

Testimony
Senate Bill 2012 – Department of Human Services
House Appropriations Committee
Representative Delzer, Chairman
March 2, 2011

Chairman Delzer, members of the House Appropriations Committee, I am Brenda M. Weisz, Chief Financial Officer for the Department of Human Services. I am here today to provide an overview of the Department's 2011 – 2013 Executive Budget request included in SB 2012, fiscal related information, along with the Senate amendments to the Executive Budget.

2009 – 2011 Appropriation and Estimated Spending

When comparing the current biennium expenditures in the major program areas to the amount of general fund appropriated, the Department is expecting the following:

- Long Term Care area of the Department's budget (including developmental disability grants) – we are estimating the overall spending to be under budget by \$26.9 million in total with \$13.2 million of that amount from the general fund. Nursing Facilities and the SPED program are experiencing lower utilization than budgeted while Basic Care services are being utilized in excess of the amounts budgeted.
- Medicaid traditional grants and Healthy Steps – we are estimating the overall shortfall to be \$19.6 million in total with a \$5.8 million shortfall in general fund. The general fund shortfall in this area is offset by a general fund savings in the Medicare Part D clawback payment of \$2.8 million – all from the general fund. The net general fund shortfall amounts to \$3.0 million.
- Human Services Centers - we are estimating the overall general fund spending to be under budget by \$1.6 million.

- Institutions - we are estimating the overall general fund spending to be under budget by \$800,000 at the State Hospital and on budget at the Developmental Center.
- Central Office - we are estimating the overall general fund spending to be under budget by \$200,000.

When considering all areas of the budget, the Department is expecting to have an unexpended general fund appropriation of approximately \$12.8 million at June 30, 2011. It is this estimated \$12.8 million for which an exemption is being made in Section 5 of SB 2012 for the purpose of funding the medical assistance grants portion of our 2011 – 2013 Executive Budget.

Major Policy Changes in Developing the 2011 – 2013 Budget In developing the budget for **Inpatient Hospitalization at the Human Service Centers**, the Department continued contracts for inpatient hospital services for those who are not eligible for Medicaid but are clients of the Department in the following regions: North Central, Northeast, Southeast, West Central and Badlands in the amount of \$829,243. The Executive Budget includes an additional \$3.43 million for a total budget of \$4.26 million. This will allow the Department to provide approximately 4,900 inpatient hospital days across the state to be paid at the Medicaid equivalent rate. The Department also plans to move forward with a centralized contract allowing for consistent contract terms statewide and allowing flexibility for amounts to be moved from region to region based upon need.

Current Budget / Executive Budget / Senate Amendments

Description	2009 - 2011 Budget	Increase / Decrease	2011 - 2013 Executive Budget	Senate Changes	To House
Salary and Wages	59,416,844	7,442,703	66,859,547		66,859,547
Operating	124,195,067	29,063,434	153,258,501		153,258,501
Capital Assets	1,206,747	(1,068,347)	138,400		138,400
Capital Construction Carryover	30,234,275	(30,234,275)	0		0
Grants	483,066,261	3,949,776	487,016,037	(10,000)	487,006,037
HSCs and Institutions	270,150,215	19,864,590	290,014,805	161,840	290,176,645
Grants-Medical Assistance	1,365,095,313	248,642,305	1,613,737,618	13,198,406	1,626,936,024
Total	2,333,364,722	277,660,186	2,611,024,908	13,350,246	2,624,375,154
General Funds	654,611,574	272,752,084	927,363,658	5,740,696	933,104,354
Federal Funds	1,560,552,211	8,805,392	1,569,357,603	7,609,550	1,576,967,153
Other Funds	118,200,937	(3,897,290)	114,303,647		114,303,647
Total	2,333,364,722	277,660,186	2,611,024,908	13,350,246	2,624,375,154
FTE	2,216.88	(20.53)	2,196.35		2,196.35

Explanation of Major Budget Changes - Current Budget to Executive Budget - General Fund Only - Increase of \$272.8 million

