

# May 2020 Interim Budget Projection

Prepared by Reports & Forecasts Division, Department of Human Services

The Minnesota Department of Human Services prepares a forecast of its expenditures in major programs twice annually. Forecasted programs include Medical Assistance (MA), MinnesotaCare, Minnesota Family Investment Program (MFIP), Child Care Assistance Program (CCAP) and other cash assistance, housing, and foster care programs. Projected expenditures are used in statewide budget forecasts that Minnesota Management and Budget releases in November and February each year. These forecasts are used to update fund balances and provide financial information to the Governor and the legislature as they work together to set budgets.

Since the February forecast was released, the global COVID-19 pandemic has significantly impacted the health care industry. In addition, the COVID-19 pandemic has produced rapidly deteriorating economic conditions which are especially visible in the labor market through the sudden shutdown of businesses and a corresponding upward spike in unemployment. As a result, a May 2020 Interim Budget Projection is being produced to provide an updated budget outlook based on our current understanding of the COVID-19 pandemic. Given the still highly uncertain nature of the pandemic, only the current biennium will be discussed in this budget update. An update to the 2022-2023 biennium will be provided in the November 2020 forecast.

## May 2020 Interim Budget Projection Highlights

The May 2020 Interim Budget Projection highlights represent changes from the February 2020 forecast.

### Forecasted Program Change Funded by General Fund (GF)

- Decrease of \$153.3 million in 2020-2021 biennium (-1.2%)

### Forecasted Program Change Funded by Health Care Access Fund (HCAF)

- Increase of \$25.5 million in 2020-2021 biennium (+26.1%)

## Summary of Forecast Changes

The following is a list of the large and/or noteworthy changes in the May 2020 Interim Budget Projection.

Projected Increases:

- Increased forecasted program caseloads due to higher unemployment and/or waivers to state and federal laws adopted in response to the COVID-19 pandemic.
- Increased MA nursing facility costs of care due to the COVID-19 pandemic.

Projected Decreases:

- Enhanced Federal Medical Assistance Percentage (FMAP) during the COVID-19 emergency period which provides additional federal funding in certain forecasted programs.
- Lower MA nursing facility caseload due to higher mortality rates and reduced new placements.
- Reduced day services provided in congregate settings for Intermediate Care Facility (ICF) residents and HCBS waiver recipients due to the COVID-19 pandemic.

Other Items:

- Assumption that new COVID-19 treatment costs are offset by other expected health care costs that are not being provided.

## Explanation

Overall, there is a net General Fund reduction in the May budget projection. This is primarily the result of changes that work to offset each other within the MA program. The May budget projection includes an increase of \$648 million in total dollar MA expenditures (including state and federal shares) in the 2020-2021 biennium. This expenditure increase is partially driven by waivers to state and federal laws adopted in response to the COVID-19 pandemic under emergency powers granted to the

Commissioner during the State Peacetime Emergency. These waivers were enacted to ensure continued access to services during the emergency period and result in increased enrollment. However, the primary driver of the total dollar expenditure increase is higher MA enrollment following a spike in unemployment from the COVID-19 pandemic (see below for more detail). There are two primary reasons why this projected total dollar increase ultimately results in a net state share reduction. The first is that half of this projected MA expenditure increase is for additional MA Adults without Children enrollees. The state receives a federal match rate of 90% for this MA population, which means that the state receives federal reimbursement of \$0.90 for every \$1.00 of qualifying MA expenditures. Thus, the vast majority of medical costs associated with the additional MA Adults without Children enrollment is federally funded. The second reason is a temporary increase in the state's federal match rate (FMAP) for all MA populations except MA Adults without Children. The typical federal match rate for these other MA populations is 50%, but the state's FMAP is increased to 56.2% during the COVID-19 emergency period. The May budget projection assumes the COVID-19 emergency period (and therefore the enhanced FMAP) applies to MA expenditures made between January 1, 2020, and June 30, 2020. This enhanced FMAP is projected to increase federal funding within the MA program by \$327 million. Together, the relatively high federal share for MA Adults without Children and the enhanced FMAP for all other MA populations more than offset the cost of additional enrollment, resulting in a net reduction in General Fund expenditures.

