



Health and Human Services Subcommittee 2013-15 Fiscal Biennium Budget Highlights

Fiscal Brief

August 29, 2013

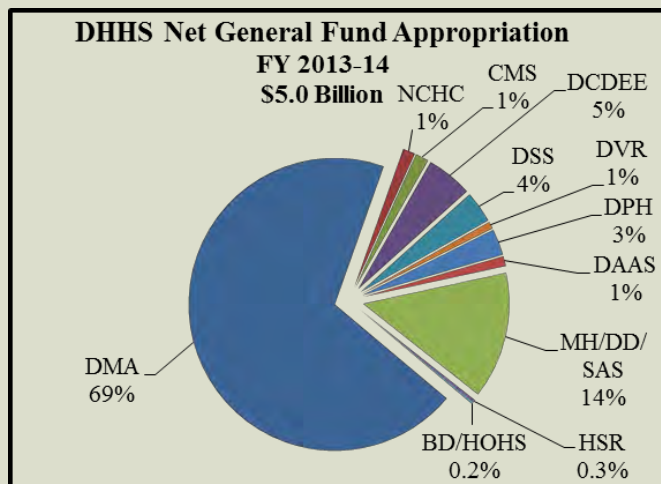
The North Carolina General Assembly House and Senate Appropriations Subcommittees on Health and Human Services (HHS Subcommittee) determine the budget for one State agency: The Department of Health and Human Services (DHHS). DHHS is comprised of twelve divisions, which may be categorized under four broad service areas: health, human services, administration, and support.

	Actual FY 2011-12	Actual FY 2012-13	Enacted FY 2013-14	Enacted FY 2014-15
Expenditures	19,549,995,169	17,897,315,850	19,229,235,008	19,784,216,988
Less: Receipts	14,974,153,064	12,891,599,858	14,235,446,685	14,646,542,413
Net General Fund Appropriations	\$4,575,842,105	\$5,005,715,992	\$4,993,788,323	\$5,137,674,575
Positions (FTE)	17,036.1	17,581.7	17,570.7	17,410.7

¹ Division level budget and FTE information is provided in tables at the end of this budget brief.

Budget Overview

The enacted FY 2013-14 Net General Fund Appropriation for the Health and Human Services Subcommittee is \$5.0 billion. This is an increase of 8.2 percent from the FY 2013-14 Continuation Budget. The General Fund Appropriation funds 17,571 full-time equivalent positions (FTE).¹ The chart below shows the subcommittee budget by divisions.



¹ Does not reflect positions that may be eliminated as part of management flexibility reserves.

S.L. 2013-360, Appropriations Act of 2013 (S.B. 402), as amended by S.L. 2013-363, Modifications/2013 Appropriations Act (H.B. 112), appropriates \$5.0 billion for the 12 Department of Health and Human Services (DHHS) agencies. Legislative adjustments to the FY 2013-14 Continuation Budget for the DHHS agencies increased spending by \$377.9 million in FY 2013-14. In FY 2014-15 spending increases by \$507.1 million. The Legislative budget process focused primarily on the following major areas:

- Preparing for future Medicaid reform;
- Avoiding future Medicaid budget shortfalls; and
- Finding savings in Medicaid and other DHHS programs to fund required Medicaid budget growth.

This Fiscal Brief provides a summary of the adjusted 2013-15 biennial budget for DHHS.

Preparing for Medicaid Reform

S.L. 2013-360, Appropriations Act of 2013 requires DHHS, in consultation with a Medicaid Reform Advisory Group, to create a detailed plan to reform the



Medicaid program. DHHS is prohibited from implementing Medicaid Reform without legislative approval. The Department's plan will be presented to the General Assembly for consideration by March 17, 2014. The plan should be designed to accomplish the following goals:

- 1) Create a predictable and sustainable Medicaid program;
- 2) Increase administrative ease and efficiency for Medicaid providers; and
- 3) Provide care for the whole person by uniting physical and behavioral health care.

Avoiding Future Medicaid Budget Shortfalls

Budget writers were confronted with a significant budget gap in the State's Medicaid budget for FY 2012-13 due to increased enrollment and utilization, a one-time State reimbursement of federal drug rebate payments, and a miscalculation of federal receipts. To ensure adequate funding through July 2013, the General Assembly passed S.L. 2013-56, Medicaid/2012-13 Additional Appropriations (H.B. 980), authorizing \$451 million, and S.L. 2013-184, Title (H.B. 336) authorizing \$45 million, for a total of \$496 million in additional Medicaid funding. For FY 2012-13, Medicaid is expected to have spent \$416 million more (13.4 percent) than was originally appropriated during the 2012 Session.

