



Health and Human Services Committee 2015-17 Fiscal Biennium Budget Highlights

Fiscal Brief

October 23, 2015

The North Carolina General Assembly House and Senate Appropriations Committees on Health and Human Services (HHS Committee) develop and recommend the budget for one State agency: The Department of Health and Human Services (DHHS). DHHS comprises 11 divisions, which may be categorized under four broad service areas: health, human services, administration, and support.

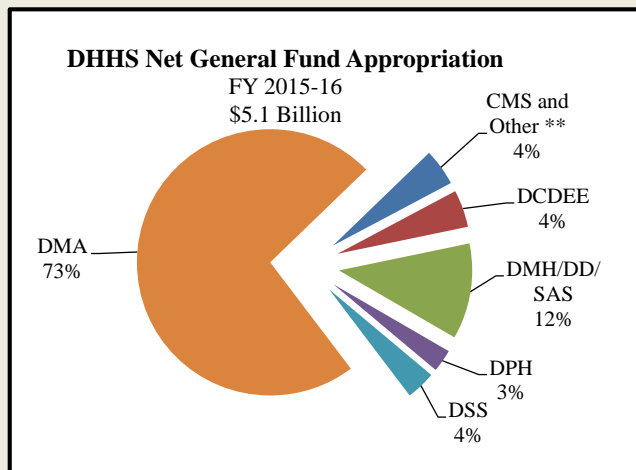
Actual and Enacted Expenditures and Receipts¹

	<u>Actual</u> <u>FY 2013-14</u>	<u>Actual</u> <u>FY 2014-15</u>	<u>Enacted</u> <u>FY 2015-16</u>	<u>Enacted</u> <u>FY 2016-17</u>
Expenditures	18,468,002,712	18,953,253,849	19,555,366,677	20,097,882,728
Less: Receipts	13,574,353,842	13,942,477,972	14,424,817,151	14,830,287,120
Net General Fund Appropriations	\$4,893,648,870	\$5,010,775,877	\$5,130,549,526	\$5,267,595,608
Positions (FTE)	17,518.4	17,050.8	17,037.8	17,040.8

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

Budget Overview

The enacted FY 2015-16 net General Fund appropriation for the Department of Health and Human Services is \$5.1 billion. This is an increase of 2.2% compared to the FY 2015-16 base budget. The General Fund appropriation funds 17,038 full-time equivalent positions (FTE).² The chart below shows the budget by division.



² Excludes positions that may be eliminated as part of management flexibility reserves or the budget for the new Division of Health Benefits established in S.L. 2015-245. ** CMS and Other include CMS, DAAS, DBD/HOHS, DHSR and DVR.

S.L. 2015-241, 2015 Appropriations Act (H.B. 97), as amended by S.L. 2015-268, General Government Technical Corrections (H.B. 259) and S.L. 2015-264, GSC Technical Corrections 2015 (S.B. 119), appropriates \$5.1 billion for the 11 Department of Health and Human Services (DHHS) divisions. The legislative budget process focused primarily on the following major areas:

- Reforming the Medicaid and Health Choice Programs;
- Requiring evaluation, reporting and accountability;
- Focusing on improving birth outcomes and maternal and child health programs;
- Addressing deficiencies in the State medical examiner system; and
- Changing the foster care system and requiring an evaluation of North Carolina's early education and support programs.

This fiscal brief provides a summary of the FY 2015-17 biennial budget for DHHS.



Reforming the Medicaid and Health Choice Programs

Reform

Session Law 2015-245, An Act to Transform and Reorganize North Carolina’s Medicaid and Health Choice Programs (HB 372), substantially changed both the Medicaid and Health Choice programs. Excluding mental health services, dental services, and dually eligible recipients for Medicaid and Medicare, the legislation converted the traditional fee-for-service programs into capitated, managed care programs. The legislation also created a new Division of Health Benefits to manage both programs. While the General Assembly will continue to determine eligibility categories and income thresholds, the legislation gave the Department the authority to manage the programs within the appropriated budgets. Specifics of the reform detailed in S.L. 2014-245 will be included in a separate publication and not discussed in this fiscal brief.