A net reduction within MA Long-Term Care programs also adds to the net General Fund reduction in the May budget projections. Long-term care recipients within MA are particularly affected by COVID-19 and the response to control its spread. Nursing facilities are expected to incur additional costs to reduce the infection's spread as well as to provide in-facility care for some affected recipients. Under authority established in *Minn. Stat.* §12A.10, during the State Peacetime Emergency these costs will be reimbursed as facilities report them, rather than being incorporated into future rate increases. While average costs per day increase, nursing facilities are assumed to see a 3.9% reduction in paid days during the emergency period (with effects extending to the end of FY2021) through a combination of higher than normal mortality rates and reduced new placements. In addition, day services provided in congregate settings to ICF residents and HCBS waiver recipients have been greatly reduced during the COVID-19 shutdown. Due to the vulnerable populations served, this impact is assumed to continue throughout FY2021. Some providers can offer services in individual settings or remotely, and some substitution of other waiver services is expected, but annualized average cost reductions of up to 3.7% in the HCBS waivers and ICF/DTH programs are projected, varying by the specific program.

The increase in HCAF spending is caused by additional Basic Health Program (BHP) enrollment within MinnesotaCare due to higher projected unemployment (see below for more detail). Unlike MA, total medical costs for BHP enrollees are not federally matched, so the enhanced FMAP does not apply to the BHP program. Instead, the state receives 95% of the tax credits each BHP enrollee would have received in the individual market if the state did not operate a BHP. Overall, federal BHP funding based on tax credits covers about 72% of the total cost of these additional enrollees in the 2020-2021 biennium with a state share of about 28%, funded with enrollee premiums and HCAF expenditures.

The COVID-19 pandemic has led to a sudden economic shutdown with a corresponding spike in unemployment. Within forecasted public programs, this leads to additional enrollment in MFIP, CCAP, MinnesotaCare, and the more economically sensitive populations within MA (Adults without Children and Families with Children). In the February forecast, unemployment rate projections persisted around 2.5% through 2021 and then gradually rose to about 3.2% in 2023. In the May budget projection, unemployment projections are expected to peak just below 10% during the last quarter of 2020 and then fall each subsequent quarter reaching 5.3% by the end of 2021 and 3.3% by mid-2023. Higher unemployment generally increases the number of people who need cash assistance and/or medical coverage and are income and asset eligible for public programs. However, this additional public program enrollment tends to lag increased unemployment as it takes varying lengths of time for people to exhaust personal financial means before becoming program eligible. Thus, the largest enrollment increases are projected to occur in FY2021, and these enrollment increases are expected to persist into FY2022 and, to some extent, FY2023, despite a projected bounce back in the economy. In FY2021, due to the higher unemployment projections used in this budget update, average monthly enrollment of MA Adults without Children is expected to increase by 38,000 individuals (+20%) and average monthly enrollment of MA Families with Children is expected to increase by 56,800 individuals (+8.2%). Within MinnesotaCare, average monthly BHP enrollment is expected to increase by 22,500 individuals (+30%) due to higher unemployment in the May budget projections. Similarly, in cash assistance and child care programs, average monthly MFIP caseload is expected to increase by 1,300 cases (+4.4%) and average monthly CCAP caseload is expected to increase by 500 cases (+6.0%) in FY2021 due to the higher unemployment projections.

