

Federal Appropriations Analysis and Update

To: State Aging and Disability Directors

From: Damon Terzaghi, Adam Mosey, Elaine Sawyer

Re: Federal Fiscal Year 2021 President's Recommended Budget

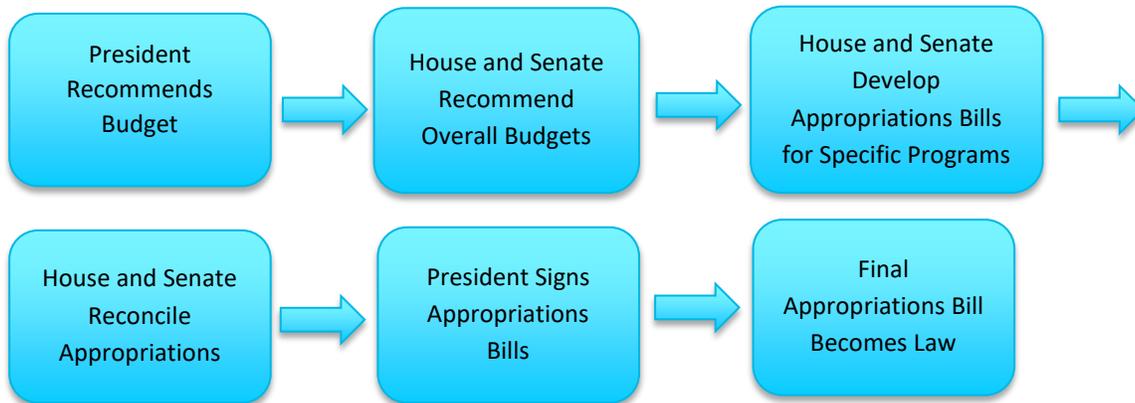
Date: February 10, 2020

Background

This morning, President Trump released his proposed budget for the upcoming fiscal year. These recommendations cover Federal Fiscal Year 2021 (FY21) which runs from October 1, 2020 through September 30, 2021. In general, the budget proposal continues to highlight the Administration's priorities of increased investment in military and border protections coupled with reduced federal expenditures on health and human services programs. While the budget will likely receive a lot of media attention and create significant headlines, it is important to remember that they are nonbinding recommendations and have not historically been enacted into law.

Notably, the House, Senate, and Administration agreed to overall spending levels for FY21 in the budget agreement that was struck over the summer. This budget proposal recommends spending levels for non-defense spending that are significantly lower than the agreement, which will certainly draw significant opposition from the Democratic-controlled House. Therefore, we do not anticipate that these policies or funding levels will be enacted into law. However, we do believe it is important to review the budget documents as some of the proposed policies may be advanced by the administration through regulatory action, sub-regulatory guidance (such as encouraging state waivers to implement the proposals), or other non-legislative means.

As a reminder, the President's budget is one step in a longer process of establishing overall Government spending as well as setting the individual allocations for specific programs. There are several steps during the process of setting spending levels on Federal programs, depicted below:



While there are several discrete actions that occur within each of these broader steps, this is a generalized way of understanding the process.

Key Takeaways

There are several key takeaways from the budget proposal, particularly as it relates to Medicaid programming. In total, the Budget includes net savings to Medicaid of \$920 billion over 10 years; however, there are several areas where the Administration proposes increased expenditures so the impact of their proposed reductions would likely exceed this amount. The Administration for Community Living also contains some targeted reductions to programs under its jurisdiction, including:

- Cutting ADRC funds from \$8 million to \$6 million;
- Reducing SHIP funding by \$16 million from \$52 million to \$36 million;
- Eliminating funding for the Chronic Disease Self-Management and Elder Falls Prevention programs and consolidating them into the Preventive Health program, but not providing additional funding for Preventive Health;
- A proposed \$35 million reduction to the National Family Caregiver Support program;
- A \$1 million cut to the Long-term Care Ombudsman program;
- Reducing the National Institute on Disability, Independent Living, and Rehabilitation Research by \$22 million;
- Cutting Assistive Technology funds by \$5 million; and
- Decreasing State councils on Developmental Disabilities by \$22 million.

