



# Health and Human Services Subcommittee FY 2011-13 Budget Highlights

Fiscal Brief

February 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.

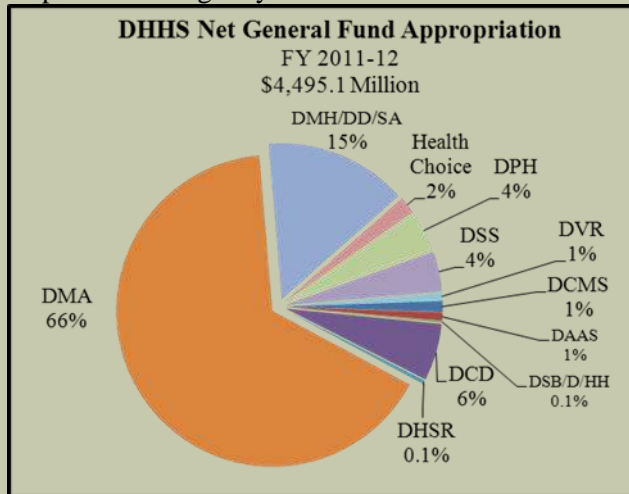
### Actual and Certified General Fund Expenditures and Receipts<sup>1</sup>

	<u>Actual FY 2009-10</u>	<u>Actual FY 2010-11</u>	<u>Certified FY 2011-12</u>	<u>Certified FY 2012-13</u>
<b>Expenditures</b>	18,126,545,619	18,627,591,550	18,087,219,722	17,697,877,744
<b>Less: Receipts</b>	14,275,041,465	14,609,933,767	13,592,092,770	13,242,714,811
<b>Net General Fund Appropriations</b>	\$3,851,504,154	\$4,017,657,783	\$4,495,126,952	\$4,455,162,933
<b>Positions (FTE)</b>	17,521.6	17,249.4	16,761.8	16,751.9

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

### Budget Overview

The Certified FY 2011-12 Net General Fund Appropriation for the Department of Health and Human Services is \$4.5 billion. This is a reduction of 9.0 percent from the Continuation Budget. The General Fund Appropriation funds 16,762 full-time equivalent positions (FTE), 2.1 percent fewer than the Continuation Budget FTE. The chart below shows the Department budget by division.



S.L. 2011-145, Appropriations Act of 2011 (H.B. 200), as amended by S.L. 2011-391, 2011 Budget Technical Corrections (H.B. 22), appropriates \$4.5 billion to the Department of Health and Human Services in FY 2011-12. The FY 2011-12 Continuation Budget for DHHS agencies was \$4.9 billion. General Fund appropriations for FY 2011-12 are \$477.5 million or 11 percent more than actual expenditures for FY 2010-11. The budget increase over FY 2010-11 actual expenditures is due to the loss of one-time federal funds within the Medicaid program in which General Fund Appropriations had been replaced by federal funds on a non-recurring basis. Subcommittee reductions were based upon an estimated State budget gap of \$2.6 billion. Click [here](#) for more information on the FY 2011-12 budget gap. The HHS Subcommittee reduced spending by \$432.6 million in the first year of the FY 2011-13 biennium. The HHS Subcommittee discussed various reduction options, focusing on maximizing federal funds, reducing costs while maintaining critical services, and achieving administrative efficiencies. This Fiscal Brief provides a summary of the FY 2011-13 HHS Budget.

## **Savings and Maximization of Federal Funds**

Overall reductions to the HHS budget totaled 9 percent which equaled net reductions of \$432.6 million in FY 2011-12 from the Continuation Budget. The HHS Subcommittee met 60 percent of this reduction target through savings of efficiencies and by replacing State funds with federal funds and other third-party receipts.

### *Medicaid Savings*

North Carolina adopted Medicaid financial assessments on hospitals. The assessment on hospitals and other willing Medicaid providers is expected to yield \$60.2 million in receipts to offset State General Fund appropriations within the Medicaid program. It is anticipated that participating hospitals will receive up to \$370 million in additional revenue from the assessment to offset losses in caring for Medicaid and uncompensated care patients.

To achieve savings, the Division of Medical Assistance (DMA) is expected to utilize the two-year federal Health Homes for Chronically Ill program to enhance comprehensive care management for Medicaid recipients with co-occurring illnesses, including chronic health conditions and severe and persistent mental illness. The federal Medicaid Assistance Program matching rate for the program during the next two years is 90 percent, an increase over the existing rate of approximately 65 percent. Similarly, DMA implemented a collaborative effort between Community Care of North Carolina (CCNC) Networks and the Local Health Departments across the state to improve the quality of perinatal care and ensure that pregnant women who are at high risk for difficult pregnancies receive the necessary care and case management to prevent premature births.

The HHS Subcommittee recommended several complementary efforts to control the costs of prescription drugs within the Medicaid program. During the next 12 months several costlier and highly utilized brand-name drugs are scheduled to go off patent. This is expected to increase generic substitution which will result in savings in the second year of the biennium.

