

Testimony
Senate Bill 2012 – Department of Human Services
Senate Appropriations Committee
Senator Holmberg, Chairman
January 17, 2010

Chairman Holmberg, members of the Senate 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 along with fiscal related information.

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.

Status of 2009 – 2011 One-Time Funding

Developmental disabilities rate study <i>Study completed and bill introduced - SB 2043</i>	\$ 100,000
Supplemental payment <i>Approved by federal government- final payment to be made Spring 2010</i>	400,000
Extraordinary repairs <i>Projects are complete or will be completed by the end of the biennium</i>	3,443,692
Federal stimulus funds - see Attachment A	88,033,205
Equipment over \$5,000 <i>Purchases are complete or will be completed by the end of the biennium</i>	352,606

One-Time Funding Requests in SB 2012 (2011 – 2013 Budget)

The Executive Budget includes one-time funding for the following:

Federal stimulus funds <i>Amounts to be expended by 9/30/11</i>	\$ 519,175
State Hospital capital projects <i>Details to be covered by Alex Schweitzer</i>	\$1,800,000

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 / Budget Request

Description	2009 - 2011 Budget	2011 - 2013 Budget	Increase / Decrease
Salary and Wages	59,416,844	66,859,547	7,442,703
Operating	124,195,067	153,258,501	29,063,434
Capital Assets	1,206,747	138,400	(1,068,347)
Capital Construction Carryover	30,234,275	0	(30,234,275)
Grants	483,066,261	487,016,037	3,949,776
HSCs and Institutions	270,150,215	290,014,805	19,864,590
Grants-Medical Assistance	1,365,095,313	1,613,737,618	248,642,305
Total	2,333,364,722	2,611,024,908	277,660,186
General Funds	654,611,574	927,363,658	272,752,084
Federal Funds	1,560,552,211	1,569,357,603	8,805,392
Other Funds	118,200,937	114,303,647	(3,897,290)
Total	2,333,364,722	2,611,024,908	277,660,186
FTE	2,216.88	2,196.35	(20.53)

**Explanation of Major Budget Changes – 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 addition of seven new Full Time Equivalent (FTE).

\$6.9 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 **\$0.7 million** or 0.3% 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 this decrease was offset 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%.

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 Tomkins 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 B](#) for a breakdown among Long Term Care services in the Executive Budget.

As in past presentations, I have included in [Attachment C](#), a breakdown of “Where the Money Goes” in the Executive Budget. 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%.

Finally, [Attachment D](#) provides a one page presentation of our \$2.6 billion budget.

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

Thank you.