



Health and Human Services Subcommittee FY 2012-13 Budget Highlights

Fiscal Brief

October 2012

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, administrative, and support functions.

Actual and Certified General Fund Expenditures and Receipts¹

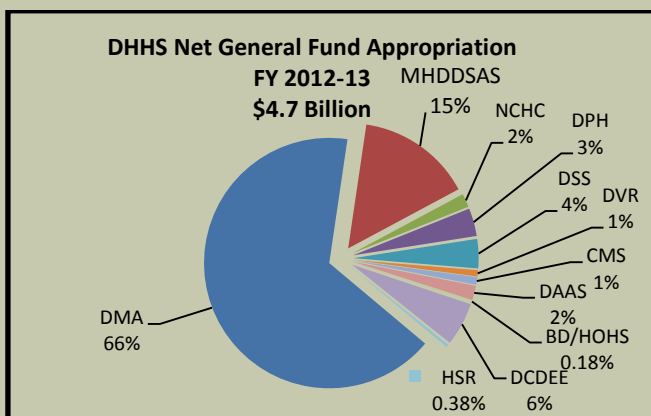
	<u>Actual FY 2009-10</u>	<u>Actual FY 2010-11</u>	<u>Actual FY 2011-12</u>	<u>Enacted FY 2012-13</u>
Expenditures	18,126,545,619	18,627,591,550	19,549,995,169	18,273,667,173
Less: Receipts	14,275,041,465	14,609,933,767	14,974,153,063	13,589,798,859
Net General Fund Appropriations	\$3,851,504,154	\$4,017,657,783	4,575,842,106	4,683,868,314
Positions (FTE)	17,521.6	17,249.4	16,949.8	17,231.8

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

The source for the actual FTE total for FY 2011-12 is from the survey for salary data and FTE position counts done annually by FRD and OSBM.

Budget Overview

The enacted FY 2012-13 Net General Fund Appropriation for the Health and Human Services Subcommittee is \$4.6 billion. This is an increase of 4% from the FY 2012-13 Certified Budget. The General Fund Appropriation funds an additional 481.15 full-time equivalent positions (FTE), 2.8% more than FY 2011-12.¹ 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. 2012-142, Modify 2011 Appropriations Act (H.B. 950), as amended by S.L. 2012-145, Budget Technical Corrections (S.B. 187), appropriates \$4.7 billion for the Department of Health and Human Services. Legislative adjustments to the FY 2012-13 DHHS budget increased spending by \$228.8 million over the amount appropriated by S.L. 2011-145, the 2011 Appropriations, for FY 2012-13.

While most reductions are specified, the Joint Conference Committee Report included a \$2.7 million management flexibility reduction for DHHS to be achieved through administrative efficiencies. The report includes additional funds for the Medicaid program in anticipation of growth in the program, non-recurring funds for prior years' liabilities that will be paid during FY 2012-13, and additional funds for contracts within the Division of Medical Assistance.

This Fiscal Brief provides a summary of the adjusted FY 2012-13 budget for DHHS and information on additional laws affecting the agency's budget.



Medicaid

The FY 2012-13 Medicaid program is projected to cost \$13.3 billion in State and federal funds. Overall, the budget appropriates \$193.7 million in additional State funding, a 6.7% increase over the FY 2011-12 certified budget. The total Medicaid program (State and federal share) has grown, on average, 3.3% annually over the past five years. S.L. 2012-142 provides \$212 million for the Medicaid rebase, to address the projected growth in the number of eligible individuals and consumption of services. Additionally, \$55.9 million is provided for federal repayments due in FY 2012-13, \$15 million to cover Medicaid provider settlements, and \$5 million for administrative contracts.

Community Care of North Carolina, Inc. (CCNC)

The FY 2012-13 Medicaid budget includes a projected savings of \$63.4 million to be attained through increased coordination and management of care for Medicaid recipients by Community Care of North Carolina. This amount is based upon the Division of Medical Assistance's projections for savings through this contract and is in addition to \$90 million included in S.L. 2011-145 for FY 2012-13.