Budget Adjustments

- Additional appropriations for funding the Medicaid rebase of \$299.4 million for FY 2015-16 and \$496.3 million for FY 2016-17. The Medicaid forecast is based on an expected enrollment growth rate in FY 2015-16 of 6.7% and 3.9% in FY 2016-17. The rebase amounts are based on the Department’s assumptions regarding the enrollment mix of Medicaid participants and utilization of Medicaid services.
- State funds were reduced by substituting a two-year, nonrecurring increase in federal receipts due to an enhanced federal match rate for recipients funded through the NC Health Choice Program effective October 1, 2015. The new match rate is effective for two years and increases federal funds received by the State in FY 2015-16 by \$38.7 million and \$54.3 million in FY 2016-17.
- Section 12H.23 of S.L. 2015-241 eliminates the graduate medical education (GME) add-on payment to the base rates for hospital inpatient services effective January 1, 2016. The elimination of GME from the base rates will result in a savings of \$12.7 million in FY 2015-16 and \$31.1 million in FY 2016-17. The

Department is required to submit a plan to the Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division by March 1, 2016 for an alternative reimbursement method for GME payments to hospitals.

Local Management Entity/Managed Care Organization (LME/MCO) Funding

As of June 30, 2015, LME/MCO’s reported a combined total of \$762.9 million in cash reserves, excluding the restricted Medicaid risk reserve. As a result, the Legislature enacted several actions to maximize the use of the LME/MCO cash reserves:

- Nonrecurring reductions in both years of the biennium, \$110.8 million and \$152.9 million respectively, in single-stream funding appropriated for LME/MCOs to provide mental health, developmental disability, and substance abuse services to individuals who are indigent and ineligible for Medicaid. S.L. 2015-241 Section 12F.2.(b) directs LME/MCOs to provide the same level of services in each year of the biennium that was provided in FY 2014-15.
- Implementation of new reporting requirements for LME/MCO’s to provide revenue, expenditure, recipients and encounter data on single-stream funding services on a monthly basis beginning in October 2015.

Requiring Evaluation, Reporting and Accountability

Office of Program Evaluation, Reporting and Accountability

Section 12A.3 establishes a new Office of Program Evaluation, Reporting and Accountability with the following duties within DHHS:

- Assess the evidentiary basis for all programs as recommended by Evidenced-Based Policy Making: A Guide for Effective Government³.

³ The departmental evaluations shall be based on the publication: “Evidence-Based Policy Making: A Guide for Effective Government, a Project of the Results First Initiative of the Pew



- Evaluate programs as directed by the General Assembly, Secretary or the Director.
- Develop and publish an on-line, website based inventory of departmental programs with required specific detailed information.
- Assure that the new website allows the public to determine if programs are meeting performance measures, have evidence of effectiveness and a positive return on investment.
- Cooperate with and respond promptly to requests for program-level data and information from the Office of State Budget, the Program Evaluation and Fiscal Research Divisions of the General Assembly and the State Auditor.

Focusing on Improving Birth Outcomes and Maternal and Child Health Programs

North Carolina’s infant mortality rate has declined to an all-time low, but it remains significantly higher than the national average. The State ranks 40th among the 50 states on infant mortality. Since the NC Medicaid Program pays for the costs associated with over half of the births in the State, including delivery and neonatal intensive care. The General Assembly authorized initiatives that increase access to prenatal care and improve birth outcomes that should decrease State Medicaid costs. Specific initiatives in the 2015 Appropriations Act include:

Designation of a Lead Agency

Section 12E.11, of S.L. 2015-241 designates the Division of Public Health as the lead agency responsible for:

- Controlling all funds and contracts directed at improving birth outcomes, children’s’ health status, and lowering the State’s infant mortality rate;
- Developing a statewide, comprehensive plan to improve birth outcomes and child health; and
- Conducting continuation reviews of all DHHS maternal and child health activities.

