

**Department of Human Services
Budget 325
Senate Bill No. 2012, House Bill No. 1007**

	FTE Positions	General Fund	Other Funds	Total
2003-05 legislative appropriation	2,057.42	\$411,081,823	\$1,097,801,932	\$1,508,883,755
2001-03 legislative appropriation	<u>2,243.57</u>	<u>369,683,875</u>	<u>1,047,421,972</u>	<u>1,417,105,847</u>
2003-05 appropriation increase (decrease) to 2001-03 appropriation	(186.15)	\$41,397,948	\$50,379,960	\$91,777,908

Health and Medical Funding Pool

	FTE Positions	General Fund	Other Funds	Total
2003-05 legislative appropriation	0	\$1,000,000	\$2,125,000	\$3,125,000

Item Description

Funding flexibility - The Legislative Assembly authorized the department to transfer appropriation authority between line items within each subdivision of the department and between subdivisions of the department for the 2003-05 biennium.

Status/Result

Through February 2004, the department has made the following funding transfers:

- \$389,259 of general fund authority from Subdivision 2 (program and policy) to Subdivision 1 (management) to restore a portion of the \$1.5 million general fund reduction made by the Legislative Assembly in Subdivision 1 (management).
- \$764,414 of other funds authority from Subdivision 2 (program and policy) to Subdivision 3 (human service centers) relating to national family caregiver funds.
- \$300,000 of general fund authority from various human service centers to the State Hospital.
- \$100,000 of other funds authority from the Developmental Center to the State Hospital.
- \$150,000 of general fund authority from grants in Subdivision 2 (program and policy) to grants - medical assistance in Subdivision 2 (program and policy) relating to case management fees.

Health and medical funding pool - The Legislative Assembly appropriated \$3,125,000, of which \$1 million is from the general fund to the department for supplementing other appropriations provided to the department for medical assistance, Developmental Center, State Hospital, and home and community-based services programs.

The department allocated the funding provided in the health and medical funding pool to supplement the funding appropriated for the medical assistance program for the 2003-05 biennium. The funding will restore a portion of the \$2,785,539 general fund reduction made to the medical assistance program as a result of the funding source change made by the Legislative Assembly. See **Funding source change** item under the **Program and Policy** section below for additional information.

Management

	FTE Positions	General Fund	Other Funds	Total
2003-05 legislative appropriation	113.80	\$13,717,616	\$34,130,107	\$47,847,723

Item Description

Funding source change - The Legislative Assembly reduced general fund support and increased other funds from special or federal funds, if available, by \$1.5 million for the department's administration support and information technology programs.

Transfer of information technology positions - House Bill No. 1505 provided for the reduction and transfer of 5 FTE positions relating to information technology services, including electronic mail, file and print server administration, data base administration, storage, application server, and hosting services from the Department of Human Services to the Information Technology Department.

Medicaid management information system replacement - Phase 1 - The department's 2003-05 biennium budget includes \$1.6 million, of which \$160,000 is from the general fund for Phase 1 of the Medicaid management information system replacement project. The funding for Phase 1 is for hiring a consultant to assist with the planning and implementation of the new system.

Program and Policy

	FTE Positions
2003-05 legislative appropriation	234.80

Item Description

Funding source change - The Legislative Assembly reduced general fund support and increased other funds from special or federal funds, if available, by \$3,150,000 for the programs included under the program and policy subdivision.

Status/Result

The department has reduced salaries and operating expenses in the administration, support, and information technology programs of the department which is anticipated to reduce costs by \$1.1 million for the biennium. The department has eliminated 13.7 FTE positions in these areas--reduction in force (9.5), vacant (3.2), and an early retirement (1). Approximately \$400,000 of the \$1.5 million reduction was made to programs in the program and policy subdivision.

The department has transferred 4 FTE information technology positions to the Information Technology Department. The remaining position was exempted by the Project Executive Committee and remains in the Department of Human Services.