Pharmacy Fees Reduction

S.L. 2012-142 includes an additional reduction to the fee paid to pharmacies for dispensing prescription drugs for Medicaid recipients and utilizing a lower pricing structure for hemophilia drugs. The Division is required to establish the dispensing fee and meet the savings in the 2012 Committee Report. The 2012 Committee Report identifies \$6.6 million for savings for reduction of fees and hemophilia pricing.

Personal Care Services (PCS)

A \$6 million budget reduction is based upon changes to Medicaid funded Personal Care Services (PCS) that will be implemented in January 2013. The reduction is based upon changing PCS eligibility requirements for individuals needing assistance with activities of daily living. Those persons who 1) are currently receiving PCS either in a private residential setting or in an adult care or group home, and 2) do not meet the new eligibility criteria, will no longer receive these services through the Medicaid Program after January 1, 2013.

Transitions to Community Living

The 2012 Committee Report appropriates \$50 million for the Transitions to Community Living Initiative. This initiative restructures Medicaid-funded Personal Care Services and re-aligns the State's Special Assistance Program (SA), which provides financial housing assistance to income-eligible disabled and elderly adults. A portion of the funding (\$10.3 million) will be used to provide housing and additional services to individuals, who will be transitioned from adult care and group homes to community-based settings. The remaining \$39.7 million is targeted to provide short-term financial assistance to adult care homes. Section 10.23A.(f) of S.L. 2012-142 authorizes payments, effective January 1, 2013, to Adult Care Homes to continue to provide services to residents who are no longer eligible for Medicaid funded services while they remain in the home or until alternative residential care becomes available. These payments are less than the average amount that Medicaid would pay to the adult care home by Medicaid.

FY 2011-12 Medicaid Shortfall

The FY 2011-12 certified budget fell short by \$375 million of the amount needed to provide Medicaid services for the entire fiscal year. Prior years' liabilities, including repayments to the federal government and unachievable budgeted reductions contributed to the shortfall.

- The FY 2011-12 unbudgeted liabilities included \$110 million in federal repayments due to the over-collection of federal funding in FY 2008-09 (\$40.9 million for FY 2011-12), a federal drug rebate policy change in 2010 that resulted in NC having to refund the federal government (\$28 million for FY 2011-12), and a personal care services audit by Office of Inspector General in 2008 that resulted in the State owing \$41.7 million in FY 2011-12.
- S.L. 2011-145 directed the Division of Medical Assistance (DMA) to achieve savings through various optional service changes. However, due to the length of time necessary for application to and approval by Centers for Medicare and Medicaid, budget reductions were not achieved. In addition, other planned budget reductions were unachievable for the fiscal year. The total of unachievable budget reductions was \$250 million.
- The DHHS Medicaid forecast had projected an enrollment increase of 3.5%; however, the actual FY 2011-12 enrollment growth was

4.6%. DHHS reported that this resulted in additional expenditures of \$15 million.

During the 2012 Session, the General Assembly passed two bills to assist with the Medicaid shortfall. Session Law 2012-2, which passed on May 24, 2012, appropriated \$205.5 million from the following sources into the Medicaid program to address the shortfall:

- \$29 million from other agencies within the Department of Health and Human Services
- \$21 million in unanticipated funds from the Children's Health Insurance Program Reauthorization Act
- \$10.5 million from the Department of Health and Human Services' Repairs and Renovations Reserve Account
- \$20 million from non-DHHS agencies' Repairs and Renovations Reserves Account
- \$105 million from reversions generated by other State agencies and departments
- \$20 million from revenue over-collections

S.L. 2012-57, passed on June 25th, appropriated an additional \$94 million from the state-wide Repairs and Renovations Reserve to address the Medicaid shortfall. The General Assembly authorized the Office of State Budget and Management to use up to \$94 million from the reserve to address the remaining shortfall for FY 2011-12, \$27.8 million was used from the reserve.