With the FY 2012-13 Medicaid budget gap covered, the General Assembly's focus in the FY 2013-15 biennial budget for DHHS was providing sufficient continued funding for Medicaid. Most of the 8.2 percent increase in the DHHS budget is dedicated to Medicaid. S.L. 2013-360, Appropriations Act of 2013 includes an additional \$392.4 million above the Continuation Budget for Medicaid in FY 2013-14. The additional Medicaid funding covers the structural shortfall from FY 2012-13, projected enrollment and utilization growth, the expected impact of the Affordable Care Act (ACA) on the current Medicaid program, and a variety of program changes. The following chart summarizes the components of the additional Medicaid funding in FY 2013-14:

Structural Shortfall	\$272.0 M
Enrollment/Utilization Growth	\$191.0 M
ACA Woodwork and DSH Effects	\$49.7 M
ACA Health Choice to Medicaid	\$22.0 M
Non-Recurring IT	\$4.8 M
General Assembly Reductions	(\$143.5 M)

Non-Recurring Federal Payments (\$3.8 M)

TOTAL CHANGE **\$392.4 M**

Funding for the Division of Medical Assistance (DMA, the division responsible for Medicaid) in FY 2013-14 is \$3.46 billion, or 12.8 percent more than the Continuation Budget.

The Appropriations Act includes an estimate of expected total Medicaid costs that projects an additional \$463 million in FY 2013-14 and \$586 million in FY 2014-15 to account for the structural shortfall in Medicaid funding in FY 2012-13, growth in Medicaid enrollment, and changes in utilization.

The budget accommodates increased projected Medicaid enrollment from the "woodwork" effect of the ACA and reduced federal funding to pay State facilities through the Disproportionate Share Hospital (DSH) program. The ACA "woodwork" effect refers to individuals currently eligible, but not enrolled in, Medicaid, who are expected to enroll in future years as a result of 1) the outreach efforts for the ACA's new Health Insurance Marketplaces, 2) an easier enrollment process, and 3) the requirement that individuals have health insurance after January 1, 2014. By the end of FY 2014-2015, over 40 percent of those currently eligible, but not enrolled, are forecasted to enroll in Medicaid. These two items represent a projected \$49.7 million increase in State spending requirements in FY 2013-14.

S.L. 2013-360 also provides funding to implement an ACA requirement that shifts children whose families earn up to 133 percent of the Federal Poverty Level (FPL) from Health Choice to Medicaid. This is projected to increase State Medicaid spending by \$22.1 million in FY 2013-14. While there is a partial offset for reduced Health Choice spending, overall State costs are expected to rise as a result of a broader array of benefits and lower copays in Medicaid compared to Health Choice.

Finding Savings for Medicaid Budget Growth

S.L. 2013-360, Appropriations Act of 2013 includes numerous budget changes across divisions that provide savings to offset required Medicaid funding increases.

Significant Medicaid Savings



- **Increased Hospital Assessments** - S.L. 2013-360 converts the method for determining the State's share of hospital assessments to fund service payments to hospitals from a flat amount to a percentage. This change is projected to increase the State's share of the assessments by \$52 million in FY 2013-14.
- **Shared Savings Plan** - S.L. 2013-360 includes a Medicaid Shared Savings plan that establishes a system to reimburse selected medical providers based on performance. The plan withholds three percent of claims payments to providers beginning in FY 2013-14; these funds will be used to make performance payments beginning in FY 2014-15. The performance payment structure will be developed by DHHS in consultation with providers. S.L. 2013-360 includes a \$26.9 million reduction in State funding in FY 2013-14 as a result of the three percent withhold.
- **Reduced Outpatient Payments** - S.L. 2013-360 reduces hospital outpatient service payments, including emergency services, from 80 percent of cost to 70 percent of cost. However, the hospital assessments referenced above will result in an increasing federal share of payments, which will mean that hospitals only have their payments reduced by about 1/3 of this amount. The change in hospital outpatient payment is projected to reduce State Medicaid spending by \$23.1 million in FY 2013-14.
- **Rate Freezes for Providers with Automatic Increases** - S.L. 2013-360 freezes rates for all providers who previously received an automatic increase in their rate (with the exception of nursing homes, prescription drugs, Federally Qualified Health Centers, Medicare Parts B & D premiums, hospice, state operated facilities and third party insurance premiums). Freezing the rates effective on June 30, 2013 for these selected providers is projected to reduce State Medicaid spending by \$17.2 million in FY 2013-14.
- **Cost Savings Through Drug Adjustments** – S.L. 2013-360 implements changes in brand-name and generic drug pricing and reduces dispensing fees for brand drugs and all but one

tier of generic drugs. These actions reduce the expected spending for drugs by \$14.6 million in FY 2013-14.

