IHA Summary of Governor’s FY2020 Budget Proposal

February 26, 2019

MEMORANDUM
Governor’s FY2020 Budget Proposal

Executive Summary:
The Governor’s FY2020 budget proposal includes $38.75 billion in General Revenue spending, supported by a $38.9 billion revenue estimate resulting in an estimated budget surplus of $155 million. This revenue estimate represents an approximate $1.1 billion increase over updated FY2019 estimates. The proposed spending plan contains a series of proposals that outline state spending and call for significant policy reforms to close a projected $3.2 billion budget deficit. The policy proposals include:

- A 7-year extension of the current pension funding ramp.
- Imposition of new or increased taxes on some new and existing services and products.

Medicaid Bottom Line: The proposed FY2020 budget does not contain any Medicaid rate or eligibility reductions. There is a slight reduction of $722 million in General Revenue Fund transfers (GRF), which is fully replaced by two new revenue sources: 1) $390 million from a new MCO assessment; and 2) $332 million from new and increased cigarette tax revenues.

Governor’s Budget Address
On February 20, 2019, Governor Pritzker presented his FY 2020 budget proposal for the fiscal year beginning July 1, 2019. The Governor noted that his first budget must address the projected $3.2 billion structural deficit facing the state of Illinois as well as an estimated $15 billion backlog of bills. The Governor stated that he would be laying out an “honest proposal”, which sets out to close that $3.2 billion deficit in the FY 2020 budget. The proposed budget includes $1.121 billion in new revenue enhancements and adjustments as a result of various policy changes. The Governor’s proposed budget warns that if these revenue enhancements are not enacted, the resulting budget would require a 4 percent across the board cut including Medicaid program appropriations.

The Governor noted that the changes contained within this budget proposal are only Year 1 of a multi-year endeavor and that correcting the structural deficit will not come quickly. To highlight this, the Governor noted that he would be working with the General Assembly to replace the state’s flat income tax with a “Fair Income Tax System” (i.e., graduated income tax), but that such a change would take 18 months to accomplish, due to this change requiring an amendment to the Illinois constitution which must be approved by Illinois voters in the 2020 general election.

Bringing Down the Bill Backlog
The Governor also noted the critical need for the state to pay its bills on time and bring down the current backlog of state bills. A significant portion of the state backlog has historically been linked to the cost of healthcare provided through the states Group Health Insurance program. To that end the Governor intends to use current bonding authority to “issue $1.5 billion in general obligation bonds in the summer of 2019 to pay off most of the interest-accruing bill backlog in the state employee health insurance program, the Medicaid program, and other overdue payments to vendors. Many of these bills are accruing interest at a rate nearing 12 percent annually; the issuance of the bonds could reduce the state’s interest costs by millions of dollars. Furthermore, the Governor is proposing the reduction of the interest rate under the Prompt Payment Act to a market based rate, perhaps tied to five-year U.S. Treasury rates. Additionally, the fiscal year 2020 budget proposal dedicates another $155 million in surplus towards backlog pay down.” (See page 32 of the State Budget.)
MCO Tax (Assessment)
In his budget address the Governor highlighted a proposal to enact a tax on insurance companies, specifically a managed care organization (MCO) assessment, to help cover the cost of the State’s Medicaid program. The Governor noted the work done by House Majority Leader Greg Harris as the champion of this idea for many years. The proposed assessment would yield $867 million in new revenue, which would serve two purposes.

First, the state would retain $390 million in the form of a state “scrape”. These dollars would be directed to the Healthcare Provider Relief Fund (HPRF) to replace the annual GRF transfers, which have become more tenuous with time. It is believed that by dedicating these proceeds to the HPRF, the Medicaid program’s dependence on volatile state GRF would be lessened.

