

Fiscal Impact Review 2018 General Assembly Session

Date: February 9, 2018

Bill number: HB 338 (Committee Substitute) Medicaid; work requirement.

Review requested by: Chairman Jones, House Appropriations

JLARC Staff Fiscal Estimates

JLARC staff do not concur with the estimates in the fiscal impact statement prepared by the Department of Planning and Budget for HB 338-substitute. Most of the fiscal impact would be driven by (1) the approach used to provide case management and support services, (2) changes in Medicaid spending due to fewer individuals being enrolled, and (3) the cost of changes to IT systems and additional administrative staff.

The bill does not include guidance on how to implement the case management and support services component of the legislation. Absent such guidance, JLARC staff assume a model in which additional case management services are provided and existing federally funded programs are leveraged to provide support services, when necessary. Based on these assumptions JLARC estimates the fiscal impact could cost \$6.4 million to \$10.4 million (general funds) in FY19 and \$14.6 million to \$23.1 million (general funds) in FY20.

An explanation of the JLARC staff review is included on the pages that follow.

Authorized for release:



Hal E. Greer, Director

Attachment

Bill summary

HB 338-substitute would require the Department of Medical Assistance Services to develop a plan to require some Medicaid recipients to participate in employment or other community engagement activities for up to 20 hours per week to maintain Medicaid eligibility, and to submit that plan for approval by the Centers for Medicare and Medicaid Services (CMS). Activities that fulfill the requirement would include employment, job training, searching for a job, education, and community service. Certain categories of Medicaid recipients would be exempt from the community engagement requirement, including children, parents of dependent or disabled children, individuals over 65, and individuals with disabilities.

Fiscal implications

The fiscal impact of HB 338-substitute would be driven by

- the cost of case management and support services for individuals subject to the requirements,
- changes in Medicaid spending due to changes in enrollment, and
- the cost of modifications to IT systems and agency administration.

The three components of the fiscal impact would be spread across multiple funding sources, including the general fund (Table 1).

The fiscal impact would depend on how the case management and support services functions are implemented, but HB 338-substitute does not include guidance on how to implement these components of the legislation. JLARC assumes a model in which additional case management services would be provided by workers at local Departments of Social Services (LDSS). JLARC fiscal impact estimates assume that existing programs could be leveraged to provide support services when necessary; therefore, estimates do not include the cost of support services.

TABLE 1
Estimated fiscal impact of HB 338-substitute, FY18-FY20 (\$ millions)

	FY18	FY19	FY20
Case management (midpoint of the estimated range)	-	34.7	72.5
General fund impact		3.8	8.0
Medicaid spending	-	(57.2)	(136.1)
General fund impact		3.6	10.3
Information technology systems and agency administration	3.3	3.0	1.2
General fund impact	0.3	0.9	0.6
Total fiscal impact	3.3	(19.5)	(62.4)
General fund impact	0.3	8.4	18.8

SOURCE: JLARC analysis of data provided by DMAS and VDSS.

Three main variables would affect the fiscal impact of HB 338-substitute:

- the number of Medicaid recipients who would be subject to case management under the requirement (which would require additional staffing resources);
- the estimated cost of case management for those individuals; and
- the number of individuals who would be deterred from enrolling in Medicaid due to, or fail to comply with, the requirement (which would reduce Medicaid spending but increase projected spending in other areas for uninsured individuals).

The JLARC estimate differs from the DPB fiscal impact statement because JLARC assumes (1) fewer individuals subject to the employment and community engagement requirement and (2) a different approach to implementing case management and support services. JLARC assumes that additional spending would be required to provide case management to individuals subject to the employment and community engagement requirements, but that necessary support services would be provided by leveraging existing programs and funding sources.

Number of recipients subject to employment and community engagement requirement

JLARC staff used data from the Department of Medical Assistance Services on the current Medicaid population and the projected Medicaid expansion population included in the governor's introduced budget (HB 30), and then developed assumptions to estimate the number of people who would be subject to the requirements. Most current Medicaid recipients would be exempt from the employment and community engagement requirement because they are children, pregnant women, elderly, or disabled. The number of projected Medicaid expansion recipients who would be subject to the requirement is

the key factor in the fiscal impact. JLARC estimates that approximately 32 percent of the Medicaid expansion population would be subject to the requirements and 7 percent would be deterred from enrolling or leave the Medicaid program due to the requirements. (See attachment for detailed assumptions and calculations.)

Impact on case management and support services

Virginia would need to decide how to provide case management and support services to help Medicaid recipients comply with the employment and community engagement requirement, and these decisions will significantly impact the cost of those services. JLARC assumes that Virginia would implement the employment and community engagement requirements by providing additional case management for recipients but then referring recipients who need support services to existing programs. This is similar to the models being developed in Indiana and Kentucky, the two states that have been approved by CMS to implement similar employment and community engagement requirements in their Medicaid programs.