In addition to the bills passed to address the Medicaid shortfall, the Department of Health and Human Services transferred \$53 million from other divisions within DHHS that would have reverted to the general fund and \$90 million from over-realized receipts within the Medicaid program.

Smart Start

S.L. 2011-145 had placed salary limits upon Executive Directors of local Smart Start programs and the state-level North Carolina Partnership for Children, Inc. (NCPC) of \$60,000 and \$80,000 respectively. S.L. 2012-142 repeals this action and directs the NCPC to establish a maximum salary schedule for the Executive Directors of local partnerships that must be based upon: population of the Partnership's service area, amount of funds administered, and professional experience of the executive director.

The North Carolina Partnership for Children will receive \$153.5 million in State General Fund appropriation and federal block grant funds for FY 2012-13.

The 2012 Committee Report provided an additional \$3.5 million for the following purposes:

- Early Literacy Initiatives – S.L. 2011-145 directed NCPC to initiate a pilot program that implemented evidence-based, best practice early literacy initiatives. A portion of the \$3.5 million is directed to fund this pilot.
- Development Assistance – S.L. 2012-142 changes the match requirement for the State appropriations from 10% to 13% and of the cash match is increased from 7% to 10% and the in-kind contribution remains at 3%. Part of the \$3.5 million is directed to be used to hire development consultants to assist local partnerships in fundraising activities.
- Rural Partnerships – S.L. 2012-142 directs that part of the \$3.5 million is to be used to fund local rural Smart Start partnerships and NCPC shall use the following criteria for allocating funds: child poverty, child population, and counties identified as the most economically distressed.

S.L. 2012-142 further directed that these funds could not be spent until January 1st and after the Office of State Budget and Management has certified that the State General Fund appropriation level is adequate for the Medicaid program during FY 2012-13.

NC Pre-K

S.L. 2012-142 adopts several of the policy recommendations that were made by a House Select Committee on Early Education Improvement. Section 10.1 directs that NC Pre-K contractors issue multi-year contracts for better planning by providers, requires a pilot program to fund NC Pre-K programs in three different contract regions on a per classroom basis instead of a per student basis, and requires a standardized decision-making process state-wide for selection of NC Pre-K classrooms and awarding of slots. Additionally, local Departments of Social Services are required to request that child care subsidy applicants indicate whether they are receiving Head Start or NC Pre-K services at the time of applying for subsidy.



Non-State Entity Pass-Through Funds

S.L. 2012-142 eliminated recurring special appropriations (pass-through funding) for non-State entities from the Health and Human Services budget and replaced these funds with a non-recurring appropriation. Section 10.19(a) requires the non-State entities to provide a ten percent match for all State funds received and submit an annual report to the Legislature.

The affected non-profit agencies include: North Carolina Senior Games, Inc., ARC of North Carolina, Autism Society of North Carolina, Mariposa School for Children with Autism, Easter Seals UCP of North Carolina and Virginia, ABC of North Carolina Child Development Center, Residential Services, Inc., Oxford House, Inc., Brain Injury Association of North Carolina, Food Bank of Central and Eastern North Carolina, Inc., Food Bank of the Albemarle, Manna Food Bank, Second Harvest Food Bank of Metrolina, Inc., Second Harvest Food Bank of Northwest North Carolina, Inc., Prevent Blindness of North Carolina, and Second Harvest Food Bank of Southeast NC.

Block Grants

S.L. 2012-142 appropriates \$832 million in federal Health and Human Services block grants for FY 2012-13. This amount is \$71 million less than the FY 2011-12 appropriations. The budgeted amount of \$832 million reflects an anticipated reduction in federal funding due to the elimination of or reduction in several block grants. The Temporary Assistance for Needy Families (TANF) Supplemental Grant was not authorized in federal fiscal year 2012 (FFY) and is not expected to be funded in FFY 2013. Additionally, it is expected that TANF contingency funding will be reduced or altogether eliminated in the upcoming fiscal years. As such, only \$11 million is budgeted for this block grant. This is a reduction of \$3.1 million from the prior year.