Second, the State will utilize the remaining $477 million to draw down federal funds to increase spending from the HPRF by $1.2 billion annually. A significant portion of the $1.2 billion could be used as reimbursement to MCOs to recognize their new tax cost. After accounting for the reimbursement of new MCO costs, IHA understands the current estimate is that $375-$400 million will remain to potentially fund new Medicaid spending. During the Health and Human Services budget briefing, Healthcare and Family Services (HFS) Director Theresa Eagleson was asked if the HFS budget contained any added resources to account for the newly enacted minimum wage increase. The Director noted the MCO tax would yield a small amount of additional resources and discussions were occurring as to how these dollars might be used to help blunt a portion of the initial new cost associated with increased wage costs for all Medicaid providers.

Overall, the MCO Assessment is designed to reduce the Medicaid program’s reliance on General Revenue Funds, helping the agency maintain a more regular payment cycle for its bills, and creating a new revenue source for a minor increase in spending. More details on how that spending would be allocated remain an area for negotiation as the session proceeds.

STATE FISCAL YEAR 2020 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 FY2020 of $25.1 billion is a 3.8 percent increase over FY2019.

The introduced budget:

- Maintains current Medical Assistance eligibility and services;
- Includes a managed care organization assessment with the state scrape portion being $390 million to be deposited directly into the Healthcare Provider Relief Fund to cover a portion of the state’s GRF Medicaid liability; and
- The recommended increase in the cigarette tax and imposing a new tax on e-cigarettes will also be deposited into the Healthcare Provider Relief Fund.

During the budget briefing, HFS Director Eagleson noted that projected Medicaid enrollment for FY2020 is 3.13 million, which makes HFS the largest insurer in Illinois. She also outlined HFS budget highlights and proposed reductions.

Medical Assistance FY2020 Budget Highlights

- Maintains current Medical Assistance eligibility and services.
- Continues enrollment in HealthChoice Illinois, the statewide Medical Assistance managed care program.
- Includes $580 million (over 80 percent federally funded) to support the 1115 federal demonstration and state plan amendments to better integrate physical and behavioral healthcare for Medical Assistance clients.
- Contains new HFS headcount to coordinate behavioral healthcare improvements and to increase collections/cost
avoidance from third party payers.

- The FY2020 budget includes appropriation levels sufficient to allow HFS to continue processing Medical Assistance bills to the Comptroller on a timely basis.
- The Director highlighted investing in behavioral health is a priority. HFS will begin integrated health homes in FY2020 to improve the care coordination infrastructure for participants, especially those with complex conditions.

**HUMAN SERVICES BUDGET**

The FY2020 proposed budget for the Department of Human Services (DHS) reflects a $405.9 million increase compared to the FY 2019 budget request. $107.4 million will used to address mid-year minimum wage changes in programs, which include addiction treatment, child care, developmental disabilities, home services program and other community services. Other funding will go to expansions which do not impact hospitals.

**CAPITAL BUDGET**

The FY 2020 capital budget recommendation includes $17.7 billion in capital appropriations. This includes $3.7 billion in new capital appropriations and $14 billion in re-appropriations. IHA continues to have discussions with key legislators regarding the hospital community’s possible inclusion in a new capital plan.

**RELATED RESOURCES**

- Budget in Brief FY 2020
- Governor’s Proposed FY 2020 Budget Document
- Department of Healthcare and Family Services FY2020 Budget Briefing Document
- HFS Introduced 2020 Budget Request
- Department of Human Services FY2020 Budget Briefing Document

**NEXT STEPS**

The budget now goes before the Illinois House and Senate, where it will be reviewed and modified by various Appropriations committees. Numerous budget initiatives and appropriations bills have been introduced in both chambers of the General Assembly. IHA staff will be reviewing these and providing members with information as the spring session continues. 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 – and that any funding cuts would jeopardize access to vital healthcare services for Medicaid patients.
- 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 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. There are more than 40 new legislators who need to be educated about the
importance of Medicaid funding for our hospitals and the patients they are privileged to serve. A critical opportunity for hospital leaders to meet directly with legislators is on the horizon:

- Tuesday, April 30 - IHA's Hospital Advocacy Day in Springfield. Further details, including registration information, will be coming soon.

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