

MEMORANDUM

TO: Legislative Coordinating Council and Governor Laura Kelly

FROM: Division of the Budget and Kansas Legislative Research Department

DATE: April 21, 2023

SUBJECT: Spring 2023 Human Services Consensus Caseload Estimates for FY 2023 and FY 2024

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 18, 2023, to revise the estimates on human services consensus caseload expenditures for FY 2023 and FY 2024. 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 2023 and FY 2024 is included at the end of this memorandum.

The starting point for the April 2023 estimates was the budget approved by the 2023 Legislature for FY 2023 and FY 2024, as represented in HB 2184. The estimate for FY 2023 is an increase of \$57.7 million from all funding sources, and a State General Fund decrease of \$53.8 million, compared to the FY 2023 approved amount. The estimate for FY 2024 is an increase of \$61.4 million from all funding sources and a State General Fund decrease of \$30.5 million as compared to the FY 2024 approved amount. **The combined estimate for FY 2023 and FY 2024 is an all funds increase of \$119.1 million, and a State General Fund decrease of \$84.3 million, from the approved amount.**

KanCare is administered by KDHE through maintaining financial management and contract oversight, including contracts for regular medical services. KDADS administers the Medicaid Home and Community-Based Services waiver programs, 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 2023

For FY 2023, the revised estimate for all human service consensus caseloads is \$4.8 billion from all funding sources, including \$1.2 billion from the State General Fund. This is an all funds increase of \$57.7 million, and a State General Fund decrease of \$53.8 million, compared to the budget approved by the 2023 Legislature.

Temporary Assistance for Needy Families and Foster Care

The FY 2023 revised estimate for the Temporary Assistance for Needy Families (TANF) program is \$9.4 million, all from federal funds, which is a decrease of \$575,000 below the amount approved by the 2023 Legislature. The TANF caseload increased through June 2020 at the beginning of the COVID-19 pandemic and, after fluctuations during the pandemic, the caseload has started to level out. The FY 2023 revised estimate for the Foster Care program is \$289.2 million, including \$198.6 million State General Fund. The estimate is an increase of \$8.2 million, including \$5.6 million SGF above the FY 2023 approved budget. The projected number of children in foster care is slightly higher than the fall estimate, and there is an increase in the projected average cost per child. The change is attributable to the number of children in higher cost facilities increasing and an increase in the daily rate paid to facilities. Additionally, child placement agencies are expending a larger percentage of their allocated funds which is reducing the recoupment rates.

KanCare Medical

The FY 2023 estimate for KanCare Medical is \$4.4 billion from all funding sources, including \$996.0 million from the State General Fund. This an increase of \$48.0 million from all funding sources, and a State General Fund decrease of \$60.0 million, compared to the budget approved by the 2023 Legislature. The KanCare Medical estimate includes medical expenditures for KDHE and KDADS.

The KanCare Medical all funds increase is largely due to increases in delivery kick payments and Health Care Access Improvement Program (HCAIP) directed payments to hospitals. Kick payments are one-time fixed, supplemental payments made for certain services. Higher birth costs and payment adjustments due to system delays contributed to the higher estimate. HCAIP is an assessment on inpatient and outpatient 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. The increased all funds amount is attributable to an increase in the federal funds received due to the FMAP adjustments.

Additionally, there were slight increases in member populations and total costs, including increases to high dollar rare prescription drugs with costs that vary greatly depending on the condition and number of members requiring treatment. There were also increases in Medicare clawback payments due to an increase in per capita Part D expenditures. The all funds increase in expenditures was partially offset by decreases in the projected number of members in Long-Term Care Services and Supports for KDADS.

The State General Fund decrease is primarily attributable to the federal Families First Coronavirus Response Act which provided states a temporary 6.2 percentage-point increase to the federal Medical Assistance Percentage (FMAP) January of 2020 through March 2023. In January 2023, as part of the federal Consolidated Appropriations Act, a phase-down approach was implemented for the enhanced FMAP for the remainder of calendar year 2023. The Public Health Emergency is now set to expire May 11, 2023, and the enhanced FMAP is no longer tied to the end date. The enhanced rate now decreases to 5.0 percent for April through June 2023; 2.5 percent for July through September; and 1.5 percent for October through December.

This is a change from the fall 2022 caseload estimates when the increased FMAP of 6.2 percent was included for three quarters of FY 2023 but the phase-down was not in effect. This raises the FY 2023 FMAP from its base of 59.86 percent to 65.76, up from the 64.51 percent used in the fall estimates. The enhanced FMAP rate is expected to decrease the overall required state share of Medicaid expenditures by approximately \$230.0 to \$240.0 million in FY 2023.

In addition to the factors discussed above, also contributing to the State General Fund decrease is an increase of \$12.6 million in the estimated revenue from the Medical Assistance Fee Fund (HMO Privilege Fee), which is used to offset State General Fund obligations.

KDADS Non-KanCare

The estimate for KDADS Non-KanCare is \$93.1 million, including \$45.5 million from the State General Fund. This is an increase of \$2.1 million, including \$540,000 from the State General Fund, compared to the budget approved by the 2023 Legislature. The increase is due to higher nursing facility fee-for-service payments.

FY 2024

The FY 2024 revised estimate is \$5.0 billion from all funding sources, including \$1.5 billion from the State General Fund. The estimate is a change from the amount approved by the 2023 Legislature, reflecting an all funds increase of \$61.4 million, and a State General Fund decrease of \$30.5 million.