Finally, it is assumed that new COVID-19 treatment costs for MA and MinnesotaCare enrollees are offset by savings from other health care services not being provided. Since about 80% of MA and essentially 100% of MinnesotaCare coverage is provided through managed care, any potential state budget impact depends in large part on whether managed care rates are adjusted. Currently, there are no plans to change managed care capitation rates paid for MA or MinnesotaCare enrollees given the uncertainty surrounding the potential cost of COVID-19 treatment and the relative savings from medical services not currently being provided. DHS continues to monitor this situation. Any additional future information regarding these offsetting medical cost/savings factors and their potential impact on managed care rates will inform the November 2020 forecast.

<b>May 2020 Interim Budget Projection Changes</b>			
<b>In a Nutshell</b>			
<b>(Millions of Dollars)</b>			
			<b>2020-2021 Biennium</b>
<b>General Fund Total Change</b>			<b>-153.3</b>
<b>General Fund Percent Change</b>			<b>-1.2%</b>
<b>MA LTC Facilities:</b>			<b>-18.2</b>
	NF average cost: COVID-19 impacts		41.0
	NF paid days 3% decrease		-23.1
	Enhanced FMAP (56.2% for 6 months)		-36.4
	Other		0.3
<b>MA LTC Waivers:</b>			<b>-166.0</b>
	Waiver average cost: COVID-19 impacts on day services		-42.6
	Enhanced FMAP (56.2% for 6 months)		-123.8
	Other		0.4
<b>MA Elderly and Disabled Basic:</b>			<b>-66.9</b>
	COVID-19 Executive Orders		10.8
	Enhanced FMAP (56.2% for 6 months)		-78.4
	Other		0.6
<b>MA Adults with No Children</b>			<b>42.4</b>
	Enrollment 20% higher		33.6
	COVID-19 Executive Orders		7.8
	Other		1.1
<b>MA Families with Children Basic:</b>			<b>33.3</b>
	Enrollment 8.2% higher		113.4
	COVID-19 Executive Orders		27.3
	Enhanced FMAP (56.2% for 6 months)		-88.3
	CHIP funding		-11.7
	Pharmacy rebates		-7.5
	Other		0.2
<b>Continued on next page</b>			

<b>May 2020 Interim Budget Projection Changes In a Nutshell (Continued)</b>		<b>2020-2021 Biennium</b>
<b>Chemical Dependency Fund</b>		<b>-0.3</b>
Enhanced FMAP		-0.3
Other		0.0
<b>Minnesota Family Inv. Program</b>		<b>7.6</b>
Caseload 4.4% higher due to unemployment		5.4
COVID-19 Executive Orders		9.0
Other		-6.9
<b>Child Care Assistance</b>		<b>3.1</b>
Caseload 6.0% higher due to unemployment		6.5
COVID-19 Executive Orders		3.1
Other		-6.5
<b>Northstar Care for Children</b>		<b>-2.3</b>
Enhanced FMAP (56.2% for 6 months)		
<b>General Assistance</b>		<b>2.1</b>
COVID-19 Executive Orders		
<b>Housing Support</b>		<b>11.5</b>
COVID-19 Executive Orders		5.8
Legislation		5.7
<b>Minnesota Supplemental Aid</b>		<b>0.4</b>
COVID-19 Executive Orders		
<b>Health Care Access Fund Total Change</b>		<b>25.5</b>
<b>Health Care Access Fund Percent Change</b>		<b>2.0%</b>
<b>MinnesotaCare</b>		<b>25.5</b>
Enrollment 30% higher		
<b>MA Funding</b>		<b>0.0</b>
<b>TANF Total Change</b>		<b>2.1</b>
<b>TANF Percentage Change</b>		<b>1.3%</b>
Higher MFIP forecast		

# Contacts and additional resources

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## **Resources**

**Minnesota Department of Human Services Reports and Forecasts Division**  
<https://mn.gov/dhs/reports-and-forecasts/>

**Minnesota Department of Human Services current biennium budget activities**  
<https://mn.gov/dhs/budget-activities/>

**State of Minnesota forecast**  
<https://mn.gov/mmb/forecast/>