The Department is further authorized to implement prior authorization and other utilization restrictions for medications prescribed for mental illness.

Significant Non-Medicaid Savings

Non-Medicaid DHHS agencies are reduced by an average of 3.5 percent in S.L. 2013-360. Most areas of DHHS will have either spending reductions or essentially flat funding. The most notable of the non-Medicaid DHHS savings provisions are discussed below.

- **Child Development Services Agencies (CDSA) Early Intervention** - In FYs 2011-12 and 2012-13, over \$17 million was transferred annually from the Division of Public Health (DPH) to DMA for Medicaid budget shortfalls. Over half of the amounts transferred were initially budgeted for the Early Intervention Branch, which provides assessment, treatment, and referral services for children aged zero to three, primarily through its 16 CDSAs. S.L. 2013-360 reduces the Early Intervention budget by \$8 million in FY 2013-14 and \$10 million in FY 2014-15. DPH is authorized to close up to four of the 16 CDSAs if needed to achieve the reduction. However, S.L. 2013-363 specifies that DPH shall not close the Morganton CDSA and shall keep open the CDSAs with the highest caseloads of children from rural or medically-underserved areas.
- **AIDS Drug Assistance Program (ADAP)** - S.L. 2013-360 reduced State ADAP funding by \$8 million in FY 2013-14. Due to increased federal receipts for this program, ADAP pharmaceutical purchases are projected to be \$5 million more in FY 2013-14 than in the FY 2012-13 budget.
- **Local Management Entities/Managed Care Organization (LME/MCO) Administration** – S.L. 2013-360 reduced the LME/MCO administration funding formula, saving \$15 million in FY 2013-14.



- **Alcohol and Drug Abuse Treatment Centers (ADATC)** – S.L. 2013-360 reduced ADATC funding by 12 percent in FY 2013-14, providing projected savings of nearly \$5 million.

Additional DHHS Items

Pre-Kindergarten Education

S.L. 2013-360, Appropriations Act of 2013 adds \$12.5 million in funding from lottery receipts to support an additional 2,500 slots for Pre-Kindergarten education, bringing the total number of recurring slots to 27,500.

S.L. 2013-363, Modifications/2013 Appropriations Act extends the deadline by which public school classrooms must be licensed by the Division of Child Development and Early Education (DCDEE) to July 1, 2014.

Smart Start

S.L. 2013-360 continues the focus on improving child care quality by adding three star-rated (out of five stars) child care facilities to the child care facilities that local partnerships work with to improve quality of care. Previously, the focus for improvement was only on one and two star-rated facilities.

The North Carolina Partnership for Children, Inc., and the local partnerships are required to provide contributions through matching a specified percentage of the total amount budgeted by the State for the program in each fiscal year of the biennium. The match requirement for both the North Carolina Partnership for Children, Inc., and the local partnerships increases from the 2012-13 requirement of a 13 percent match to a FY 2013-14 requirement of 14 percent and a FY 2014-15 requirement of 15 percent. This will increase the match requirement by \$1.5 million each year, providing more funding for Smart Start.

Child Care Subsidy

S.L. 2013-360 allows county departments of social services to use up to two percent of their child care subsidy allocation for fraud detection and investigation initiatives. Two reports are required on the use of these funds. The first, a progress report, is due no later than May 1, 2014; a follow-up report is due no later than January 1, 2015.

Mental Health/Developmental Disabilities/Substance Abuse Services

S.L. 2013-360 incorporates recommendations from the Legislative Study Commissions established by S.L. 2012-142, the *Mental Health Subcommittee of the Health and Human Services Legislative Oversight Committee* and the *Blue Ribbon Commission on Transitions to Community Living*. Specific actions include:

- Two million dollars to establish a statewide tele-psychiatry program to address critical shortages of qualified mental health professionals. Tele-psychiatry services reduce emergency room wait times, involuntary commitments, and the costs incurred to transport persons to State psychiatric hospitals.
- Authorization to pilot a tiered-rate for State-County Special Assistance to address the needs of adult care and group home residents who are ineligible for Medicaid personal care services. Participating counties will have the flexibility to implement a payment system based upon intensity of need that pays for supervision and medication management, in addition to room and board.
- Authorization to develop and implement a two-tiered rate structure for the three-way contracts between the State, local management entities/managed care organizations (LME/MCOs), and community hospitals. The three-way contracts enable LME/MCOs to purchase short-term, inpatient mental health services in community hospitals. S.L. 2013-360 authorizes a higher three-way contract rate for patients assessed to have higher severity levels of mental health need.
- Expansion funds to purchase technology and other infrastructure for the new Broughton Hospital scheduled to open in FY 2014-15.
- Two funding expansions to transition adults with mental illness or intellectual/developmental disabilities from institutional settings to community-based housing and supports.



