Testimony
House Bill 1012 – Department of Human Services
Senate Appropriations Committee
Senator Holmberg, Chairman
March 3, 2009

Chairman Holmberg, members of the Senate Appropriations Committee, I am Brenda M. Weisz, Chief Financial Officer for the Department of Human Services. I will be providing an overview of the Department's 2009 – 2011 budget request included in HB 1012 along with related fiscal information and then finally the changes made by the House Appropriations Committee.

2007 – 2009 General Fund (Turnback)

When comparing the current biennium expenditures in the major program areas to the amount of general fund appropriated, the turnback as included in OMB's Revised Revenue Forecast could be as much as approximately $22 million. The estimated breakdown is as follows:

- Areas we have been aware of for a good part of the biennium:
    - Human Service Centers - estimated turnback of $2.0 million as a result of staff turnover and difficulty in filling psychology and psychiatry positions;
    - State Hospital - estimated turnback of $2.7 million, which includes $1.3 million of unspent one-time capital project funds;
    - Long Term Care – estimated turnback of $4.6 million - primarily from Nursing Facilities as the bed utilization has been down the entire biennium compared to the beds budgeted;

- Areas most recently identified - Medicaid Traditional grants – estimated turnback of $12.6 million. In November reports generated from the old MMIS indicated utilization and cost data that needed further analysis. This analysis work was completed in December, and the remaining turnback can be attributed to three areas:
    - Drug Costs – ($6.7 million) when we prepared the budget for the current 2007 – 2009 biennium, we had decreased the drug budget in consideration of the implementation of Medicare Part D, which occurred in January 2006. However, we had limited information on the impact of Medicare Part D when that budget was prepared (beginning in April 2006). We now know the impact is greater than initially projected. Also there is an increased usage of generic drugs than had been anticipated. Finally, there was a change in the method used to claim drug rebates. This federal change resulted in our ability to claim drug rebates from prior periods. This will not continue into the future. Drug rebates offset our drug expenditures. The Executive Budget reflects a request for drugs at a lower level than the budget for 2007 – 2009.
    - Medicare premiums – ($1.6 million) the federal government sets these premiums and the federal increases were not at the level anticipated when the budget was developed.
    - Inpatient Hospital / Physician Services – ($4.3 million) our antiquated MMIS plus two federally required changes – 1) the implementation of the National Provider Identified (NPI) and 2) the implementation of Coordination of Benefit Agreement (COBA), essentially the crossover of Medicare claims, resulted in a high backlog of claims and cashflow problems for

providers. The Department paid claims to alleviate the cashflow problems through a process known as a "payout." These payments started to be made at the end of the 2005 – 2007 biennium and continued through December 2007. These payouts covered all claims that had been submitted from providers where normally there is often a 30 day or more lag in processing claims. Essentially, what resulted were claims being paid in 2005 – 2007 as they were legitimate expenditures for that time frame, with the budget for those payments located in the 2007 – 2009 biennium. This too is a one-time situation that will not continue.

When you exclude the unique circumstances with the Medicaid program this biennium, the turnback is only 1.6%. With Medicaid Traditional grants that percentage increases to 3.8%, which means we are estimated to be 96% on target. As point of comparison the turnback for the 2005 – 2007 biennium was $5.6 million or 1.2%. The general fund appropriation was $484.7 million.

Major Policy Changes in Developing 2009 – 2011 Budget

The 2009 – 2011 Executive Budget included the following program changes:

- Increased the allowed funeral set-aside under the Medicaid Program from the current level of $5,000 to $7,000. The House passed HB 1477 which set the level at $6,000.

- Increased eligibility for the Healthy Steps Program from 150% net of poverty to 200% net of poverty. The House passed HB 1478 which set eligibility at 160% net of poverty.

- Increases the foster care payment made to family foster care homes. This increase will bring North Dakota rates to a level of payment known nationally as the MARC (Minimum Adequate Rates for Children). This change is expected to assist in the recruitment and retention of family foster homes.

- Changes the administrative payment structure to Providers of services for those with Developmental Disabilities (DD). The Department's budget provides for administrative reimbursement based on the level of capability of the client (Progress Assessment Review [PAR] level) rather than two flat levels of reimbursement for the Individualized Supported Living Arrangements (ISLA) and the Family Care Option III programs.