DMA is expected to better manage drug rebates, ensure that the federally administered Medicare Part D

Program correctly reimburses Medicaid, and eliminate automatic refills of prescriptions. During the past three years, the rate at which pharmacists have been filling prescriptions of Medicaid recipients for generic drugs has risen steadily. To further increase this rate, the General Assembly revised the reimbursement structure for pharmacists to offer incentives for increased generic dispensing levels.

The HHS Subcommittee reduced the Medicaid budget by \$90 million in anticipation of CCNC better managing the healthcare costs of Medicaid recipients eligible for both Medicare and Medicaid. The savings are dependent upon the collaborative efforts of hospitals, long-term care facilities, and healthcare providers to rapidly enroll more than 100,000 of these dual eligible recipients in CCNC Networks to better control the cost of their healthcare and achieve the necessary savings.

Overall, increased Medicaid savings accounted for budget reductions of \$242 million in FY 2011-12 and \$326 million in FY 2012-13.

### *Funding Swaps*

The Subcommittee achieved State funding reductions by maximizing the use of federal block grants administered through DHHS, including:

- Temporary Assistance for Needy Families Block Grant by replacing State funds for child care subsidy and the local departments of social services administrative funding,
- Child Care Development Fund Block Grant by replacing State funds that had previously paid for quality improvements; and,
- Social Services Block Grant paid for child protective services activities.

Additionally, the Subcommittee budgeted non-general fund, over-realized receipts throughout DHHS, including Division of Central Management, Information Resource Management, and the Physician Loan Repayment Program.

Overall, the maximization of federal and other third party receipts accounted for \$18 million of budget reductions in each year of the biennium.

### **Reducing Administrative Costs**

The HHS Subcommittee reduced administrative costs department-wide by eliminating vacant positions, converting Information Technology contract positions to State employee positions, and allowing the DHHS to further reduce operations and administrative costs at the discretion of the Secretary. Additionally, the HHS Subcommittee identified the Information Technology contracts to undergo a Continuation Review during FY 2011-12. Overall, the administrative reductions totaled \$26.6 million for each year of the biennium and a total of 367 full time equivalent (FTE) positions.

### **Service Reductions**

The major service reductions were within the Medicaid program and Division of Mental Health, Developmental Disabilities, and Substance Abuse Services.

With almost 80 percent of the general fund appropriations for the DHHS budget being spent on Medicaid, mental health, developmental disabilities, and substance abuse services, the HHS Subcommittee made reductions to these programs.

#### *Medicaid Services*

The HHS Subcommittee adopted the DHHS' agency recommended adjustments to mandatory and optional Medicaid services. These changes include: optical, durable medical equipment, specialized therapies, home health, and dental.

The HHS Subcommittee further provided authority to the Secretary to reduce or eliminate specific Medicaid services and further reduce provider reimbursement rates if the prescribed savings and reductions on which the FY 2011-12 budget is based cannot be achieved. This action could take place as early as mid-October 2011.

#### *Mental Health, Developmental Disabilities, and Substance Abuse Services*

The total funding administered through Local Management Entities (LME's) was reduced by 8 percent, leaving approximately \$323 million available for purchase of services. The HHS Subcommittee further required the Division to develop a standard benefits package that would be offered by all LMEs.

This reduction was made for FY 2011-12 but was restored in the FY 2012-13 budget. Additionally, LMEs are required to expend their fund balance to an amount equal to \$25 million in order to replace a State General Fund appropriations reduction in FY 2011-12.

### **Other Reductions**

#### *Early Childhood Services*

The HHS Subcommittee combined the More At Four program and Division of Child Development's child care regulation and subsidy programs in an attempt to achieve savings through administration by one agency. The program was renamed NC Pre-K, and is directed to continue to offer high quality services to low-income and at-risk four year olds in public school and private child care settings."

- Like the More At Four program, the Smart Start program was reduced by 20 percent. This reduction totaled \$37.6 million, leaving \$150 million to be administered by North Carolina Partnership for Children, Inc.
- The HHS Subcommittee accepted the Governor's recommendations on policy changes within the child care subsidy program that reduced the overall budget by \$9.7 million. Policy changes included: discontinuing funding for child care facility registration fees, transportation services, and reducing the total months allowed for individuals qualifying for subsidy through the post-secondary education category.