Additional Funds to Improve North Carolina’s Birth Outcomes

- Appropriating \$2.5 million to establish a new competitive block grant process for county health departments to increase access to prenatal care and improve birth outcomes at the local level.
- Continuing support for the Nurse Family Partnership Program in order to maintain and expand existing sites and to add new program sites.
- Providing funds to sustain the Perinatal Quality Collaborative of North Carolina, a program that educates hospitals on best practices to improve perinatal care.

Addressing Deficiencies in the State Medical Examiner System

S.L. 2015-241 provides additional funding to address the Joint Health and Human Services Oversight Committee recommendations ([report](#)) for improving North Carolina’s medical examiner system. Specifically:

- Requires mandatory annual training for all appointed medical examiners;
- Increases the statutory medical examiner fee from \$100 to \$200 per death investigation;
- Increases the statutory autopsy fee from \$1,250 to \$2,800 and reimburses regional autopsy centers at cost;
- Upgrades and replaces the dated Medical Examiner Information System;
- Establishes two forensic pathologist fellowships at East Carolina and Wake Forest Universities; and
- Replaces outdated and obsolete equipment

Changing the Foster Care System and Evaluation of North Carolina’s Early Education and Support Programs

Expansion of the Age of Children in Foster Care to 21

S.L. 201 5-241 expands foster care to age 21 effective January 1, 2017. Foster care youth age 18 and older can choose to remain in the foster care system if the following conditions are met:

Charitable Trusts and the John D. and Katherine T. MacArthur Foundation



- Completing secondary education;
- Enrolled in an institution that provides postsecondary or vocational education;
- Participating in a program or activity to remove barriers to employment;
- Employed for at least 80 hours a month; or
- Incapable of any of these activities due to a medical condition or disability.

Transition Services for Foster Youth

The 2015 Appropriations Act funds a demonstration project to provide transition services to foster youth between the ages of 17 and 21. The demonstration project is required to:

- Provide services to improve outcomes for youth ages 17 and 21 who transition from foster care through implementation of outcome-based Transitional Living Services;
- Identify cost-savings in social services and juvenile and adult correction services associated with this demonstration project; and
- Take necessary steps to establish an evidence-based transitional living program available to all youth aging out of foster care.

Evaluating North Carolina's Early Education and Support Programs

S.L. 2015-241 Section 12B.8 requires the Joint Legislative Oversight Committee on Health and Human Services to appoint a subcommittee to study early childhood and family support programs including the Child Care Subsidy program, NC Prekindergarten program and the Smart Start program. This study is to include the following:

- Purpose, outcomes and effectiveness of each program;
- Flexibility needed to ensure the needs of young children across the state are met; and
- Potential for streamlined administration across the programs.

The report is due on or before April 1, 2016.

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Actual and Certified Expenditures and Receipts by Division/Program

Central Management and Support

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	144,784,960	149,775,999	197,872,769	208,066,542
Less: Receipts	56,900,810	57,916,823	75,406,183	78,033,289
Net General Fund Appropriations	\$87,884,150	\$91,859,176	\$122,466,586	\$130,033,253
Positions (FTE)	630.3	763.8	743.8	746.8

Division of Aging and Adult Services

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	103,738,221	103,883,885	105,384,860	105,384,860
Less: Receipts	62,679,994	61,558,422	61,569,523	61,569,523
Net General Fund Appropriations	\$41,058,227	\$42,325,463	\$43,815,337	\$43,815,337
Positions (FTE)	73.5	76.5	76.5	76.5

Division of Blind and Deaf/Hard of Hearing Services

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	26,858,377	29,032,140	33,034,705	33,034,705
Less: Receipts	20,598,815	21,169,744	24,861,498	24,861,498
Net General Fund Appropriations	\$6,259,562	\$7,862,396	\$8,173,207	\$8,173,207
Positions (FTE)	313.8	312.8	312.8	312.8

