



Health and Human Services Subcommittee 2014-15 Fiscal Year Budget Highlights

Fiscal Brief

October 9, 2014

The North Carolina General Assembly House and Senate Appropriations Subcommittees on Health and Human Services (HHS Subcommittee) 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

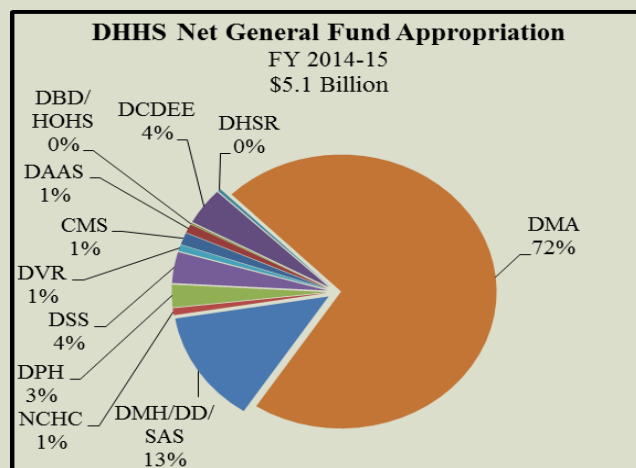
	Actual FY 2011-12	Actual FY 2012-13	Actual FY 2013-14	Certified² FY 2014-15
Expenditures	19,549,995,169	17,896,294,301	18,468,002,712	18,977,591,211
Less: Receipts	14,974,153,064	12,891,308,763	13,574,353,842	13,829,430,163
Net General Fund Appropriations	\$4,575,842,105	\$5,004,985,538	\$4,893,648,870	\$5,148,161,048
Positions (FTE)	17,036.1	17,581.7	17,518.4	17,400.7

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

² Certified budget expenditures and receipts updated February 9, 2015.

Budget Overview

The certified FY 2014-15 net General Fund appropriation for the Department of Health and Human Services is \$5.1 billion. This is an increase of 0.2 percent from the FY 2014-15 certified budget. The General Fund Appropriation funds 17,403 full-time equivalent positions (FTE).³ The chart below shows the budget by division.



³ Does not reflect positions that may be eliminated as part of management flexibility reserves.

S.L. 2014-100, Appropriations Act of 2014 (S.B. 744), appropriates \$5.1 billion for the 11 Department of Health and Human Services (DHHS) divisions. Legislative adjustments to the FY 2014-15 certified budget for the HHS agencies increase spending by \$10.5 million. The Legislative budget process focused primarily on the following major areas:

- Reforming Medicaid;
- Estimating the Medicaid budget shortfall;
- Identifying savings to cover the Medicaid budget shortfall;
- Realigning funds for child care subsidy; and
- Strengthening child protective services.

This Fiscal Brief provides a summary of the adjusted FY 2014-15 budget for DHHS.

Medicaid

Reform

Section 12H.1 of S.L. 2014-100 states the intent of the General Assembly to develop a detailed Medicaid reform plan during a Special Session in November 2014. However on August 20, 2014 the General Assembly adjourned sine die and will not return in November for a Special Session.



The Department is required to continue to consult with stakeholder groups, study, and recommend options for a Medicaid reform plan intended to provide greater budget predictability.

S.L. 2014-100 specifically prohibits the Department from:

- Implementing initiatives that will commit the State to any particular Medicaid reform plan;
- Submitting any reform-related State plan, amendments, waivers, or grant applications; and,
- Entering into contracts related to implementing Medicaid reform.

Both the House and the Senate passed versions of H.B. 118, North Carolina Medicaid Modernization; however a final version of the legislation was not enacted.

Estimating the Shortfall

Magnitude of the FY 2013-14 Budget Shortfall

Before determining how much to budget for the Medicaid program in FY 2014-15, an analysis of the FY 2013-14 budget was necessary. However, FY 2013-14 was a year with significant challenges for the Medicaid budget and the State's ability to forecast future budget needs. One of the major goals of the biennial budget passed during the 2013 Session was to avoid future Medicaid shortfalls by providing an appropriate factor for growth. However, despite efforts to avoid a budget shortfall, the General Assembly was again required to identify savings to provide additional funds for the Medicaid program for both FY 2013-14 and FY 2014-15.

The FY 2013-14 estimated shortfall was significantly less than the previous fiscal year. The total estimated Medicaid budget shortfall for FY 2013-14 was \$81.7 million. The budget gap was offset by an estimated Health Choice budget surplus of \$9.4 million, resulting in a net estimated budget shortfall of \$72.3 million for FY 2013-14.