\$171.4 million – increase in state funds as a result of the decrease in the Federal Medical Assistance Percentage (FMAP). First, we need to replace the discontinuation of the enhanced FMAP as a result of the federal stimulus funding. The enhanced FMAP during this time period was 69.95%. This enhanced FMAP was to have expired December 31, 2010, however, as a result of federal legislation it was extended through June 30, 2011 at “stepped down” intervals. For North Dakota those rates are 66.95% for the period of January 2011 – March 2011 and 64.95% for April 2011 – June 2011. Also impacting the FMAP is the per capita

income of North Dakota in relation to other states and the strength of North Dakota's economy compared to that of the Nation. The FMAP rates for the upcoming biennium are as follows:

- FFY 2011 (July 2011 – Sept 2011) 60.35% Final
- FFY 2012 55.40% Final
- FFY 2013 55.40% Estimated

\$25.5 million – 3% inflationary increase extended to providers each year of the biennium.

\$24.4 million – net cost changes in the grant programs of the Department including traditional Medicaid grants, nursing facilities, developmental disability grants, extended services, home and community based services, child welfare grants, Indian County allocation payments to counties. Changes are the result of several factors such as rate setting rules, federal mandates, continuation of the year two 6% inflationary increase granted during the current biennium, along with costs that cannot be controlled by the Department (drugs, premiums – Medicare and Healthy Steps.)

\$21.6 million – net increase in caseload / utilization. The largest impact of change in this area is an increase of \$12.2 million in traditional Medicaid grants followed by a \$5.6 million increase in the nursing home area.

\$16.2 million – to replace with general fund, the other funding sources no longer available as follows: the ability to use child support incentive funds for match as allowed by stimulus legislation (\$2.8 million); Bank of North Dakota loan (\$8.5 million); Health Care Trust Fund (\$4.1); and the use of the Community Health Trust Fund, which was used as match for

the allowable treatment and other medical costs for clients qualifying through the Women's Way Program (\$800,000).

\$14.3 million – increase (\$10.3 million) attributed to the Governor's salary and benefit package, the cost to continue this biennium's year two salary increase (\$3.8 million) for just under 2,200 employees; and (\$200,000) for the seven Full Time Equivalent (FTE) associated with Health Care Reform.

\$6.5 million – increase in the Medicare Part D clawback payment as a result of increased required payments and increased dual eligibles – those eligible for both Medicare and Medicaid.

\$6.1 million – increase to address behavioral health needs at the Human Service Centers to 1) allow for consistent payment of psychiatric inpatient hospitalization statewide at the Medicaid equivalent rate for Human Service Center clients who are not eligible for Medicaid (\$3.43 million); and 2) address the capacity issues in the Regions by: adding a ten bed crisis residential facility in Minot for those with serious mental illness (\$1.44 million); adding four beds to the current ten bed adult crisis residential facility in Bismarck (\$300,000); and adding a 15 bed long term residential facility for those with an addiction in Fargo (\$940,000).

\$3.1 million – to fund extraordinary repairs (\$1.3 million) and capital improvements at the State Hospital (\$1.8 million).

\$2.6 million – increased information technology costs in both the rates charged by the Information Technology Department and ongoing operational costs of the new systems developed under the Medicaid Systems Project.

(\$7.2) million – decrease in one-time funding for extraordinary repairs, equipment over \$5,000 and bond payments (\$6.2 million) and funding for the Medicaid Systems Project (\$1.0 million).

(\$12.8) million – reduction to the overall budget submitted by the Department and anticipated amount of general fund turnback at June 30, 2011 as explained earlier in my testimony.

The remaining **\$1.1 million** or 0.4% of the general fund increase is tied to miscellaneous net increases throughout the Department, which will be addressed by each division as they present their overview testimony.

FTE Changes

The Executive Budget includes a **net decrease of 20.53 FTE**. As the Department developed its budget we arrived at that reduction incrementally. First, we began with an overall decrease of 40.53 at the Developmental Center resulting from the decreased need of staff as we have transitioned clients to the community. Our current budget was built on a population of 115 clients with a goal of 95 clients by June 30, 2011. As we developed the budget for the 2011 – 2013 biennium, we analyzed the FTE needs Department-wide and within our authorized FTE count we addressed internal needs offsetting this decrease as follows:

- Information Technology Services – we added 1 FTE for Health Information Technology and 3 FTE for individuals who have worked in the Department full time as temporary staff for over four years without benefits on data entry of primarily Medicaid claims.
- Medical Services – we added 1 FTE for the conversion of a claims analyst who has been a temporary employee working for the Department full time over four years without benefits.