Case management

The primary cost to the state for case management would be for LDSS staff. The cost per recipient for this model could range from \$340 per year to \$1,080 per year, based on assumptions of the hours required to do intake, planning and connecting recipients with support services, and compliance with the requirements. Total estimated fiscal impact ranges between \$34.1 million (\$3.7 million general funds) and \$110.9 million (\$12.2 million general funds) in FY20, when the program would be fully implemented (Table 2).

TABLE 2
Estimated cost of case management model, FY19-FY20

	FY19		FY20	
	Low	High	Low	High
Recipients subject to requirements	65,295	65,295	102,706	102,706
Cost of case management	\$341	\$1,080	\$341	\$1,080
Total fiscal impact	\$16.5M	\$52.9M	\$34.1M	\$110.9M
General funds	\$1.8M	\$5.8M	\$3.7M	\$12.2M
Federal funds	\$12.3M	\$39.7M	\$25.6M	\$83.2M
Local funds	\$2.3M	\$7.4M	\$4.8M	\$15.6M

SOURCE: JLARC analysis of data provided by DMAS and VDSS.

NOTE: FY19 expenditure calculation accounts for only 9 months of services because enrollment is not projected to begin until October 1, 2018.

Support services

One option for providing support services, which would minimize the general fund impact, is to leverage existing workforce programs to provide recipients with necessary services and supports. Indiana and Kentucky both plan to leverage existing programs to provide support services for their employment and community engagement programs. Leveraging Virginia's existing workforce development programs would most likely enable Medicaid recipients to access employment services and supports, while minimizing the general fund impact because they are primarily federally funded.

An intake and service delivery structure for these programs is already in place throughout the state through Virginia's regional comprehensive one-stop workforce development centers. Due to improving economic conditions, state agency staff knowledgeable about Virginia's workforce programs observed that the staff located in the one-stop centers currently have the capacity to assist additional clients.

JLARC staff spoke with state agency staff knowledgeable about Virginia's workforce programs and identified five potential federal funding sources for employment services and supports. Based on the information provided by these staff, all five of these funding sources could be used for at least a subset of the Medicaid population (Table 3). Moreover, low-income individuals and recipients of public assistance are prioritized for receiving federally-funded employment services and supports, which aligns with the Medicaid-eligible population. Therefore, Medicaid recipients would be eligible to be served through these programs. Some Medicaid recipients may already be being served through these programs. Additional analysis would be needed to quantify the number of Medicaid recipients who are already being served by the programs.

Agency staff suggested that including Medicaid recipients who are subject to an employment and community engagement requirement in the eligible population for these programs could potentially increase Virginia's future federal allocation because these allocations are based on a formula that relies on the unemployment rate. The effect of including additional individuals from the Medicaid population on the state's unemployment rate may be too small, however, to change federal funding allocations, and additional analysis would need to be conducted to quantify the potential increase in federal funds, if any, to Virginia.

Virginia typically spends less than it receives from two other federal programs that provide workforce services and supports (TANF block grant and the Trade Adjustment Assistance Program). As a result, the TANF block grant program has an existing balance of \$117 million that could be used to fund services and supports for the Medicaid population. In FY17, Virginia did not spend approximately \$20 million in federal Trade

Adjustment Assistance funding. While state agency staff indicated that this will likely result in a reduced allocation of federal funds to Virginia for this program in the future, they also indicated that some Medicaid recipients could potentially qualify for the services and supports provided by the program. The narrow scope of this program, which is focused on individuals who have become unemployed because their company relocated overseas, will limit its potential as a funding source.

TABLE 3
Current federal workforce programs that could be used to serve Medicaid recipients

Program	Could be used for Medicaid population
TANF block grant	Partial (individuals with children)
WIOA ¹ Title I	Yes
WIOA Title II	Yes
WIOA Title III	Yes
Trade Adjustment Assistance Program	Limited (individuals unemployed due to company moving overseas)

SOURCE: JLARC analysis of data provided by DMAS, VDSS, VEC, VDOE, and VCCS.

¹WIOA is the Workforce Innovation and Opportunity Act. WIOA Title I provides job search, education, and training services for adults. WIOA Title II provides educational services to help adults become literate and develop basic skills necessary for employment. WIOA Title III facilitates job placement. It is possible that the formula for WIOA Title I and Title III funds currently counts some, but not all, individuals who would be in the Medicaid expansion population; including the uncounted individuals in the formula could increase the unemployment rate, making Virginia eligible for additional federal funds in future years, but additional analysis is needed to quantify the impact, if any. Applies to Titles I and III, primarily.