In summary, the net \$72.3 million budget shortfall was comprised of the following:

Estimated claims, utilization and growth impact:	
Medicaid ¹	\$ 157.1 M
Health Choice ²	9.4 M
Net claims surplus	\$ 166.5 M
Unachieved Reductions and PCS Budget	(76.0 M)
Unbudgeted ACA Implementation Impact	(18.1 M)
Cost Settlements	(8.2 M)
Liability for Claims and Enrollment Backlog	(136.5 M)
Projected Budget Shortfall	(\$72.3 M)

¹ Medicaid amount is primarily due to the estimated claims and enrollment backlog.

² Health Choice amount is due to the transfer of children to Medicaid.

Forecast Impediments

Implementation of two new information technology systems significantly impacted the State's ability to forecast expenditures. NC TRACKS, the new Medicaid claims payment system, was implemented on July 1, 2013. The new eligibility system, NC FAST, was implemented on October 1, 2013. The implementation of these new systems resulted in delayed and limited access to complete, timely and consistent data to analyze spending, trends and the impact of changes; delays in processing applications for Medicaid and Health Choice enrollment; and, delays in processing provider claims for payment.

Limited data resulted in significant uncertainty and negated the Fiscal Research Division's (FRD) ability to produce an accurate Medicaid forecast. Based on overall expenditure data and available national data, FRD instead produced best and worst case scenarios for the General Assembly to consider.

Budget Issues

Unachieved budget reductions also significantly impacted the Medicaid budget. S.L. 2013-360, Appropriations Act of 2013 reduced the Medicaid budget by \$147.3 million and the Health Choice budget by \$15.6 million. The Fiscal Research Division estimated that the Division of Medical Assistance would not achieve \$63.6 million of those reduction items by the end of the 2013-14 fiscal year.



Without access to the appropriate data, it was difficult for FRD and DHHS to accurately assess the overall spending and trends for enrollment and utilization. However, expenditures in the personal care services (PCS) program exceeded the projected budget. PCS is provided to Medicaid recipients at home or in an adult care home. PCS provides assistance with activities of daily living, based on an independent assessment. The State has made numerous changes in the PCS program over the last three years in an effort to control spending. Section 12H.10 of S.L. 2014-100 directs the Department to propose a financial plan to contain the growth of the PCS budget in FY 2015-16 to the same level as FY 2014-15. Additionally the provision authorizes the Joint Legislative Oversight Committee on Health and Human Services to engage a contractor to study the issues related to reforming and redesigning the PCS program, while meeting the State's obligations under the Americans with Disabilities Act.

The Affordable Care Act (ACA) impacted spending in several ways, including:

- The provision that hospitals could determine that individuals are presumptively eligible for Medicaid and process claims until a final determination was made by the State;
- The expectation that individuals previously eligible for Medicaid that had chosen not to enroll, would enroll to avoid penalties;
- All children up to 133 percent of the federal poverty level must be covered under Medicaid, which required the State to shift 71,000 children from Health Choice to Medicaid; and
- The fact that North Carolina was not prepared to apply the new Modified Adjusted Gross Income (MAGI) eligibility criteria for enrollment effective January 1, 2014 which resulted in those individuals scheduled to be recertified remaining on Medicaid rolls for a longer time period in FY 2013-14.

Additional Funds for FY 2014-15

In estimating the amount of funds needed for Medicaid in FY 2014-15, FRD used FY 2013-14 assumptions as a foundation for preparing best and worst case scenarios. A number of factors from FY 2013-14 had to be annualized to prepare the new year's budget, including: increased Medicaid recipients as a result of ACA requirements for previously eligible individuals; the shift of children from Health Choice to Medicaid; the impact of presumptive eligibility; and, the impact of reduction items that began in FY 2013-14. This adjusted base served as a starting point for estimating the FY 2014-15 budget.

The base budget was increased to provide a 1.1 percent increase in enrollment and a 4.2 percent increase in utilization. Adjustments were also made to factor in the impact of a shift in enrollment distribution to more costly program aid categories based on historical trends and the impact of a higher federal match rate.

Contingency Reserve Established

Faced with a lack of reliable expenditure and enrollment data, FRD applied simplified budget methodologies using overall expenditure patterns to create a best and worst case budget estimate for the new fiscal year. Ultimately, the General Assembly adopted the midpoint estimate of \$186.4 million for FY 2014-15. The recurring funds will be held in an unappropriated contingency reserve and are not part of the enacted Medicaid budget

Identifying Savings to Cover the Medicaid Shortfall

The General Assembly approved a number of policy changes to offset the costs for the Medicaid program in FY 2014-15 including:

- **Mental Health Drug Management**

The Department is directed to manage mental health drug benefits to reduce State expenditures by \$12 million annually by



adjusting the preferred drug list to maximize supplemental rebates and to impose controls that include prior authorization, utilization review and other restrictions. The effective date for this policy change is January 1, 2015; therefore the anticipated savings for FY 2014-15 is \$6 million.