Current Budget / Budget Request / House Changes

The 2009 – 2011 Executive Budget request compared to the current 2007 – 2009 biennial budget along with the changes made by the House is as follows:

Description	2007 - 2009 Budget	Increase / Decrease	2009 - 2011 Budget	House Changes	To Senate
Salary and Wages	50,741,266	13,226,825	63,968,091	(6,479,666)	57,488,425
Operating	153,961,819	(34,171,213)	119,790,606	(1,086,455)	118,704,151
Capital Assets	1,837,987	(1,824,987)	13,000		13,000
Grants	343,699,648	113,265,660	456,965,308	(1,834,504)	455,130,804
HSCs / Institutions	241,868,720	34,659,422	276,528,142	(13,097,981)	263,430,161
Grants - MA	1,117,187,821	227,633,993	1,344,821,814	(38,253,110)	1,306,568,704
Total	1,909,297,261	352,789,700	2,262,086,961	(60,751,716)	2,201,335,245
General Funds	595,736,533	125,776,012	721,512,545	(29,152,111)	692,360,434
Federal Funds	1,212,943,782	221,647,938	1,434,591,720	(31,434,045)	1,403,157,675
Other Funds	100,616,946	5,365,750	105,982,696	(165,560)	105,817,136
Total	1,909,297,261	352,789,700	2,262,086,961	(60,751,716)	2,201,335,245

FTE	2,223.38	14.00	2,237.38	(20.50)	2,216.88

Explanation of Major Budget Changes in the Executive Budget

As noted above, the Executive Budget included a **general fund increase** of **$125.8** million and can be explained as follows:

$38.9 million – Net cost changes in the grant programs of the Department including traditional Medicaid grants, nursing facilities, Developmental Disability grants, Home and Community Based Services, and child welfare grants. Changes are the result of several factors such as rate setting rules, federal mandates, continuation of the year two 5% inflationary increase granted during the current biennium, along with

costs which cannot be controlled by the Department (drugs, premiums - Medicare, Healthy Steps premium).

($13.9) million – net decrease in caseload / utilization. The largest impact of change in this area is a decrease in the utilization in the Medicaid Program and in the Nursing Home budget along with a decrease in the Foster Care caseload. These decreases are offset by increases primarily in Home and Community Based Services and the Healthy Steps Program. The House further reduced funding in this area.

$21.9 million – increase attributed to the Governor's salary and benefit package, the cost to continue this biennium's year two salary increases along with the equity funding initially included in the Executive Budget. The House removed the equity funding from all agency budgets and underfunded salaries department-wide by $6.1 million. In the Executive Budget we had already included $1.3 million of underfunding. The House amendment brings that number to $7.4 million.

$37.1 million – increase to fund a 7% inflationary increase to most providers in each year of the biennium. Hospitals, Physicians, Chiropractors, and Ambulance providers will see a 7% increase in year two only as a result of the changes reflected in adopting a version of the rebasing reports completed during the interim. The House modified this to 6% inflationary increases.

$14.8 million – increase related to rebasing Hospitals, Physicians, Chiropractors, and Ambulance providers. Also included in this amount is an increase in Dental rates to pay at an average of 75% of average billed charges. This action was a result of legislation included in the

Department's current appropriation bill where the rates paid to these providers were to be studied. The House modified the rebasing for all groups except the Hospitals.

$10.2 million – increase in state funds as a result of the decrease in the Federal Medical Assistance Percentage (FMAP). This percentage is based on per capita income of North Dakota in relation to other states. The FMAP rates for the upcoming biennium are as follows:

- FFY 2009 – 63.15% Final – in effect now
- FFY 2010 – 63.01% Final
- FFY 2011 - 63.01% Estimated (preliminary number usually issued in April)

($15.0) million – decrease in one-time capital projects, extraordinary repairs, and bond payments ($11.4 million) along with the decrease for one-time funding for the Medicaid system project - ($3.6 million).

$5.2 million – to fund bond payments, capital projects, extraordinary repairs and major equipment needs at the Institutions for repair and maintenance of infrastructure and operations. ($3.9 million - State Hospital and $1.3 million – Developmental Center)

$4.0 million – increased Information Technology costs in both the rates charged by the Information Technology Department and to support ongoing operational costs of the new MMIS, Point of Sale, and Decision Support systems often referred to as the Medicaid system project.

$7.0 million – Funding Changes – see **Attachment A** for additional detail.

$4.4 million – Changes in Home and Community Based Services – see **Attachment A** for additional detail.

$1.4 million – Select changes at the Human Service Centers – see **Attachment A** for additional detail.

$1.0 million – Changes in the grants for those with Developmental Disabilities. See **Attachment A** for additional detail.

$4.3 million – increase to address capacity issues at the Human Service Centers and the State Hospital which we have come to refer to as "global behavioral health" capacity issues. This reflects a consistent payment methodology for the psychiatric hospitals in the regions for our clients that are indigent and was based on the same payment rates included in the rebasing amount for hospitals in the Medicaid budget, enhanced residential services in the Minot, Grand Forks, and Dickinson regions, four FTE plus a contracted program assistant as a result of the Cooper House Residential Unit in the Fargo region, an addiction case manager in the Jamestown region, and six additional FTE at the State Hospital as they are currently staffed to handle a capacity of 85%. During the biennium, capacity at the State Hospital has often been at 100%. The House removed all costs except for the contracted program assistant for the Cooper House Residential Unit. This will result in psychiatric hospitals in Minot, Grand Forks, Fargo and Bismarck receiving one level of payment if the Human Service Center client is Medicaid eligible as compared to the rate they will receive if the Human Service Center client does not have insurance and is not Medicaid eligible.