- Mental Health / Substance Abuse Division – we added 6 FTE for work that was previously accomplished under contract. The federal funding was moved from the operating line item to the salaries line item for this change.
- NCHSC – we added a staff psychiatrist, who will serve both Northwest Human Service Center and North Central Human Service Center.
- State Hospital – we added a pharmacist to provide telepharmacy services to the eight Human Service Centers, which provide medication monitoring on a routine basis. This will be more efficient than adding a pharmacist at each location.

After our internal work, the Department's budget request submitted to OMB included a net decrease of 27.53 FTE.

The Executive Budget then added seven FTE to address the policy changes that will be needed to implement Health Care Reform. Health Care Reform is scheduled to go into effect January 2014, should there be no changes with this legislation at the federal level. The seven include one FTE each in the area of Economic Assistance Policy and Child Support and the remaining five in Medical Services. The FTE have a staggered employment date ranging from as early as July 1, 2011 to as late as April 1, 2013. This brings the net reduction in FTE to **20.53**.

Key Points in Developing the Budget

Traditional Medicaid Grants – The traditional Medicaid grants budget is built on utilization and cost data by service. However, the utilization is often driven by the number of individuals on the program. The number of eligibles in May 2010, when we began preparing the 2011 – 2013 budget

was 62,257. This compares to 51,308 eligibles in April 2008 when we began preparing our current budget.

Healthy Steps Program – The Executive Budget maintains coverage at 160% of poverty (net). The budget is built on providing coverage to an estimated 4,256 children per month at a monthly premium of \$274.03 per child. The premium increase this biennium is 19.82%. The Senate did amend this area of the budget to provide coverage at 175% of poverty (net) which will serve an estimated 445 more children.

Institutions – The Executive Budget for the State Hospital is based on a total capacity of 298 beds. The breakdown by program includes 132 beds for inpatient psychiatric services, 90 beds for the Tompkins Program, and 76 beds for the civilly committed sex offender program. The Executive Budget for the Developmental Center is based on a population of 95 individuals at the Center.

Home and Community Based Services – Please refer to **Attachment A** for a breakdown among Long Term Care services in the Executive Budget with the Senate amendments.

As in past presentations, I have included in **Attachment B**, a breakdown of “Where the Money Goes” in the Executive Budget with the Senate amendments. 84% of the Department’s budget goes directly “out the door” to providers or grant recipients. This compares to 83% of the budget for the 2009 – 2011 Legislatively Approved Budget. Another 10% is expended on direct client services at our Human Service Centers and the Institutions, which is down from 11% in the 2009 – 2011 budget. The administrative costs have been held to 6%.

Attachment C provides a one page presentation of our \$2.6 billion budget with Senate Amendments. I would like to point out that 62% of this budget is Medicaid and that equates to Health care.

Senate Amendments

- Removes \$10,000 for the Silver Haired Assembly within the Aging Services Division.
- Adds \$1.8 million total funds, of which \$567,000 is from the general fund to increase the eligibility level for the Healthy Steps program from 160% of poverty (net) to 175%.
- Adds \$11.4 million total funds, of which \$5.0 million is from the general fund to provide a \$.50 per hour wage increase to Developmental Disability Provider staff on July 1, 2011.
- Adds \$161,840 to the State Hospital to fully fund the remainder of the OAR request submitted to OMB.
- Includes intent language that the Department may not exceed more than \$12.50 per square foot for leasing office space at Prairie Hills Plaza for the 2011 – 2013 biennium.
- Includes intent language that the Department only fill the seven full-time equivalent positions authorized for implementing federal health care reform after receiving applicable rules from the federal department of Health and Human Services.

Finally for your future reference, I have included **Attachment D**, a summary of the general fund increases in Engrossed SB 2012.

This concludes my overview testimony and I would be happy to address your questions.

Thank you.