- **Reduce Provider Rates and Weights**

S.L. 2014-100 reduces fee-for-service rates by one percent for all providers except hospital inpatient, drugs and dispensing fees, nursing homes, non-PCS home care services, private duty nursing, cost based providers and services where rates or rate-setting methodologies are set by the federal government or negotiated contract.

Hospital inpatient weights will be reduced by 2.2 percent. The effective date of the rate and weight reductions is January 1, 2015 and will produce \$7.2 million in savings.

- **Imaging Capitated Contract**

S.L. 2014-100 directs the Department to achieve \$5 million of savings in FY 2014-15 through renegotiation of the contract with its capitated imaging contractor, Medsolutions.

- **Hospital Outpatient Cost Settlements**

S.L. 2014-100 modifies the payment and settlement for UNC Hospitals and Vidant Medical Center to 70 percent of cost, consistent with all other hospitals in the State. With an effective date of July 1, 2014, this will save the State \$10 million in FY 2014-15.

- **Freeze Nursing Home Case Mix**

S.L. 2014-100 freezes the quarterly case mix adjustments for the direct care component of the nursing home rates effective January 1, 2015. This change will produce \$2.2 million in savings.

- **Average Acquisition Cost for Drug Pricing**

S.L. 2014-100 directs the Department to

change their drug pricing methodology so that ingredient cost is based on average acquisition cost. The Department is also required to adjust dispensing fees to generate a combined net savings of \$975,000 in FY 2014-15.

- **State Retention of the Hospital Provider Assessment Plan**

S.L. 2014-100 increases the percentage of financial assessments that will be retained by the State from 25.9 percent to 28.85 percent effective July 1, 2014. This increase will generate \$15.1 million.

- **Single Base Rate for All Hospitals**

S.L. 2014-100 establishes that effective January 1, 2015 a single base payment rate for all inpatient hospital services will be set at the state-wide median. The estimated savings for the State is \$10.8 million.

Child Care Subsidy

Income Eligibility

S.L. 2014-100 changes Child Care Subsidy income eligibility effective October 1, 2014 from 75 percent of State Median Income to 200 percent of the Federal Poverty Level (FPL) for children ages 0-5 and special needs children; and to 133 percent FPL for children ages 6-12. Children in foster care, and those receiving child protective or child welfare services, will continue to receive assistance without regard to income. Families currently receiving assistance will have their eligibility determined by the new income standards at their next redetermination after October 1, 2014.

Most families who receive child care subsidy are required to pay a co-payment or a pro-rated co-payment for part-time care. Effective October 1, 2014, all required co-payments will be set at 10 percent of income, and payments for part-time care will no longer be pro-rated. Children in foster care or children who receive child protective or child welfare services will continue to be exempt from making co-payments.



Effective January 1, 2015 the definition of “income unit” for eligibility determination will change to include stepparents and the stepparent’s child, if applicable. Additionally a nonparent relative caretaker (for example, a grandparent, aunt, or uncle), and the caretaker’s spouse and child, if applicable, will be included in the definition of the “income unit” if the child’s parent is not in the home.

Use of Funds

These changes in eligibility result in reductions of \$11.4 million. The General Assembly repurposed the funds into the Child Care Subsidy program as follows:

- \$6.8 million to increase the child care market rates for three, four and five star center and homes by 25 percent of the difference between the market rates currently in use and the recommended rate from the 2013 Child Care Market Rate study. The rates were last adjusted in 2007.
- \$4.6 million to remove 1,000 slots from the child care subsidy waiting list in fiscal year 2014-15. When the eligibility changes are fully implemented, the repurposed funds will reduce the child care waiting list by 4,000 slots.

Allocation Formula Changes

S.L. 2014-100 requires the Division of Child Development and Early Education to update the child care allocation formula utilizing 2010 census data beginning in FY 2014-15. The use of the 2010 data will result in a reduction in funding for some counties and an increase in funding for others.

The change in allocations will be phased in over time. Beginning in FY 2014-15 county allocations will be adjusted by one-third of the impact of the 2010 Census. The next one-third adjustment will occur in FY 2016-17; the final third will be implemented in FY 2018-19. S.L. 2014-100 also requires county allocations to meet the following requirements:

- A county cannot receive less than 90 percent of its FY 2001-2002 allocation.

