

February 22, 2018

**ILLINOIS HEALTH AND HOSPITAL ASSOCIATION  
MEMORANDUM**

**TO:** Chief Executive Officers, Member Hospitals and Health Systems  
Chief Financial Officers  
Government Relations Personnel

**FROM:** A.J. Wilhelmi, President & CEO  
Joe Holler, Vice President, Finance

**SUBJECT:** Governor's FY2019 Budget Proposal

**Executive Summary:**

The Governor's FY2019 budget proposal includes a revenue estimate of \$37.9 billion, a spending level of \$37.6 billion GRF and an estimated budget surplus of \$350 million. Many of the Governor's proposed savings measures would require legislative action or implementation of changes to employee contracts in order to achieve the savings. The assumed savings total \$1.5 billion and the Governor is proposing to achieve the savings by:

- Reducing Medicaid rates by 4%, including hospital rates
- Shifting normal cost of teacher and university pensions to the employer
- Shifting a portion of group health insurance costs to universities
- Eliminating the state GRF contribution to the retired teachers health insurance program.

**Governor's Budget Address**

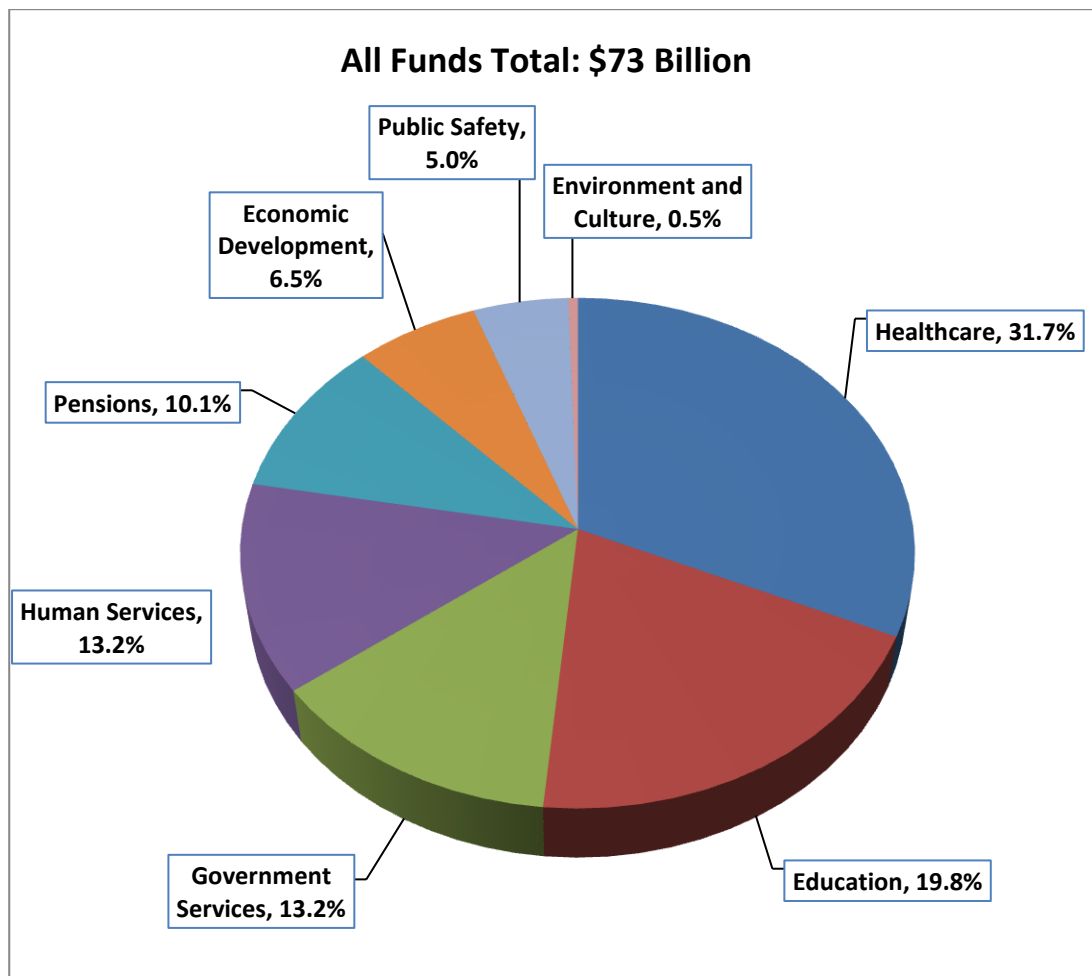
On February 14, 2018, Governor Bruce Rauner presented his FY 2019 budget proposal (for the fiscal year beginning July 1, 2018) which sets out to make structural reforms that he suggests will get Illinois moving in the right direction. The proposed budget shifts the cost of services incurred to the people who buy the services.

His proposed reforms begin with pensions and employee group health expenses, which consume 25 cents of every dollar the state spends. School districts and universities will be asked to begin sharing in the cost of their state pension and state group health insurance services. Estimated fiscal year 2019 savings is \$1.3 billion. The Governor is offering initiatives he has proposed in past years and advocating additional reforms to balance the budget and bend the cost curve for years to come.

This budget includes another proposal to reform the state's pension systems by reducing benefits, which is projected to generate \$900 million in savings annually. The Governor allocates those savings to a plan to reduce the individual income tax from 4.95% to 4.7%.

This budget proposal includes no provision or plan to pay down the existing backlog of unpaid bills that stands at over \$8 billion.

