

Testimony of Commissioner Sara Gagné-Holmes and
Deputy Commissioner of Finance Benjamin Mann
Department of Health and Human Services

Before the Joint Standing Committee on Appropriations and Financial Affairs and
The Joint Standing Committee on Health and Human Services

LD 210, An Act Making Unified Appropriations and Allocations from the General Fund and Other Funds for the Expenditures of State Government and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2025, June 30, 2026 and June 30, 2027

Hearing Date: February 12, 2025, 10:00am

Senator Rotundo, Representative Gattine, Senator Ingwersen, Representative Meyer, Members of the Joint Standing Committee on Appropriations and Financial Affairs and Members of the Joint Standing Committee on Health and Human Services; my name is Sara Gagné-Holmes, Commissioner of the Department of Health and Human Services (DHHS). I am here today to speak in support of LD 210, the Governor's budget proposal for the 2026-2027 biennium. I will introduce our testimony and help answer questions; Deputy Commissioner Benjamin Mann will testify on individual initiatives and will also be available to answer questions.

Overall Budget

Maine – like many states, both blue and red – is facing a tight budget environment. The Mills Administration has spent months carefully developing a balanced budget proposal to preserve the programs lawmakers and Maine people support, including education, revenue sharing, public safety, higher education, and school meals, while also protecting the long-term fiscal health of Maine.

Ultimately, we took a balanced approach: one that makes some investments - including operational needs such as technology efficiencies, health and safety improvements, collective bargaining impacts, etc. - that proposes some spending cuts, and that makes some targeted revenue increases. We know these proposals are difficult and appreciate that you will consider them with an open mind.

We look forward to working with you over the coming months to enact a budget that supports our greatest asset of all: the people of Maine.

Highlights from Department of Health and Human Services

The Maine Department of Health and Human Services (DHHS) is dedicated to promoting health, safety, resilience, and opportunity for Maine people. The Department provides health and social

services to almost a third of the State's population, including children, families, older Mainers, and individuals with disabilities, mental illness, and substance use disorders. My executive leadership team and I understand the importance of these services to the health and wellbeing of not only the Maine people accessing these services but their families as well.

Nevertheless, in light of state revenues leveling off and in order to ensure these services are sustainable in the long term, we made hard decisions to rebalance and make certain program adjustments. To that end, I want to provide you with some insight into our decision-making.

We had to include difficult tradeoffs in the budget given the current budget environment. Our general approach to making those decisions included 1) rolling back programs and/or funding that are not implemented yet, 2) rolling back programs and/or funding that are still new and only implemented recently, and 3) looking to other states and national averages as a reference point to assess level of support currently provided by programs in Maine. These guideposts helped inform us how to build and rebalance the budget before you.

We did not arrive at the budget proposals lightly nor were they without heated debate. Ultimately the budget proposals before you today maintain core supports and services across the Department.

I will now turn it over to Deputy Commissioner Mann to speak more specifically about the DHHS biennial budget.

Departmental Biennial Initiatives

Senator Rotundo, Representative Gattine, Senator Ingwersen, Representative Meyer, Members of the Joint Standing Committee on Appropriations and Financial Affairs and Members of the Joint Standing Committee on Health and Human Services; my name is Benjamin Mann, Deputy Commissioner of Finance at the Department of Health and Human Services.

A couple of housekeeping notes before I begin: For the initiatives that we'll cover during this session, I included the traditional budget language that directly aligns to what you see in the Governor's printed budget. This language is italicized. However, my oral testimony today will summarize each initiative so that it's easier to understand while not losing any detail or meaning. Thus, my testimony today is 6 pages, but I won't be reading it all. And per the guidance from the committee, I won't be covering certain more administrative initiatives such as reclassifications and revenue adjustments. These are included in the appendices to this testimony. There are also a few initiatives that appear more than once in the budget because they are funded in multiple programs, but I will only read them once. I included a table that provides a full view of the initiative across all accounts for your reference.

Medical Care – Payments to Providers

We begin on page **A-353** with the **Medical Care – Payments to Providers – 0147**. This program funds Medicaid services administered by the Office of MaineCare Services. This program has 7 initiatives.

1. The first initiative (C-A-2108) on page **A-355** is administrative in nature and annualizes funding from last year's budget (Public Law 2023 chapter 643), which changed the hospital tax year from fiscal year 2020 to 2022, adjusted the tax rate for acute care hospitals from 2.23% to 3.25%, and eliminated the tax for critical access hospitals. These changes went into effect on January 1, 2025. As a result, last year's budget initiative reflected only 6 months of funding. This budget initiative annualizes these changes.