Temporary Assistance for Needy Families and Foster Care

The FY 2024 estimate for TANF is \$9.0 million, all from federal funds, which is a decrease of \$800,000, compared to the budget approved by the 2023 Legislature. Current projections show a slowing rate of decrease in TANF beneficiaries. It is anticipated that the total number of beneficiaries will reach a floor at some point. In the event inflationary pressures in FY 2024 result in a recession the number of beneficiaries may increase, but no recession is reflected in the current estimates. The FY 2024 estimate for the Foster Care program is \$289.0 million, including \$201.0 million from the State General Fund. The estimate is an all funds increase of \$3.9 million, and a State General Fund increase of \$867,444, compared to the budget approved by the 2023 Legislature. While caseload costs increased slightly relative to the approved, the number of children in foster care is projected to continue to decline.

KanCare Medical

The FY 2024 estimate for KanCare Medical is \$4.6 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 2023 Legislature of \$45.8 million, including a decrease of \$36.9 million from the State General Fund.

Federal rules in place during the Public Health Emergency did not allow the removal of individuals from the Medicaid program, however, recent guidance from the Centers for Medicare & Medicaid Services (CMS) allows states to begin the redetermination process and remove those no longer eligible for services as of April 1st. CMS guidance allows states 12 months to initiate all redeterminations and 14 months to complete the redetermination process for all current Medicaid beneficiaries. States are required to initiate a full renewal for all individuals. Kansas expects to begin seeing a decline in beneficiaries beginning in May of 2023 and it is anticipated that the overall membership will steadily decline through May 2024. An estimated 85,000 beneficiaries are anticipated to be removed from Medicaid by the end of FY 2024, which will create an overall decrease in capitation expenditures.

A portion of the all funds increase in expenditures is attributable to increased Medicare clawback payments as significant Part D expenditure growth is anticipated in calendar year 2024. The federal share of Disproportionate Share for both general and state hospitals (DSH) is higher than previously estimated in the fall and adjustments to high dollar rare drug prescriptions are similar to those seen in FY 2023. In addition, there are increases in HCAIP estimates, although state costs are offset by additional revenue.

The 2023 Legislature approved \$71.9 million all funds to fully rebase nursing facility payment rates. The revised estimate includes an additional \$14.0 million all funds for a total addition of \$85.8 million to fully rebase the nursing facility rates for FY 2024. Additionally, the revised estimate includes \$18.7 million all funds to transition the final eight Community Mental Health Centers (CMHCs) to Certified Community Behavioral Health Clinics (CCBHCs) in FY 2024. Also included in the revised estimate is an increase to Psychiatric Residential Treatment Facility (PRTF) rates totaling \$8.8 million all funds.

The State General Fund decrease is largely attributable to an increase of \$20.0 million in the estimate of revenue from the Medical Assistance Fee Fund (HMO Privilege Fee), which is used to offset State General Fund obligations. The decrease in estimated State General Fund expenditures was offset by the addition of \$5.3 million to fully rebase nursing facility rates and the addition of \$7.2 million to transition the final eight CMHCs to CCBHCs. Also included in the revised estimate is an increase to PRTF rates totaling \$3.4 million from the State General Fund.

Additionally, the phase-down of the enhanced FMAP described above was not previously in effect and was not taken into account in the fall estimates. This will continue through the end of calendar year 2023, which includes the first two quarters of FY 2024. The base FMAP in FY 2024 is 60.67 percent and increased to 61.67 with the phase-down in effect. The state share required in FY 2024 is estimated to increase by 4.09 percent over that of FY 2023. The enhanced FMAP rate is expected to decrease the overall required state share of Medicaid expenditures by approximately \$40.0 to \$45.0 million in FY 2024.

KDADS Non-KanCare

The FY 2024 estimate for KDADS Non-KanCare is \$115.5 million, including \$58.7 million from the State General Fund. This is an increase of \$12.5 million, including \$5.5 million from the State General Fund, above the amount approved by the 2023 Legislature. The increase is primarily due to increased expenditures for nursing facility fee-for-service payments.

HUMAN SERVICES
April 18, 2023
Consensus Caseload Estimates

		FY 2023 Approved	April Revised FY 2023	Difference from Approved	FY 2024 Approved	April Revised FY 2024	Difference from Approved
DCF - Temporary Assistance to Families	SGF	--	--	--	--	--	--
	AF	9,950,000	9,375,000	(575,000)	9,800,000	9,000,000	(800,000)
DCF - Foster Care	SGF	193,000,000	198,640,000	5,640,000	200,132,556	201,000,000	867,444
	AF	281,000,000	289,160,000	8,160,000	285,132,556	289,000,000	3,867,444
KDHE - KanCare	SGF	625,000,000	597,000,000	(28,000,000)	708,282,680	690,000,000	(18,282,680)
	AF	3,100,000,000	3,188,000,000	88,000,000	3,020,777,612	3,100,000,000	79,222,388
KDADS - KanCare	SGF	431,000,000	399,000,000	(32,000,000)	551,600,000	533,000,000	(18,600,000)
	AF	1,300,000,000	1,260,000,000	(40,000,000)	1,503,400,000	1,470,000,000	(33,400,000)
KDADS - Non-KanCare	SGF	45,000,000	45,540,000	540,000	53,200,000	58,700,000	5,500,000
	AF	91,000,000	93,100,000	2,100,000	103,000,000	115,500,000	12,500,000
	SGF	\$ 1,294,000,000	\$ 1,240,180,000	\$ (53,820,000)	\$ 1,513,215,236	\$ 1,482,700,000	\$ (30,515,236)
TOTALS	AF	\$ 4,781,950,000	\$ 4,839,635,000	\$ 57,685,000	\$ 4,922,110,168	\$ 4,983,500,000	\$ 61,389,832

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