Washington Research Council

Policy Brief

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Supplemental Maintenance Level Changes Are Driven By the Health Care Authority

Briefly

- The HCA administers Washington's Medicaid program.
- Maintenance level changes in the 2014 and 2016 supplemental budgets have been driven by the HCA.
- The HCA seems to have more trouble than other agencies in forecasting costs over a two year period.
- The Legislature has already increased funding for the state actuary to improve health care actuarial analysis.
- The Senate proposes transferring Medicaid forecasting from the HCA to OFM.

Budgets consist of policy level changes and maintenance level changes. Policy changes represent new spending, while the maintenance level reflects the costs of continuing currently authorized services. Generally speaking, the maintenance level changes required in a supplemental budget are fairly modest.

This year, as passed by the House, the near general fund–state plus opportunity pathways (NGFS+) maintenance level changes in the supplemental operating budget total $219.1 million (WRC 2016a). As passed by the Senate, they total $168.3 million (WRC 2016b).

In both proposals, the maintenance level changes are dominated by increases at the Health Care Authority (HCA).

The HCA

The HCA is the agency in charge of administering Apple Health, Washington's Medicaid program. It also administers the Public Employees Benefits Board. Consequently, the HCA "purchases health care for more than 2 million Washingtonians" (HCA 2016).

The HCA is a significant part of the state operating budget. In 2015–17, NGFS+ spending for the HCA is $3.883 billion and spending for the HCA from all funds is $16.723 billion. That means spending for the HCA makes up 10.2 percent of the NGFS+ budget and 21.2 percent of the all funds budget.

Washington contracts with managed care organizations to provide Medicaid services (CMS 2014). The organizations are paid set rates on a per member per month basis. The HCA contracts with an actuary to set the managed care rates each year; they must then be approved by the federal Centers for Medicare & Medicaid Services.

The HCA's Maintenance Level in Recent Years

The 2014 supplemental increased maintenance level NGFS+ spending for the 2013–15 biennium by a net of $89.2 million. That year, the HCA's maintenance level increases were $99.1 million.

The HCA's NGFS+ maintenance level increase for the 2016 supplemental (as proposed in the Legislature) is $159.1 million. That represents 72.6 percent of

NGFS+

In recent years, legislative fiscal committee staffs have based budget presentations on the near general fund–state (NGFS), a synthetic "account" that rolls up the general fund–state (the state's primary budget account) with the education legacy trust account, because they believed that the NGFS better reflected the entire budget situation. They are now using a broader rollup, the NGFS+.

In 2010 the Legislature established the opportunity pathways account, and dedicated proceeds from the lottery to this account with the stipulation that the funds be spent for education. The NGFS+ combines the NGFS and the opportunity pathways account.

In 2012 legislation was enacted requiring four-year balanced operating budgets. A positive ending balance is required in the current biennium on an NGFS+ basis. Additionally, projected resources must be sufficient to cover projected maintenance level expenditures in the second biennium.

total NGFS+ maintenance level changes in the budget as passed by the House and 94.6 percent of total NGFS+ maintenance level changes in the budget as passed by the Senate.

Conversely, the HCA's maintenance level changes represented only about 2 percent of the 2015–17 enacted biennial budget. That the HCA makes up such an outsized percentage of recent supplemental maintenance level changes suggests the agency has more trouble than other agencies in adequately forecasting over a two year period.

Comment

Forecasting isn't an exact science—even the best forecasters won't be completely accurate all the time. Still, the HCA's recent errors seem out of proportion. Sen. Andy Hill called the HCA "the biggest problem agency we have had the last three years" (Brunner 2016). When agencies are so far off in forecasting their needs for the biennium at the time the biennial budget is written, the difference must be made up in the supplemental—which means that spending for emergencies could be crowded out.

To help address the issue, the enacted 2015 supplemental budget (SHB 1105) increased appropriations for the Office of the State Actuary by $276,000, "to improve the legislature's access to independent and objective health care actuarial analysis." Additionally, the Senate-passed 2016 supplemental would make $94.6 million of general fund appropriations for Medicaid contingent on:

- Transfer of the HCA's Medicaid forecast function to the Office of Financial Management (OFM),
- Transfer of the administration of the managed care actuarial rate setting contract to OFM,
- The HCA sharing data sharing with the Office of the State Actuary, and
- The HCA "consulting with the medical assistance forecast work group prior to accepting the actuarial contractor's managed care rate recommendations."

References

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