- For FY 2014-15, a county that did not have a waiting list in FY 2013-14 will not receive an increase in its allocation.
- Beginning in FY 2015-16, a county will not receive an increase if its spending was below 95 percent of its allocation in the previous year.

Child Protective Services (CPS)

S.L. 2014-100 appropriates \$13.6 million for the Child Protective Services program; including \$7.3 million to reduce CPS investigative workers’ assessment caseloads to the State recommended level of 10 cases per worker. The number of CPS investigations in North Carolina has grown from 111,720 in FY 2001-02 to 134,126 in FY 2011-12, an increase of 20 percent. In calendar year 2011, there were 43 counties which exceeded the recommended caseload size. Increases in CPS caseload sizes impact how quickly a county can react to reports of abuse, neglect and dependency.

An additional \$4.5 million is appropriated for Child Welfare In-Home Services to maintain the safety of the child while helping the parent/caretaker learn more effective parenting practices.

S.L. 2014-100 provides \$750,000 to fund nine positions at the Division of Social Services to enhance the oversight of child welfare services in local county departments of social services. The new positions will improve oversight by monitoring, training and providing technical assistance to counties to ensure that the services provided address safety, permanency, and the well-being of children.

S.L. 2014-100 provides \$700,000 in funding for a statewide evaluation of CPS at county departments of social services and the Department of Health and Human Services assessing child protective services performance, caseload sizes, administrative structure, funding adequacy and worker turnover, and providing recommendations to improve each area.

S.L. 2014-100 provides \$300,000 to fund the development and implementation of a pilot program designed to enhance coordination of services and



information among local county departments of social service agencies and local law enforcement, court system, Guardian Ad Litem programs and other agencies as determined by the Department of Health and Human Services.

Other Major HHS Items

Office of the Chief Medical Examiner

S.L. 2014-100 appropriates an additional \$1 million in funds to the Office of the Chief Medical Examiner (OCME) to address operational deficiencies in the statewide medical examination system. These funds are to be used to hire additional staff to perform autopsies and to train county medical examiners and law enforcement personnel to conduct proper death investigations. S.L. 2014-100, Sec. 12E.6 directs the Department to establish an oversight system, including the development and implementation of uniform protocols, to achieve operational efficiencies and to improve the quality of postmortem medicolegal examinations performed under the authority of OCME.

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Actual and Certified Expenditures and Receipts by Division/Program

Division of Central Management and Support

	Actual <u>FY 2011-12</u>	Actual <u>FY 2012-13</u>	Actual <u>FY 2013-14</u>	Certified <u>FY 2014-15</u>
Expenditures	120,188,169	125,908,514	144,784,960	152,152,679
Less: Receipts	63,694,328	65,974,192	56,900,810	79,247,879
Net General Fund Appropriations	\$56,493,841	\$59,934,322	\$87,884,150	\$72,904,800
Positions (FTE)	641.8	638.3	630.3	632.3

Division of Aging and Adult Services

	Actual <u>FY 2011-12</u>	Actual <u>FY 2012-13</u>	Actual <u>FY 2013-14</u>	Certified <u>FY 2014-15</u>
Expenditures	105,024,104	106,927,441	103,738,221	115,311,763
Less: Receipts	60,755,523	63,151,812	62,679,994	61,838,971
Net General Fund Appropriations	\$44,268,581	\$43,775,629	\$41,058,227	\$53,472,792
Positions (FTE)	73.5	73.5	73.5	73.5

Divisions of Blind and Deaf/Hard of Hearing Services

	Actual <u>FY 2011-12</u>	Actual <u>FY 2012-13</u>	Actual <u>FY 2013-14</u>	Certified <u>FY 2014-15</u>
Expenditures	29,086,669	29,874,512	26,858,377	32,639,127
Less: Receipts	20,764,306	21,695,680	20,598,815	24,460,509
Net General Fund Appropriations	\$8,322,363	\$8,178,832	\$6,259,562	\$8,178,618
Positions (FTE)	316.8	313.8	313.8	313.8

Division of Child Development and Early Education

	Actual <u>FY 2011-12</u>	Actual <u>FY 2012-13</u>	Actual <u>FY 2013-14</u>	Certified <u>FY 2014-15</u>
Expenditures	662,294,474	669,099,259	656,924,715	667,998,042
Less: Receipts	399,659,660	411,106,467	412,804,790	444,361,688
Net General Fund Appropriations	\$262,634,814	\$257,992,792	\$244,119,926	\$223,636,354
Positions (FTE)	309.8	303.8	303.8	302.8



