced the renewal of the PHE effective April 16, 2022. With this renewal, the enhanced FMAP will be available through September 2022, effectively decreasing the base state share by approximately 1.55 percent for FY 2023. This change represented a savings of about \$38.0 million for KDHE and \$21.0 million for KDADS from the Fall 2021 estimate to the current estimate for FY 2023. However, due to the 6.2 percent increase in effect for all of FY 2022, the overall state share increased by 4.83 percent between FY 2022 and FY 2023.

The estimates for FY 2022 and FY 2023 include State General Fund expenditures for the Health Care Access Improvement Program (HCAIP). HCAIP is an assessment on inpatient revenues for hospitals that was created to help improve access to medical care for low-income Kansans. Funds generated from the assessment are used to draw down federal matching dollars that are dispersed back to hospitals and physicians through a variety of methods, including increased reimbursement for certain procedures and a pool to fund hospitals for uncompensated care. In 2020, HB 2246 was enacted to implement changes to the HCAIP program that were intended to bring the revenue to a level that consistently covers all outgoing payments. These changes must be approved by CMS before being implemented; as of this time, CMS has not approved these changes. The HCAIP program is estimated to require \$5.1 million State General Fund in FY 2022 and \$9.1 million in FY 2023.

KDADS Non-KanCare

The estimate for KDADS Non-KanCare is \$88.6 million, including \$46.5 million from the State General Fund. This is an increase of \$3.4 million, including \$2.3 million from the State General Fund, above the amount approved by the 2022 Legislature. The increase is primarily due to increased expenditures from rebasing of nursing facility rates.

HUMAN SERVICES
April 14, 2022
Consensus Caseload Estimates

		FY 2022 Approved	April Revised FY 2022	Difference from Approved	FY 2023 Approved	April Revised FY 2023	Difference from Approved
DCF - Temporary Assistance to Families	SGF	--	--	--	--	--	--
	AF	9,000,000	10,500,000	1,500,000	8,600,000	10,700,000	2,100,000
DCF - Foster Care	SGF	174,000,000	167,400,000	(6,600,000)	192,950,000	187,600,000	(5,350,000)
	AF	259,000,000	254,900,000	(4,100,000)	273,950,000	272,000,000	(1,950,000)
KDHE - KanCare	SGF	636,649,024	614,660,000	(21,989,024)	700,930,872	735,180,000	34,249,128
	AF	2,719,033,092	2,742,480,000	23,446,908	2,674,957,225	2,785,590,000	110,632,775
KDADS - KanCare	SGF	312,000,000	328,000,000	16,000,000	431,984,882	462,000,000	30,015,118
	AF	991,000,000	1,082,000,000	91,000,000	1,177,733,887	1,285,000,000	107,266,113
KDADS - Non-KanCare	SGF	24,610,000	24,610,000	--	44,169,770	46,510,000	2,340,230
	AF	39,400,000	37,980,000	(1,420,000)	85,135,000	88,580,000	3,445,000
	SGF	\$ 1,147,259,024	\$ 1,134,670,000	\$ (12,589,024)	\$ 1,370,035,524	\$ 1,431,290,000	\$ 61,254,476
TOTALS	AF	\$ 4,017,433,092	\$ 4,127,860,000	\$ 110,426,908	\$ 4,220,376,112	\$ 4,441,870,000	\$ 221,493,888

SGF - State General Fund
AF - All Funds
DCF - Department for Children and Families
KDHE - Kansas Department of Health and Environment
KDADS - Kansas Department for Aging and Disability Services