- Implementation of the settlement agreement between the State and U.S. Department of Justice to transfer or divert individuals with severe mental illness from assisted living facilities and State psychiatric hospitals; \$3.8 million in FY 2013-14 and \$9.4 million in FY 2014-15.
- Supervision and medication management services (33 hours per month) for adult group home residents who were ineligible to continue to receive Medicaid personal care services on January 1, 2013; \$4.6 million, non-recurring.

These policy changes provide additional funding and direction for two legislative priorities of the FY 2013-15 biennium budget: improving the availability and quality of child care and pre-Kindergarten education services, and incorporating the Legislative Study Commissions' recommendations regarding mental health.

For additional information, please contact:

Health and Human Services Team

Susan Jacobs	susan.jacobs@ncleg.net
Deborah Landry	deborah.landry@ncleg.net
Steve Owen	steve.owen@ncleg.net
M David Rice	david.rice@ncleg.net
Denise Thomas	denise.thomas@ncleg.net

*Fiscal Research Division
NC General Assembly
300 N. Salisbury St., Room 619
Raleigh, North Carolina 27603-5925
(919) 733-4910
<http://www.ncleg.net/fiscalresearch>*



Actual and Certified Expenditures and Receipts¹ by Agency

Division of Central Management and Support

	<u>Actual FY 2011-12</u>	<u>Actual FY 2012-13</u>	<u>Enacted FY 2013-14</u>	<u>Enacted FY 2014-15</u>
Expenditures	120,188,169	126,934,570	139,160,027	141,675,226
Less: Receipts	63,694,328	65,977,862	65,373,898	65,373,898
Net General Fund Appropriations	\$56,493,841	\$60,956,708	\$73,786,129	\$76,301,328
Positions (FTE)	641.8	638.3	632.3	632.3

Division of Aging and Adult Services

	<u>Actual FY 2011-12</u>	<u>Actual FY 2012-13</u>	<u>Enacted FY 2013-14</u>	<u>Enacted FY 2014-15</u>
Expenditures	105,024,104	106,927,440 ▼	114,377,939 ▼	113,570,929
Less: Receipts	60,755,523	63,151,811	60,235,598	59,228,588
Net General Fund Appropriations	\$44,268,581	\$43,775,629	\$54,142,341	\$54,342,341
Positions (FTE)	73.5	73.5	73.5	73.5

Divisions of Blind and Deaf/Hard of Hearing Services

	<u>Actual FY 2011-12</u>	<u>Actual FY 2012-13</u>	<u>Enacted FY 2013-14</u>	<u>Enacted FY 2014-15</u>
Expenditures	29,086,669	29,874,274 ▼	33,017,455 ▼	33,017,455
Less: Receipts	20,764,306	21,695,658	24,838,837	24,838,837
Net General Fund Appropriations	\$8,322,363	\$8,178,616	\$8,178,618	\$8,178,618
Positions (FTE)	316.8	313.8	313.8	313.8

Division of Child Development and Early Education

	<u>Actual FY 2011-12</u>	<u>Actual FY 2012-13</u>	<u>Enacted FY 2013-14</u>	<u>Enacted FY 2014-15</u>
Expenditures	662,294,474	669,099,408	662,982,382	662,982,382
Less: Receipts	399,659,660	411,106,467	408,667,773	408,667,773
Net General Fund Appropriations	\$262,634,814	\$257,992,941	\$254,314,609	\$254,314,609
Positions (FTE)	309.8	303.8	303.8	303.8

¹ Receipts are based on the FY 2013-15 Continuation Budget. Total requirements are estimated based on changes to Net General Fund Appropriations and receipts.