Given the current budget agreement between the House, the Senate, and the Administration, we do not anticipate any of these significant reductions becoming law. That existing agreement provides a slight increase in funding levels for domestic programs from FY20 to FY21, which would limit the need

for reductions to these programs. While it is possible that Congress may seek to significantly increase spending in some areas, which could put pressure on funding for other parts of the health and human services, that dynamic has historically not led to reductions of this magnitude for aging, disability, and long-term services and supports programs.

The budget also proposes eliminating:

- The Senior Community Services Employment Program;
- The Corporation for National and Community Service, which includes three programs in the National Senior Volunteer Corps;
- Supported Employment State grants;
- The Social Services Block Grant Program;
- The Community Services Block Grant Program; and
- The Low Income Home Energy Assistance Program.

The current Administration has proposed eliminating these programs several times in the past, but Congress has continued to fund them. We expect Congress to once again reject the proposed elimination of these programs.

Several notable Medicaid proposals for aging, disability, and LTSS programs are:

- The option to apply asset tests to individuals eligible through the Modified Adjusted Gross Income (MAGI) standard, including those who are receiving long-term care;
- Removing the ability of states to increase the Medicaid home asset exclusion above the statutory minimum;
- Establishing a permanent Money Follows the Person (MFP) Program with time-limited enhanced federal match. States that spent less than 50 percent of their long-term service and supports funding on home and community-based services in the prior year would receive an enhanced match for the first five years they provide MFP services;
- Providing Medicaid Fraud Control Units with the authority to investigate and prosecute abuse or neglect of a beneficiary in a non-institutional setting;
- Establishing work requirements for individuals between age 18-64 who do not have a disability;
- Modifying the approval period for Medicaid 1915(b) waivers;
- Creating the option for state managed care waivers to be grandfathered into their state plans if there are no substantive changes and if the proposals have been renewed at least once;
- Limiting Medicaid payments for public providers to the cost of providing the services; and
- Providing states with the option to serve individuals with mental illness between age 18-64 in institutions for mental diseases.

The Administration's proposal to create a permanent state-plan option for MFP would provide some benefits and some drawbacks. Notably, the permanent option would codify this important program into law and would remove the need for Congressional extensions that have led to the short-term funding allocations over the past year. However, the proposal would also limit state enhanced match to a five-year period. Experience with MFP indicates that, although the initial five-year period is extremely important, there is ongoing need for transition services and funding due to individuals continuing to experience institutional placement due a variety of factors beyond the control of the Medicaid agency.

Importantly, the Administration also indicates that it plans to pursue several regulatory changes to Medicaid. These regulatory changes would not require Congressional approval and have a higher chance of becoming effective than the other proposals discussed in this summary. Regulatory proposals include:

- Expanding CMS' authority to issue disallowances to states with a beneficiary eligibility improper payment allowance above three percent;
- Changing the Medicaid Non-emergency Medical Transportation (NEMT) benefit from mandatory to optional;
- Reducing the federal matching rate for Medicaid eligibility workers from 75% to 50%; and
- Allowing states to perform eligibility reviews more frequently than annually.

Several of these proposals could have substantial impact on state finances and are worth monitoring if the Administration advances them through regulation.

Conclusion

Ultimately, the President's budget proposal is a recommendation and is better used to understand the Administration's priorities rather than as a tangible prediction of Federal spending. As in prior years, we believe that Congress will establish their own funding levels and pass an appropriations package that is significantly different than the proposals discussed in the budget proposal. Also, although many of these initiatives may not ultimately be enacted into law, the budget does make references to policy changes that would be implemented through regulation and therefore have a greater chance of becoming effective. Advancing States will continue to provide updates as Congress these proposed funding levels, as well as if Congress or the Administration pursue any of the policies included in this document. We will also continue to educate Congress on the value of aging, disability, and long-term services and supports programs at the state and national level.