Impact on Medicaid spending

Implementing an employment and community engagement requirement in Virginia's Medicaid program would result in some individuals either not enrolling in Medicaid, or enrolling and then being removed from the Medicaid program due to noncompliance. This would impact Medicaid and related spending in three ways:

- Reduction in spending for current Medicaid recipients,
- Reduction in spending for projected Medicaid expansion recipients, and
- Reduction in projected savings included in the introduced budget as a result of Medicaid expansion (Table 4).

The estimated reduction in spending for current Medicaid recipients is based on an estimate of approximately 1,000 recipients who would leave the Medicaid program; half of these savings would be to the general fund. In the expansion population, attrition is estimated to be about 13,300 individuals in FY19 and 21,600 individuals in FY20, which

accounts for the reduced spending. According to the introduced budget, the state share of Medicaid expansion costs would be paid with a special assessment on hospitals; therefore there is no general fund savings for reductions in the Medicaid expansion population.

TABLE 4
Estimated impact on Medicaid spending, FY19-FY20 (\$ millions)

	FY19	FY20
Savings from current Medicaid recipients leaving the program	(\$2.6)	(\$7.2)
Savings from projected Medicaid expansion recipients leaving the program	(\$63.4)	(\$155.3)
Reduction in projected savings from Medicaid expansion	\$8.9	\$26.3
Total fiscal impact	(\$57.2)	(\$136.1)
General funds	\$3.6	\$10.3
Federal funds	(\$60.8)	(\$146.4)
Special funds	-	-

SOURCE: JLARC analysis of data provided by DMAS and VDSS.

NOTE: Special funds are the hospital assessment in § 3-5.15 of the introduced budget (HB 30), which are used to pay the state portion of costs for the Medicaid expansion population. Expansion costs would be reduced in both fiscal years, but there would be an associated decrease in revenue from the hospital assessment, resulting in a net fiscal impact to special funds of zero.

The introduced budget includes \$152 million in projected savings in FY19 due to receiving a higher federal match rate for Medicaid services and decreased spending for uninsured individuals who receive uncompensated services at hospitals and Community Service Boards. JLARC estimated a reduction in savings based on the estimated reduction in the projected expansion population due to the employment and community engagement requirement. One of the largest portions of this reduced savings would occur when a woman who would have otherwise been enrolled in the expansion population, with no state general fund costs, later becomes eligible for Medicaid due to pregnancy. She would be enrolled in the Pregnant Women eligibility category, which requires a 50 percent state cost share.

Virginia may be able to mitigate much of the reductions in estimated savings depending on how it implements the employment and community engagement requirement. Staff from Kentucky's Medicaid program indicated that when an individual in the expansion population fails to meet the employment and community engagement requirement, they plan to place the individual in a suspended status, rather than disenrolling them from the program. This would then allow them to reactivate the individual if circumstances change, such as if a woman becomes pregnant, because they may be exempt from the requirements and could stay in the expansion eligibility category, with no state cost impact.

Impact on information technology systems and agency administration

Implementing HB 338-substitute would require changes to the Virginia Case Management System (VaCMS), which is the VDSS eligibility determination and case management system for Medicaid and other public assistance programs in Virginia. DMAS would also need additional staff to apply for and manage a federal waiver for the employment and community engagement requirement as well as to manage an anticipated increase in the volume of appeals due to the requirements and the need to ensure appropriate eligibility for individuals subject to the requirements (Table 5).

TABLE 5
Estimated impact on systems and administration, FY18-FY20 (\$ millions)

	FY18	FY19	FY20
Information technology and systems	\$3.3	\$1.7	
DMAS program administration		\$1.2	\$1.2
Total fiscal impact	\$3.3	\$3.0	\$1.2
General funds	\$0.3	\$0.9	\$0.6
Federal funds	\$3.0	\$2.0	\$0.6

SOURCE: JLARC analysis of data provided by DMAS and VDSS.

NOTE: Numbers may not add due to rounding.

Information technology systems

JLARC staff reviewed the estimated fiscal impact of \$5 million for system changes and found this to be a reasonable estimate of the cost of the required work. The IT modifications would require time for design and testing to ensure they operate correctly for the Medicaid application and case management workflow. JLARC analyzed the hourly rates that VDSS pays for system design, programming, and testing services under its contract for VaCMS, and found that the number of hours required and associated costs were reasonable and consistent with other changes to major information technology systems within the state.

DMAS program administration

The DPB fiscal impact statement indicates that DMAS needs nine additional staff to implement the requirements in HB 338-substitute:

- four FTEs to oversee and manage the waiver application, reporting to CMS, and evaluation;
- three FTEs to account for an anticipated increase in appeals due to the requirement (two hearing officers and an associated administrative assistant); and

- two FTEs in the eligibility division to ensure correct eligibility for individuals subject to the requirements.