Division of Health Services Regulation

	<u>Actual</u> <u>FY 2011-12</u>	<u>Actual</u> <u>FY 2012-13</u>	<u>Actual</u> <u>FY 2013-14</u>	<u>Certified</u> <u>FY 2014-15</u>
Expenditures	63,611,042	56,213,053	58,357,135	65,399,275
Less: Receipts	47,663,558	42,344,340	43,268,597	49,275,796
Net General Fund Appropriations	\$15,947,484	\$13,868,713	\$15,088,538	\$16,123,479
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>Actual</u> <u>FY 2013-14</u>	<u>Certified</u> <u>FY 2014-15</u>
Expenditures	14,241,450,471	12,643,008,323	13,303,105,674	13,769,876,232
Less: Receipts	11,214,489,593	9,125,314,086	9,899,321,179	10,081,328,109
Net General Fund Appropriations	\$3,026,960,878	\$3,517,694,237	\$3,403,784,495	\$3,688,548,123
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>Actual</u> <u>FY 2013-14</u>	<u>Certified</u> <u>FY 2014-15</u>
Expenditures	1,366,409,130	1,368,260,023	1,355,447,632	1,364,706,219
Less: Receipts	697,027,523	683,863,564	660,570,003	684,642,473
Net General Fund Appropriations	\$669,381,607	\$684,396,459	\$694,877,629	\$680,063,746
Positions (FTE)	11,155.9	11,712.2	11,718.7	11,705.2

NC Health Choice

	<u>Actual</u> <u>FY 2011-12</u>	<u>Actual</u> <u>FY 2012-13</u>	<u>Actual</u> <u>FY 2013-14</u>	<u>Certified</u> <u>FY 2014-15</u>
Expenditures	336,858,465	325,597,032	246,435,066	174,711,677
Less: Receipts	259,003,262	246,263,500	187,777,208	132,777,705
Net General Fund Appropriations	\$77,855,203	\$79,333,532	\$58,657,858	\$41,933,972
Positions (FTE)	5.0	5.0	5.0	5.0



Division of Public Health

	<u>Actual</u> <u>FY 2011-12</u>	<u>Actual</u> <u>FY 2012-13</u>	<u>Actual</u> <u>FY 2013-14</u>	<u>Certified</u> <u>FY 2014-15</u>
Expenditures	807,514,836	770,028,806	743,185,225	827,356,675
Less: Receipts	615,511,411	628,755,403	605,988,504	691,020,631
Net General Fund Appropriations	\$192,003,425	\$141,273,403	\$137,196,721	\$136,336,044
Positions (FTE)	2,101.8	2,105.8	2,034.0	1,931.8

Division of Social Services

	<u>Actual</u> <u>FY 2011-12</u>	<u>Actual</u> <u>FY 2012-13</u>	<u>Actual</u> <u>FY 2013-14</u>	<u>Certified</u> <u>FY 2014-15</u>
Expenditures	1,674,763,277	1,661,798,665	1,693,405,403	1,668,936,436
Less: Receipts	1,489,276,926	1,495,907,995	1,526,473,418	1,480,171,149
Net General Fund Appropriations	\$185,486,351	\$165,890,670	\$166,931,985	\$188,765,287
Positions (FTE)	416.0	415.0	415.0	424.0

Division of Vocational Rehabilitation

	<u>Actual</u> <u>FY 2011-12</u>	<u>Actual</u> <u>FY 2012-13</u>	<u>Actual</u> <u>FY 2013-14</u>	<u>Certified</u> <u>FY 2014-15</u>
Expenditures	142,794,532	139,578,673	135,760,304	138,503,086
Less: Receipts	106,306,974	106,931,724	97,970,524	100,305,253
Net General Fund Appropriations	\$36,487,558	\$32,646,949	\$37,789,780	\$38,197,833
Positions (FTE)	1,031.5	1,030.5	1,030.5	1,018.5



Change in FTE, FY 2014-15

	Vacant	Filled	Receipts	New	Transfers	Net Change
<u>Health and Human Services</u>						
Central Management and Support				2.0		2.0
Aging and Adult Services						
Blind and Deaf/Hard of Hearing Services						
Child Development and Early Education	(1.0)					(1.0)
Health Services Regulation						
Medical Assistance						
Disabilities, & Sub. Abuse Serv.	(7.0)					(7.0)
NC Health Choice						
Public Health	(1.0)	(6.0)				(7.0)
Social Services				9.0		9.0
Vocational Rehabilitation	(13.8)	(7.0)				(20.8)
Health and Human Services	(22.8)	(13.0)	-	11.0		(24.8)