Division of Health Services Regulation

	<u>Actual</u> <u>FY 2011-12</u>	<u>Actual</u> <u>FY 2012-13</u>	<u>Enacted</u> <u>FY 2013-14</u>	<u>Enacted</u> <u>FY 2014-15</u>
Expenditures	63,611,042	56,209,731	64,275,318	64,290,740
Less: Receipts	47,663,558	42,344,340	47,879,261	47,879,261
Net General Fund Appropriations	\$15,947,484	\$13,865,391	\$16,396,057	\$16,411,479
Positions (FTE)	558.5	555.5	565.5	565.5

Division of Medical Assistance

	<u>Actual</u> <u>FY 2011-12</u>	<u>Actual</u> <u>FY 2012-13</u>	<u>Enacted</u> <u>FY 2013-14</u>	<u>Enacted</u> <u>FY 2014-15</u>
Expenditures	14,241,450,471	12,643,008,323	13,913,667,384	14,471,939,094
Less: Receipts	11,214,489,593	9,125,314,086	10,451,717,265	10,863,820,003
Net General Fund Appropriations	\$3,026,960,878	\$3,517,694,237	\$3,461,950,119	\$3,608,119,091
Positions (FTE)	425.5	428.3	428.3	428.3

Division of Mental Health, Developmental Disabilities and Substance Abuse Services

	<u>Actual</u> <u>FY 2011-12</u>	<u>Actual</u> <u>FY 2012-13</u>	<u>Enacted</u> <u>FY 2013-14</u>	<u>Enacted</u> <u>FY 2014-15</u>
Expenditures	1,366,409,130	1,368,256,396	1,388,398,177	1,393,848,563
Less: Receipts	697,027,523	683,863,564	688,862,575	688,862,575
Net General Fund Appropriations	\$669,381,607	\$684,392,832	\$699,535,602	\$704,985,988
Positions (FTE)	11,155.9	11,712.2	11,712.2	11,712.2

NC Health Choice

	<u>Actual</u> <u>FY 2011-12</u>	<u>Actual</u> <u>FY 2012-13</u>	<u>Enacted</u> <u>FY 2013-14</u>	<u>Enacted</u> <u>FY 2014-15</u>
Expenditures	336,858,465	325,597,032	322,144,812	311,943,585
Less: Receipts	259,003,262	246,263,499	254,195,652	254,195,652
Net General Fund Appropriations	\$77,855,203	\$79,333,533	\$67,949,160	\$57,747,933
Positions (FTE)	5.0	5.0	5.0	5.0



Division of Public Health

	Actual <u>FY 2011-12</u>	Actual <u>FY 2012-13</u>	Enacted <u>FY 2013-14</u>	Enacted <u>FY 2014-15</u>
Expenditures	807,514,836	770,031,338	830,221,628	828,009,128
Less: Receipts	615,511,411	628,755,391	686,067,541	686,067,541
Net General Fund Appropriations	\$192,003,425	\$141,275,947	\$144,154,087	\$141,941,587
Positions (FTE)	2,101.8	2,105.8	2,090.8	1,930.8

Division of Social Services

	Actual <u>FY 2011-12</u>	Actual <u>FY 2012-13</u>	Enacted <u>FY 2013-14</u>	Enacted <u>FY 2014-15</u>
Expenditures	1,674,763,277	1,661,798,665	1,621,316,168	1,623,266,168
Less: Receipts	1,489,276,926	1,496,195,456	1,446,707,736	1,446,707,736
Net General Fund Appropriations	\$185,486,351	\$165,603,209	\$174,608,432	\$176,558,432
Positions (FTE)	416.0	415.0	415.0	415.0

Division of Vocational Rehabilitation

	Actual <u>FY 2011-12</u>	Actual <u>FY 2012-13</u>	Enacted <u>FY 2013-14</u>	Enacted <u>FY 2014-15</u>
Expenditures	142,794,532	139,578,673	139,673,718	139,673,718
Less: Receipts	106,306,974	106,931,724	100,900,549	100,900,549
Net General Fund Appropriations	\$36,487,558	\$32,646,949	\$38,773,169	\$38,773,169
Positions (FTE)	1,031.5	1,030.5	1,030.5	1,030.5

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Change in FTE, FY 2013-14

	Vacant	Filled	Receipts	New	Transfers	Net Change
<u>Health and Human Services</u>						
Central Management and Support	-	(6.0)	-	-	-	(6.0)
Aging and Adult Services	-	-	-	-	-	-
Blind and Deaf/Hard of Hearing Services	-	-	-	-	-	-
Child Development and Early Education	-	-	(14.0)	-	-	(14.0)
Health Services Regulation	-	-	-	10.0	-	10.0
Medical Assistance	-	-	-	-	-	-
Mental Health, Dev. Disabilities, & Sub. Abuse Serv.	-	-	-	-	-	-
NC Health Choice	-	-	-	-	-	-
Public Health	(15.0)	-	-	-	-	(15.0)
Social Services	-	-	-	-	-	-
Vocational Rehabilitation	-	-	-	-	-	-
Health and Human Services	(15.0)	(6.0)	(14.0)	10.0	-	(25.0)