The first initiative (C-A-2108) on page A-355 annualizes funding in Public Law 2023 chapter 643 which changed the hospital tax year from fiscal year 2019-20 to 2021-22, updated the tax rate applied to acute care hospitals from 2.23% to 3.25%, and eliminated the hospital tax for critical access hospitals. These changes are in effect beginning January 1, 2025. As a result, the budget initiative reflected only 6 months of funding. This budget initiative annualizes these changes in each year of the biennium. This initiative reduces General Fund All Other funding by \$29,472,420 in state fiscal years 2026 and 2027 and increases Other Special Revenue Funds All Other allocation by \$29,472,420 in state fiscal years 2026 and 2027.

2. The next initiative (C-A-7129) is on page **A-356** and reduces funding to reflect rate changes for Hospice Services (MaineCare Benefits Manual (MBM) Section 43) from 123% to 100% of the comparable Medicare rates and Laboratory Services (MBM Section 55) from 70% of the 2009 Medicare rates to 72.4% of current Medicare rates. Note that Medicare rates have decreased since 2009 for lab services which is why this adjustment results in savings. The Department is proposing these adjustments to achieve parity with other services benchmarked to Medicare and to produce savings in the upcoming biennium.

The next initiative (C-A-7129) on page A-356 reduces funding to reflect rate changes for the department's rule Chapter 101: MaineCare Benefits Manual, Chapter III, Section 43, Hospice Services from 123% to 100% of the Medicare rate and Section 55, Laboratory Services from 70% of the 2009 Medicare rates to 72.4% of current Medicare rates. This initiative reduces General Fund All Other funding by \$213,401 in state fiscal year 2026 and \$853,604 in state fiscal year 2027.

3. The next initiative (C-A-7133) on page **A-356** reduces reimbursement for professional staff at hospitals and hospital-affiliated practices starting in fiscal year 2027. Under the current cost settlement reimbursement methodology, providers have no incentive to curb costs and the state does not have the ability to limit cost growth. Hospitals have been expanding and reclassifying their affiliated practices as hospital-based to take advantage of the cost settlement of these professional costs – the number of hospital professional service locations increased by 146 locations, or more than 58 percent, from 2021 to 2023. Hospital professional services currently receive the equivalent of 170% of Medicare on average. By comparison, the State pays

independent physician practices at 100 percent of Medicare for primary care and 72.4 percent for other services. This initiative proposes to transition to 109% of Medicare over five years. It begins in fiscal year 2027 by capping reimbursement at 160% of Medicare. As reference, we begin in fiscal year 2027 to reduce the financial impact in the upcoming biennium and so that we can phase in the transition to the 109% of Medicare over time.

The next initiative (C-A-7133) on page A-356 reduces funding to transition reimbursement of hospital professional costs at hospital based practices related to the department's rule Chapter 101, MaineCare Benefits Manual, Chapter III, Section 45, Hospital Services to 109% of Medicare rates over a 5 year period. This initiative reduces General Fund All Other funding by \$6,876,577, reduces Federal Expenditures Fund All Other allocation by \$16,966,294 and reduces Federal Block Grant Fund All Other allocation by \$266,356 in state fiscal year 2027.

4. The next initiative (C-A-7132) on page A-357 provides funding to increase current MaineCare dispensing fees for Pharmacy Services (MBM Section 80) to reflect increased costs, including the cost of the proposed per-prescription pharmacy assessment. Note that the intention was to cover the entire cost of the proposed assessment, in aggregate, but the funding that was included in the budget is about \$750,000 (\$300,000 GF) short in fiscal year 2027. The Department would like to work with the committees to correct this mistake. This initiative can also be found on page A-401.

The next initiative (C-A-7132) on page A-357 provides funding to increase current MaineCare dispensing fees under the department's rule Chapter 101: MaineCare Benefits Manual, Chapter III, Section 80, Pharmacy Services to reflect increased dispensing costs, including the cost of the proposed per-prescription pharmacy assessment. This initiative provides General Fund All Other funding of \$587,801 in state fiscal year 2026 and \$2,351,206 in state fiscal year 2027, increases Federal Expenditures Fund All Other allocation by \$1,484,138 in state fiscal year 2026 and \$5,936,551 in state fiscal year 2027 and increases Federal Block Grant Fund All Other allocation by \$29,161 in state fiscal year 2026 and \$116,643 in state fiscal year 2027. This initiative can also be found on page A-401.