**STATE FISCAL YEAR 2019 BUDGET AT-A-GLANCE**



**HEALTHCARE AND FAMILY SERVICES BUDGET**

The Governor's recommended appropriation level for the Department of Healthcare and Family Services (HFS) for FY2019 of \$23.1 billion is a 4.5% increase over FY2018. This increase includes additional GRF spending due to the ACA federal match rate dropping from 94% to 93% and also the FY2018 cash shortfall that was not appropriated.

The introduced budget includes a 4% rate cut to providers totaling \$150 million. This rate cut would not be implemented until January 1, 2019 and would not affect providers protected by federal guidelines. HFS is still determining to which providers the rate cut will apply. IHA will be watching very closely for more details on the proposed implementation of this cut.

During a post-budget briefing, HFS Director Felicia Norwood noted that current Medicaid enrollment for November 2017 was 3.08 million, which makes HFS the largest insurer in Illinois. She also outlined HFS budget highlights and proposed reductions.

### **Medical Assistance FY2019 Budget Highlights**

- Maintains current Medical Assistance Eligibility
- Includes Medicaid Transformation Funding (1115 waiver and state plan amendments to better integrate physical and behavioral healthcare for Medicaid clients)
- Assumes over 80% of the clients enrolled in HealthChoice Illinois (managed care)
- Reflects a hospital assessment to preserve access to hospital services for Medicaid beneficiaries
- Fiscal year 2018 supplemental appropriations of \$442.8 million from GRF to deposit in the Healthcare Provider Relief Fund and \$50.9 million GRF to fund unbudgeted increases in the Fiscal Year 2018 Budget Implementation Bill
- The FY 2019 budget includes appropriation levels sufficient to allow HFS to continue processing Medical Assistance bills to the Comptroller on a timely basis.

### **Medical Assistance FY2019 Budget Reductions**

- 4% provider rate reduction (6 months savings assumed in Fiscal Year 2019 – approximately \$150 million, but \$300 million annualized).
- Rescission of certain program and reimbursement changes contained in the Fiscal Year 2018 Budget Implementation Bill (approximately \$25 million savings).

The Director highlighted that HealthChoice Illinois is being expanded to cover over 80% of the Medicaid beneficiaries. Managed care is now available in every county across the state. HFS has reduced the contracted managed care organizations from twelve to seven. HealthChoice Illinois will enhance the focus on quality, outcomes and accountability. HFS continues to work with the Centers for Medicare and Medicaid Services to obtain approval of the 1115 waiver to help Illinois build a nation-leading behavioral health system.

HFS is developing a state-of-the-art technology platform. They have replaced decades-old systems that inhibit efficient, effective reporting. The new systems will enhance program integrity and increase efficiency while reducing costs.

### **HUMAN SERVICES BUDGET**

The FY2019 proposed budget for the Department of Human Services (DHS) reflects no significant reductions. Some of the funding has been shifted to HFS for clients enrolled in managed care to obtain federal matching funds for services.

### **RELATED RESOURCES**

Governor's proposed FY2019 Budget Document:

<https://www2.illinois.gov/sites/budget/Documents/Budget%20Book/FY%202019/Fiscal-Year-2019-Operating-Budget-Book.pdf>

Health and Human Services FY2019 Budget Briefing Document:

<http://www.dhs.state.il.us/page.aspx?item=103451>

HFS Introduced 2019 Budget Request:

<https://www.illinois.gov/hfs/info/factsfigures/Pages/CurrentBudget.aspx>

Department of Human Services FY2019 Budget Briefing Document:

<http://www.dhs.state.il.us/page.aspx?item=103450>

### **NEXT STEPS**

The budget now goes before the House and Senate, where it will be reviewed and modified by various Appropriations committees. There will be opportunities for our members and other interested parties to express their concerns, viewpoints, and facts regarding the proposed budget.

This is only the beginning of what will be a challenging session to protect healthcare in the budget. Working with you and the entire hospital community, IHA will continue to emphasize with the Governor and the General Assembly the essential role of hospitals and health systems and their continued efforts to transform the Medicaid program and the healthcare delivery system in Illinois.

- We continue to emphasize to the General Assembly and Administration that the hospital community can sustain **NO MORE CUTS**.
- We continue to advocate to the Governor and the General Assembly of the need to collaborate to reach a sustainable budget **that protects the State's already fragile healthcare delivery system**.
- We continue to educate legislators of the value derived by the State from its long and beneficial partnership with the Illinois hospital community and our joint collaborative successes to maximize critical federal Medicaid funding.
- We continue to emphasize that we are at a critical juncture, and that now is the time to maintain the State's investment in the health of its residents and support the continued viability of the hospital community as major employers and economic engines for the State.

IHA will keep members updated on these and other legislative developments throughout the spring.

It is essential that you engage in the process and contact your local legislators to urge them to support healthcare and oppose any Medicaid cuts to hospitals and health systems. A critical opportunity for hospital leaders to meet directly with legislators is on the horizon:

- **Wednesday, April 18 - IHA's Hospital Advocacy Day in Springfield.** Further details, including registration information, will be coming soon.

If you have any questions regarding the budget, contact Joe Holler at (217) 541-1189 or [JHoller@team-iha.org](mailto:JHoller@team-iha.org); or Jo Ann Spoor at (217) 541-1187 or [JSpoor@team-iha.org](mailto:JSpoor@team-iha.org). If you have questions about our advocacy efforts, contact Dave Gross at (630) 541-1161 or [DGross@team-iha.org](mailto:DGross@team-iha.org); or Nichole Magalis at (217) 541-1162 or [NMagalis@team-iha.org](mailto:NMagalis@team-iha.org).