The block grant plan includes \$340,470 in Preventive Health Service Block Grant funding. Although this grant is being eliminated by the federal government, the plan appropriates \$340,470 in carryover funds. This block grant will likely not be available in the future; NC typically received approximately \$3.5 million annually.

The block grant plan includes a special provision that targets funding for the Child Care Subsidy program. Increases in federal TANF funding are directed to be expended on the Child Care Subsidy program, particularly for care provided in four- or five-star rated child care facilities.

Community Health and Wellness Initiatives

The Tobacco Use Prevention and Cessation Initiative, FIT Community Obesity, ChecKMeds Program, Roanoke-Chowan Telehealth Network, and Medication Assistance Program, are initiatives that, until 2011, had been funded through the NC Health and Wellness Trust Fund (HWTF). Section 6.11, S.L. 2011-145 abolished the HWTF, effective August 2011 and provided \$22 million non-recurring to support these initiatives through June 30, 2012.

S.L. 2012-142 provides General Fund non-recurring appropriations for the ChecKMeds Program (\$1,695,379), Medication Assistance Program (\$1,704,033), and Roanoke-Chowan Telehealth Network (\$300,000) to continue funding at the Fiscal Year 2011-12 level. Federal Social Services Block Grant (SSBG) funds are provided for tobacco prevention and cessation initiatives (\$2,728,000), 80 percent less than the General Fund appropriation provided for this purpose in Fiscal Year 2011-12. Section 10.14 authorizes the tobacco prevention and cessation funds to be used for programs targeted to students in grades K – 12 and prohibits the Department from using the funds for state-wide marketing or media campaigns. However, the Department may use the funds for the NC Tobacco Use Quitline.

In addition, S.L. 2012-142 provides a \$4.9 million non-recurring General Fund appropriation for county health departments to use for local community health and wellness initiatives that promote healthy behaviors, such as tobacco cessation, improved nutrition, increasing physical activity, and school nurse positions. These funds may not be spent prior to January 2013 and only after the Office of State Budget and Management determines that they will not be needed to address a Medicaid shortfall. Section 10.14 prohibits local health departments from using these funds to supplant funds being used for existing local health and wellness programs.



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Actual and Certified General Fund Expenditures and Receipts by Division

Division of Aging and Adult Services (DAAS)

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Actual <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	95,469,313	90,170,677	\$105,024,104	142,298,764
Less: Receipts	59,659,358	52,751,010	\$60,755,523	55,279,097
Net General Fund Appropriations	\$35,809,955	\$37,419,667	\$44,268,581	\$87,019,667
Positions (FTE)	58.5	57.5	71.5	57.5

Division of Central Management and Support (DCMS)

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Actual <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	164,712,897	182,297,724	120,188,169	136,854,813
Less: Receipts	91,474,642	111,146,927	63,694,328	90,969,185
Net General Fund Appropriations	\$73,238,255	\$71,150,797	\$56,493,842	\$45,885,628
Positions (FTE)	698.8	684.3	627.8	396.3

Division of Child Development and Early Education (DCD)

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Actual <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	640,530,265	612,436,206	662,294,474	671,270,706
Less: Receipts	383,523,237	378,101,935	399,659,660	408,667,773
Net General Fund Appropriations	\$257,007,028	\$234,334,271	\$262,634,814	\$262,602,933
Positions (FTE)	297.8	295.8	303.8	295.8

NC Health Choice

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Actual <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	299,725,828	316,939,876	336,858,465	340,841,606
Less: Receipts	222,679,376	229,497,057	259,003,262	259,131,171
Net General Fund Appropriations	\$77,046,452	\$87,442,819	\$77,855,203	\$81,710,435
Positions (FTE)	2.0	2.0	5.0	2.0



Division of Health Services Regulation (DHSR)