5. The next initiative (C-A-7136) on page A-357 proposes to implement a 70 cent per prescription assessment on in-state pharmacy providers. This proposed pharmacy assessment is CMS sanctioned and allows the state to earn additional revenue, reinvest a portion of those dollars back into provider reimbursement (which is what the previous initiative does), while MaineCare benefits from net positive revenue by leveraging federal matching dollars. In aggregate, pharmacy providers would not be financially disadvantaged because of the increase in the pharmacy dispensing fee, but the state is able to generate new revenue. Note there is corresponding language for this initiative on page 90, part SS in the language document.

The next initiative (C-A-7136) on page A-357 adjusts funding for a per prescription assessment on in-state pharmacy providers under the department's rule Chapter 101: MaineCare Benefits Manual, Chapter III, Section 80, Pharmacy Services in response to increased costs to the

pharmacy benefit. This initiative reduces General Fund All Other funding by \$2,286,170 in state fiscal year 2026 and \$9,144,681 in state fiscal year 2027 and increases Other Special Revenue Funds All Other allocation by \$2,286,170 in state fiscal year 2026 and \$9,144,681 in state fiscal year 2027.

6. The next initiative (C-A-7131) on page A-357 provides funding to increase MaineCare reimbursement for ambulance services (MBM Section 5). Similar to the prior pharmacy proposal, this initiative increases ambulance reimbursement to offset in aggregate the cost of the proposed ambulance tax. Note that ambulance taxes have been contemplated by ambulance providers in previous legislative sessions.

The next initiative (C-A-7131) on page A-357 provides funding to increase MaineCare reimbursement for ambulance services under the department's rule Chapter 101: MaineCare Benefits Manual, Chapter III, Section 5, Ambulance Services. This initiative provides General Fund All Other funding of \$1,632,151, increases Federal Expenditures Fund All Other allocation by \$3,653,645 and increases Federal Block Grant Fund All Other allocation by \$50,573 in state fiscal year 2027.

7. The next initiative (C-A-7135) on page A-357 adjusts funding to institute a tax on non-municipal ambulance service providers (MBM Section 5). The cost of this tax will be offset in aggregate by a rate increase for providers. Municipal ambulance providers are not subject to the tax, but will still receive the new higher rate. We are working with EMS to further define and establish criteria to indicate what it means to be a quasi-public and/or municipal provider. Note there is corresponding language for this initiative on page 91, part TT in the language document. I'll also note that we need to adjust the language to specify that the tax would only apply for emergency ambulance services, not all ambulance services.

The next initiative (C-A-7135) on page A-357 adjusts funding to institute a tax on ambulance services under the department's rule Chapter 101: MaineCare Benefits Manual, Chapter III, Section 5, Ambulance Services. This initiative reduces General Fund All Other funding by \$3,635,508 and increases Other Special Revenue Funds All Other allocation by \$3,635,508 in state fiscal year 2027.

Language

Language submitted on page 90, Part SS establishes a per prescription assessment on pharmacy providers.

Language submitted on page 91, Part TT establishes a tax on ambulance providers of 6%. Funds must be credited to the Department of Health and Human Services to be used for MaineCare provider payments.

There is one piece of language that we haven't covered already which can be found on page **104, Part WW**. It allows the department to assess a fee on Maine hospitals based on the number of inpatient beds to support Maine's state-designated Health Information Exchange (HIE). The HIE links individual clinical information from unaffiliated healthcare sites to create a single Electronic Health Record (EHR) that allows providers across the state to better support and coordinate patient care. HealthInfoNet, which runs the HIE, currently collects fees from participating healthcare providers. This proposal would replace those participant fees with a new assessment on hospitals so that the fees can serve as the state share of funding and leverage new additional federal funding. For all hospitals that currently pay a participant fee to HIN, this proposal results in either no change or a cost-savings to those hospitals/health systems. Hospitals will pay an average of 55% less under this proposed structure than they do in current fees (although one hospital currently does not participate under the HIE). You may recall that the Governor's change package proposed, and the legislature enacted through Public Law 2023, c. 643, \$1.7 million as bridge funding to support HIN's operations until a permanent funding approach could be put in place.