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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>	Certified <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	95,469,313	90,170,677	92,482,894	92,362,746
Less: Receipts	59,659,358	52,751,010	55,463,227	55,343,079
Net General Fund Appropriations	\$35,809,955	\$37,419,667	\$37,019,667	\$37,019,667
Positions (FTE)	58.5	57.5	57.5	57.5

### Division of Central Management and Support (DCMS)

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Certified <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	164,712,897	182,297,724	142,504,312	130,308,601
Less: Receipts	91,474,642	111,146,927	92,326,935	85,730,614
Net General Fund Appropriations	\$73,238,255	\$71,150,797	\$50,177,377	\$44,577,987
Positions (FTE)	698.8	684.3	396.3	396.3

### Division of Child Development and Early Education (DCD)

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Certified <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	640,530,265	612,436,206	671,627,310	671,627,310
Less: Receipts	383,523,237	378,101,935	405,524,377	405,524,377
Net General Fund Appropriations	\$257,007,028	\$234,334,271	\$266,102,933	\$266,102,933
Positions (FTE)	297.8	295.8	295.8	295.8

### NC Health Choice

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Certified <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	299,725,828	316,939,876	331,661,877	349,143,630
Less: Receipts	222,679,376	229,497,057	252,209,560	265,425,765
Net General Fund Appropriations	\$77,046,452	\$87,442,819	\$79,452,317	\$83,717,865
Positions (FTE)	2.0	2.0	2.0	2.0

**Division of Health Services Regulation (DHSR)**

	Actual FY 2009-10	Actual FY 2010-11	Certified FY 2011-12	Certified FY 2012-13
Expenditures	61,296,036	60,168,353	58,897,788	58,897,788
Less: Receipts	45,362,985	43,961,517	42,764,757	42,764,757
Net General Fund Appropriations	\$15,933,051	\$16,206,836	\$16,133,031	\$16,133,031
Positions (FTE)	517.0	517.0	517.0	517.0

**Division of Medical Assistance (DMA)**

	Actual FY 2009-10	Actual FY 2010-11	Certified FY 2011-12	Certified FY 2012-13
Expenditures	12,838,121,602	13,270,350,502	12,807,252,930	12,417,280,842
Less: Receipts	10,519,613,696	10,804,661,189	9,848,864,746	9,510,004,540
Net General Fund Appropriations	\$2,318,507,906	\$2,465,689,313	\$2,958,388,184	\$2,907,276,302
Positions (FTE)	432.3	430.3	400.3	390.4

**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	Certified FY 2011-12	Certified FY 2012-13
Expenditures	1,375,707,286	1,407,318,863	1,361,110,028	1,398,921,673
Less: Receipts	707,965,814	693,334,335	695,397,796	688,209,441
Net General Fund Appropriations	\$667,741,472	\$713,984,528	\$665,712,232	\$710,712,232
Positions (FTE)	11,297.1	11,412.4	11,277.8	11,277.8

**Division of Public Health (DPH)**

	Actual FY 2009-10	Actual FY 2010-11	Certified FY 2011-12	Certified FY 2012-13
Expenditures	788,806,075	791,397,494	836,670,047	796,104,592
Less: Receipts	635,809,053	633,475,925	646,226,802	638,565,758
Net General Fund Appropriations	\$152,997,022	\$157,921,569	\$190,443,245	\$157,538,834
Positions (FTE)	2,068.49	2,067.48	2,042.49	2,042.49

**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>	Certified <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	29,812,940	30,672,260	33,065,428	32,504,870
Less: Receipts	21,388,969	22,749,486	24,676,318	24,131,984
Net General Fund Appropriations	\$8,423,971	\$7,922,774	\$8,389,110	\$8,372,886
Positions (FTE)	329.3	316.3	316.3	316.3

**Division of Social Services (DSS)**

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Certified <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	1,687,768,639	1,727,946,821	1,613,355,256	1,613,355,256
Less: Receipts	1,484,746,771	1,542,324,935	1,427,172,188	1,427,172,188
Net General Fund Appropriations	\$203,021,868	\$185,621,886	\$186,183,068	\$186,183,068
Positions (FTE)	767.0	417.0	412.0	412.0

**Division of Vocational Rehabilitation (DVR)**

	Actual <u>FY 2009-10</u>	Actual <u>FY 2010-11</u>	Certified <u>FY 2011-12</u>	Certified <u>FY 2012-13</u>
Expenditures	144,594,738	137,892,774	138,591,852	137,370,436
Less: Receipts	102,817,564	97,929,451	101,466,064	99,842,308
Net General Fund Appropriations	\$41,777,174	\$39,963,323	\$37,125,788	\$37,528,128
Positions (FTE)	1,053.5	1,049.5	1,044.5	1,044.5



**Change in FTE, FY 2011-12**

	<b>Vacant</b>	<b>Filled</b>	<b>Receipts</b>	<b>New</b>	<b>Transfers</b>	<b>Net Change</b>
<b><u>Health and Human Services</u></b>						
Aging and Adult Services	-	-				-
Central Management & Support	(278.0)	(10.0)				(288.0)
Child Development & Early Educ.	-	-				-
NC Health Choice	-	-				-
Health Services Regulation	-	-				-
Medical Assistance	(15.0)	(15.0)				(30.0)
Mental Health/DD/SA	(7.0)	-				(7.0)
Public Health	(25.0)	-				(25.0)
Services for Blind/Deaf/HH	-	-				-
Social Services	(2.0)	-				(2.0)
Vocational Rehabilitation	(4.0)	(1.0)				(5.0)
<b>Total Health and Human Services</b>	<b>(331.0)</b>	<b>(26.0)</b>				<b>(357.0)</b>