$2.0 million – increase to move the medically needy income level to 83% of the poverty level. Medically Needy is an eligibility category under the Medicaid program. This change will allow those eligible to retain more of their income to meet such expenses as food, shelter, utilities, and clothing. Currently a household size of one is able to retain $500 per month, while this change would have increased that amount to $720 per month. For a household size of two, currently the amount that can be retained is $516. 83% of poverty equates to a monthly amount of $969. The House amended this level to 75% of the poverty level which results in a household size of one being able to retain $650 per month and a household size of two being able to retain $875 per month.

$1.1 million – increase needed to cover children under the Healthy Steps Program at 200% net poverty level. The House reduced this level to 160% net of poverty.

$0.6 million – increase needed to provide a rate increase to Child Care providers and to complete mandatory background checks.

The remaining **$0.8** million or 0.6% of the general fund increase - is tied to miscellaneous net increases throughout the Department, which will be addressed by each division in the upcoming days.

FTE CHANGES

The Executive Budget included a net increase of 14 FTE in the following areas (all added FTE have been removed by the House amendments except for the FTEs attributed to the child care background checks):

- 11 FTE in the area of Global Behavioral Health discussed previously.

- 6 additional FTE at the Human Service Centers (HSCs). 1.0 FTE to address capacity needs in the Partnership Program at Southeast HSC, 1.0 FTE to address the aging population and additional need for staff regarding vulnerable adult protective services at South Central HSC, and 4.0 FTE for DD case managers (one each at North Central HSC, Northeast HSC, Southeast HSC and West Central HSC). The addition of these DD case managers is a result of federal requirements.
- 1.5 FTE to handle the increased eligibility in the Healthy Steps program.
- 1.0 FTE in response to the efforts related to the implementation of an Autism waiver.
- 1.0 FTE to implement the Statement on Auditing Standards (SAS) 115 which was issued in response to Enron and other such activities found in other companies.
- Two .5 or half-time FTE (1.0 in total) to address the efforts related to mandatory background checks for Child Care Providers.
- Offsetting the additional FTE is the reduction of 7.5 FTE in the Child Support area.

Key Points in Developing the Budget

Traditional Medicaid grants – The traditional Medicaid grants budget was built using utilization and cost data by services. The number of estimated eligibles for the 2009 – 2011 budget is 51,308, which is down from the estimate of 52,308 for the current budget.

Healthy Steps Program – The premium increase this biennium is 20.52%. This is the largest premium increase since the 2003 – 2005 biennium. (Last biennium – 11.39% increase; 2005 – 2007 biennium – 17.76% increase.) Maggie Anderson's testimony this afternoon will address more specifically the impact of the changes made by the House.

Foster Care grants – The first time in at least five budget cycles, the Foster Care caseload included in the 2009 – 2011 budget for Family and Residential care is estimated to be lower than the budget for the current biennium.

Home and Community Based Services – When considering the cost and caseload changes, along with the other program changes, the Executive Budget initially reflected a 52% increase in this area of the budget. The House dropped this increase by almost 10% with the amendments they passed before considering the reduction they made for utilization/caseload. See **Attachment B and C** for a breakdown among Long Term Care services for the upcoming biennium.

Institutions – The budget request for the State Hospital is based on 222 beds for the traditional population, which includes 90 beds for the Tompkins program. Additionally, the budget includes 85 beds for the civilly committed sex offender program for a total of 307 beds. The budget request for the Developmental Center is based on a population of 115.

Attachment D includes a summary of the House amendments.

Finally, I would like to direct your attention to **Attachment E**, which indicates “Where the Money Goes” in the Department. 83% of the budget goes directly “out the door” to providers or grant recipients. This compares to 80% of the budget for the 2007 -2009 biennium. Another 11% is expended on direct client services at the Human Services Centers and the Institutions, which remains the same as the 2007 – 2009 budget. Finally 6% of the budget is dedicated to the administrative costs, which has also remained unchanged from the current budget.

The Executive Budget was a strong budget for the most vulnerable citizens of the State of North Dakota for which this budget is designated to serve. The House amendments will primarily impact our clients directly and present challenges for the Department. In the upcoming days, we will be ready to explain in detail the impact of the House changes and answer your questions as we work through the details of this budget.

This concludes my testimony. At this time I would be willing to address your remaining questions and will also be available for any budget questions that may come to mind in the upcoming months.

Thank you.