Based on current staffing levels for existing waivers, the appeals division, and the eligibility division, JLARC finds the four FTEs required to manage the waiver and three FTEs required in the appeals division to be reasonable. However, JLARC estimated only one additional FTE would be needed in the eligibility division. There are currently three FTEs performing these eligibility functions for the entire Medicaid program, and while the employment and community engagement requirements would necessitate ongoing monitoring of eligibility and may result in more frequent “churn” due to recipients failing to meet the requirements, it is unlikely that this would result in 67 percent more work in this area.

Budget amendment necessary? Yes

Agencies affected: Department of Medical Assistance Services, Department of Social Services, Department of Behavioral Health and Developmental Services

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ATTACHMENT

Data and assumptions for JLARC analysis

To estimate the number of individuals subject to the employment and community engagement requirement each year, JLARC staff developed assumptions regarding how many recipients would be exempt from, or are already meeting, the work requirements based on the exemptions listed in HB 338-substitute. JLARC staff developed these assumptions based on a review of research literature and experience from other states. These assumptions are independent of each other, that is, the groups subject to each exemption are not mutually exclusive (Table A-1).

TABLE A-1

Assumptions for expansion recipients exempt from or already meeting employment and community engagement requirements

Exemption or condition meeting work requirement	Percent of expansion population exempt/already meeting requirement
Caregiver for a dependent	23%
Disabled, blind, or medically frail (includes current GAP population)	17%
Working more than 20 hours per week	38%
Enrolled in school	7%
Enrolled in SNAP	37%

SOURCE: JLARC analysis of data provided by DMAS and VDSS and a review of research.

NOTE: A CMS letter to state Medicaid directors in January 2018 indicated that waiver applications to implement employment and community engagement requirements would need to consider any Medicaid recipient who is enrolled in SNAP and is either exempt or already complying with the SNAP employment requirement to be in compliance with the proposed Medicaid employment and community engagement requirement.

The following additional data points and assumptions were used in JLARC's analysis to estimate the number of recipients subject to the employment and community engagement requirement, the number in need of services, and the attrition rate. The following data points come from DMAS and VDSS data (unless indicated to be a JLARC assumption).

- Projected average monthly enrollment for the expansion population in FY19 is 190,694. Enrollment does not start until 10/1/18, so there are only nine months of spending and associated costs for this population in FY19.
- Projected average monthly enrollment for the expansion population in FY20 is 298,658.

- There were 6,226 current adults in the Medicaid program who would be potentially subject to the requirements because only one parent in a two-parent household is exempt as a caretaker.
- JLARC assumed that 18 percent of individuals subject to the requirement (working, in school, and unemployed) would either not enroll or be disenrolled from Medicaid for non-compliance. JLARC further assumed that this attrition group would only be individuals who were subject to the work requirement and were not already meeting the requirement due to being employed or in school.

Table A-2 shows the JLARC calculations for the number of individuals subject to the work requirement for FY19 and FY20.

TABLE A-2
Calculation of individuals estimated to be subject to work requirements

		FY19	FY20
Expansion population			
a	Average monthly enrollment	190,694	298,658
b	GAP population	15,000	15,000
c	Caretaker for a dependent	40,410	65,241
d	Disabled, blind, or medically frail	18,254	29,471
e	Subtotal subject to work requirement [a - (b+c+d)]	117,030	188,945
f	Enrolled in SNAP (37%)	42,787	69,080
g	Working more than 20 hours per week or enrolled in school	33,409	53,940
h	Subtotal subject to requirement and not working/student [e - (f+g)]	40,834	65,926
i	Attrition (18% of non-exempt, non-SNAP population)	13,364	21,576
j	Subtotal in need of case management [(g+h) - i]	60,879	98,290
Current Medicaid population			
k	Parents potentially subject to work requirement	6,226	6,226
l	Disabled, blind, or medically frail	840	840
m	Working more than 20 hours per week or enrolled in school	2,424	2,424
n	Subtotal subject to requirement and not working/student [k - (l+m)]	2,962	2,962
o	Attrition (18% of non-exempt, non-SNAP population)	969	969
p	Subtotal in need of case management [(m+n) - o]	4,416	4,416

SOURCE: JLARC analysis of data provided by DMAS and VDSS.

NOTE: Current GAP and Plan First Medicaid partial benefit enrollees would be auto-enrolled in Medicaid expansion at the beginning of enrollment. Disabled, blind, and medically frail calculation accounts for the fact that the GAP population is already exempt from the requirements.