	Actual FY 2009-10	Actual FY 2010-11	Actual FY 2011-12	Certified FY 2012-13
Expenditures	61,296,036	60,168,353	63,611,042	60,573,256
Less: Receipts	45,362,985	43,961,517	47,663,558	42,647,666
Net General Fund Appropriations	\$15,933,051	\$16,206,836	\$15,947,484	\$17,925,590
Positions (FTE)	517.0	517.0	541.5	517.0

Division of Medical Assistance (DMA)

	Actual FY 2009-10	Actual FY 2010-11	Actual FY 2011-12	Certified FY 2012-13
Expenditures	12,838,121,602	13,270,350,502	14,241,450,471	13,026,216,602
Less: Receipts	10,519,613,696	10,804,661,189	11,214,489,593	9,924,768,034
Net General Fund Appropriations	\$2,318,507,906	\$2,465,689,313	\$3,026,960,879	\$3,101,448,568
Positions (FTE)	432.3	430.3	415.5	390.3

Divisions of Mental Health, Developmental Disabilities, and Substance Abuse Services (DMH/DD/SA) and State Operated Facilities

	Actual FY 2009-10	Actual FY 2010-11	Actual FY 2011-12	Certified FY 2012-13
Expenditures	1,375,707,286	1,407,318,863	1,366,409,130	1,366,532,639
Less: Receipts	707,965,814	693,334,335	697,027,523	671,017,388
Net General Fund Appropriations	\$667,741,472	\$713,984,528	\$669,381,606	\$695,515,251
Positions (FTE)	11,297.1	11,412.4	11,155.9	11,708.8

Division of Public Health (DPH)

	Actual FY 2009-10	Actual FY 2010-11	Actual FY 2011-12	Certified FY 2012-13
Expenditures	788,806,075	791,397,494	807,514,836	806,728,355
Less: Receipts	635,809,053	633,475,925	615,511,411	637,293,440
Net General Fund Appropriations	\$152,997,022	\$157,921,569	\$192,003,426	\$169,434,915
Positions (FTE)	2,068.49	2,067.48	2,087.70	2,092.49



Divisions of Services for the Blind and Services for the Deaf and Hard of Hearing (DSB/D/HH)

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Actual <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	29,812,940	30,672,260	29,086,669	32,505,171
Less: Receipts	21,388,969	22,749,486	20,764,306	24,300,621
Net General Fund Appropriations	\$8,423,971	\$7,922,774	\$8,322,363	\$8,204,550
Positions (FTE)	329.3	316.3	305.0	316.3

Division of Social Services (DSS)

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Actual <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	1,687,768,639	1,727,946,821	1,674,763,277	1,552,986,128
Less: Receipts	1,484,746,771	1,542,324,935	1,489,276,926	1,375,882,176
Net General Fund Appropriations	\$203,021,868	\$185,621,886	\$185,486,351	\$177,103,952
Positions (FTE)	767.0	417.0	406.0	411.0

Division of Vocational Rehabilitation (DVR)

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Actual <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	144,594,738	137,892,774	142,794,532	137,370,436
Less: Receipts	102,817,564	97,929,451	106,306,974	99,842,308
Net General Fund Appropriations	\$41,777,174	\$39,963,323	\$36,487,558	\$37,528,128
Positions (FTE)	1,053.5	1,049.5	1,030.2	1,044.5



Change in FTE, FY 2012-13

	Vacant	Filled	Receipts	New	Transfers	Net Change
<u>Health and Human Services</u>						
Aging and Adult Services	-	-	-	-	-	-
Central Management and Support	-	-	-	-	-	-
Child Development and Early Education	-	-	-	-	-	-
NC Health Choice	-	-	-	-	-	-
Health Services Regulation	-	-	-	-	-	-
Medical Assistance	-	-	-	-	-	-
Mental Health/DD/SA	-	-	-	431.1	-	431.1
Public Health	-	-	-	50.0	-	50.0
Services for the Blind/Deaf/HH	-	-	-	-	-	-
Social Services	-	-	-	-	-	-
Vocational Rehabilitation	-	-	-	-	-	-
Total HHS	-	-	-	481.1		481.1