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Memo

Minnesota Department of **Human Services****DATE:** December 7, 2001**TO:** The Honorable Linda Berglin
Minnesota SenateThe Honorable Dallas Sams
Minnesota SenateThe Honorable Kevin Goodno
Minnesota House of RepresentativesThe Honorable Fran Bradley
Minnesota House of Representatives**FROM:** Michael O'Keefe *MOK*
Commissioner**SUBJECT:** Health Care Program Forecast

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Since the release of the November forecast, I have tried to reach each of you by telephone to directly discuss with you some immediate and potential implications of this forecast on the State Prescription Drug Program and the MinnesotaCare Program. The following information summarizes these issues.

Health Care Access Fund /MinnesotaCare

The November 2001 state revenue and expenditure forecast indicates that, after planning estimates are added, expenditures from the Health Care Access Fund (HCAF) will show a deficit in fiscal year (FY) 2005. The projected planning estimate deficit at the end of FY 2005 is \$26 million. It is important to note that the base forecast (spending estimates prior to adding planning inflation) shows that the HCAF will remain in balance through the 2004-2005 biennium, but the FY 2005 ending balance is projected at only \$5 million. The November forecast fund balance also suggests a significant structural imbalance between revenues and expenditures.

Minnesota Statutes 2000, Section 256L.02, Subd. 3 requires specific interventions to enrollment when the forecast indicates that there will be a deficit in the current or coming biennium. If the planning estimates were used as the basis for intervention, we would be

required to cease MinnesotaCare program enrollment of adults without children by May 2004 in order to avoid the FY 2005 year end deficit.

Prescription Drug Program

In another, more immediate matter, I regret to inform you that the November forecast indicates that the costs of the Prescription Drug Program (PDP) in FY 2002 will exceed the funds appropriated plus drug rebate proceeds by \$1.218 million.

This deficit is attributable to a number of factors including:

- The cost of the prescription drug benefit has increased substantially in a short time.
- The pace and number of people moving from PDP to Medical Assistance (MA) as a result of the MA eligibility expansion that took place on July 1, 2001, is slower and lower than anticipated.
- The cushion of excess funding that was part of earlier appropriations for PDP was eliminated in the final budget passed by the 2001 Legislature.

After careful review of the statute governing PDP limitations (Minnesota Statutes 2001, Sec. 256.955, Subd. 9), I have determined that the two planned expansions of PDP cannot go forward:

- Seniors with income between 120 and 135 percent of poverty scheduled for January 1, 2002.
- People with disabilities with income at or below 120 percent of poverty scheduled for July 1, 2002.

During the coming session, we will need to discuss with you the options to address each of these programs within the budget constraints we face. If you would like to discuss these matters further or require additional information, please contact me at (651) 296-7557.

cc: The Honorable Dave Bishop
The Honorable Douglas Johnson