Division of Child Development and Early Education

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	656,924,715	676,387,626	661,132,014	664,831,704
Less: Receipts	412,804,790	459,123,582	428,669,185	421,797,728
Net General Fund Appropriations	\$244,119,925	\$217,264,044	\$232,462,829	\$243,033,976
Positions (FTE)	303.8	298.8	298.8	298.8



Actual and Certified Expenditures and Receipts by Division/Program

Division of Health Service Regulation

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	58,357,135	57,775,967	66,798,401	66,792,901
Less: Receipts	43,268,597	43,108,288	50,693,154	50,682,227
Net General Fund Appropriations	\$15,088,538	\$14,667,679	\$16,105,247	\$16,110,674
Positions (FTE)	565.5	561.5	563.5	563.5

Division of Medical Assistance

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	13,303,105,674	13,744,373,932	14,309,842,910	14,879,255,427
Less: Receipts	9,899,321,179	10,186,684,468	10,573,267,967	10,963,018,155
Net General Fund Appropriations	\$3,403,784,495	\$3,557,689,464	\$3,736,574,943	\$3,916,237,272
Positions (FTE)	428.3	400.5	400.5	400.5

Division of Mental Health, Developmental Disabilities and Substance Abuse Services

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	1,355,447,632	1,380,743,904	1,283,536,880	1,225,315,768
Less: Receipts	660,570,003	695,015,993	687,454,460	687,454,460
Net General Fund Appropriations	\$694,877,629	\$685,727,911	\$596,082,420	\$537,861,308
Positions (FTE)	11,718.7	11,328.6	11,330.6	11,330.6

NC Health Choice

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	246,435,066	175,150,489	199,247,331	202,808,764
Less: Receipts	187,777,208	133,486,328	186,690,989	202,062,006
Net General Fund Appropriations	\$58,657,858	\$41,664,161	\$12,556,342	\$746,758
Positions (FTE)	5.0	5.0	5.0	5.0



Actual and Certified Expenditures and Receipts by Division/Program

Division of Public Health

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	743,185,225	751,095,573	814,855,289	821,776,497
Less: Receipts	605,988,504	616,747,849	673,478,069	673,478,069
Net General Fund Appropriations	\$137,196,721	\$134,347,724	\$141,377,220	\$148,298,428
Positions (FTE)	2,034.0	1,914.0	1,916.1	1,916.1

Division of Social Services

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	1,693,405,403	1,753,717,655	1,738,840,840	1,745,794,882
Less: Receipts	1,526,473,418	1,572,023,888	1,555,657,577	1,560,261,619
Net General Fund Appropriations	\$166,931,985	\$181,693,767	\$183,183,263	\$185,533,263
Positions (FTE)	415.0	396.0	397.0	397.0

Division of Vocational Rehabilitation

	Actual FY 2013-14	Actual FY 2014-15	Enacted FY 2015-16	Enacted FY 2016-17
Expenditures	135,760,304	131,316,679	144,820,678	144,820,678
Less: Receipts	97,970,524	95,642,587	107,068,546	107,068,546
Net General Fund Appropriations	\$37,789,780	\$35,674,092	\$37,752,132	\$37,752,132
Positions (FTE)	1,030.5	993.2	993.2	993.2



Legislative Changes in General Fund FTE, FY 2015-16

	Vacant	Filled	Receipts	New	Transfers	Net Change
Department of Health and Human Services						
Division of Central Management and Support	(57.0)			37.0		(17.0)
Division of Social Services				1.0		1.0
Division of Public Health				2.0		2.0
Division of Mental Health, Developmental Disabilities, and Substance Abuse Services				2.0		2.0
Division of Health Service Regulation				2.0		2.0
Department of Health and Human Services	(57.0)	-		44.0		(13.0)