The department has contracted with Fox Systems, Inc., to assist the department in planning the project. Fox Systems will determine the cost of replacing the system, provide a cost-benefit analysis of all replacement options, identify all current and future business needs, and prepare a request for proposal for the replacement. These activities will be completed by December 2004. The department anticipates spending the \$1.6 million provided for Phase 1 for these activities during the 2003-05 biennium.

General Fund	Other Funds	Total
\$309,747,679	\$956,967,082	\$1,266,714,761

Status/Result

The department has made the following general fund reductions to programs within the program and policy subdivision:

Child support	\$38,081
Medical assistance	2,785,539
Children and family services	405,335
Economic assistance	540,362
Vocational rehabilitation	192,851
Mental health/substance abuse	37,832
Total	\$4,000,000

Within these programs, 5.5 FTE vacant positions are not being filled and 1 FTE position was eliminated through a reduction in force.

The department reduced funding for these programs by \$4 million but has \$850,000 available to provide additional funding to critical program areas as needs are identified.

Operating expense reduction - The Legislative Assembly reduced the operating expenses line item of the program and policy subdivision by \$1 million and allowed the department to determine the specific areas to reduce.

Federal medical assistance percentage (FMAP) changes - The department's 2003-05 biennium budget reflects the following federal matching rates for a number of the department's programs, including medical assistance, foster care services, and programs at the State Hospital, Developmental Center, and the human service centers:

- Federal fiscal year 2002 - 69.87 percent
- Federal fiscal year 2003 - 68.36 percent
- Federal fiscal year 2004 - 68.31 percent
- Federal fiscal year 2005 - 67.47 percent (projected)

The department is monitoring operating expenses within the program and policy subdivision in total. If necessary, an operating expense reduction allocation will be made by program within the program and policy subdivision later in the biennium.

In May 2003 Congress approved the Jobs and Growth Tax Relief Reconciliation Act of 2003 which provides for increased federal payments to states under the Medicaid program. The department projects that North Dakota will receive an additional \$19.6 million in federal matching funds for the Medicaid program resulting in \$19.6 million of general fund savings during the 2003-05 biennium. The chart below presents the changes that will be made to North Dakota's FMAP as a result of the federal Act.

Federal Fiscal Year	Original FMAP	Adjusted FMAP
2001	69.99%	69.99%
2002	69.87%	69.87%
2003		
Quarter ending 12/31/02	68.36%	68.36%
Quarter ending 3/31/03	68.36%	68.36%
Quarter ending 6/30/03	68.36%	72.82%
Quarter ending 9/30/03	68.36%	72.82%
2004		
Quarter ending 12/31/03	68.31%	71.31%
Quarter ending 3/31/04	68.31%	71.31%
Quarter ending 6/30/04	68.31%	71.31%
Quarter ending 9/30/04	68.31%	68.31%
2005	67.49%	67.49%
2006		
Preliminary projection	65.16%	65.16%

The adjusted FMAP rates are effective for the third and fourth quarters of federal fiscal year 2003 (April through September) and for the first three quarters of federal fiscal year 2004 (October 2003 through June 2004).

The department reported to the Budget Section in October 2003 that it anticipates using \$8 million of the projected \$19.6 million of general fund savings resulting from the adjusted FMAP to provide for Medicaid program costs that it believes will exceed the amount appropriated by the Legislative Assembly for the 2003-05 biennium. The remaining \$11.6 million will be returned to the general fund. The department reported to the Budget Section in April 2004 that it has transferred \$6.5 million of general fund savings resulting from the enhanced FMAP which related to the 2001-03 biennium to the general fund. A portion (\$1.2 million) of the remaining \$5.1 million may be needed to expand the sexual abuse treatment services program at the State Hospital (see **State Hospital sexual offender treatment program** below) and the remaining funds (\$3.9 million) will be unspent general fund appropriation authority that will revert to the general fund as turnback at the end of the 2003-05 biennium.

The preliminary projection for North Dakota's 2006 FMAP rate is 65.16 percent. If the rate remains at 65.16 for 2007, the additional state general fund appropriations that will be necessary to provide for the FMAP reductions and to continue the 2003-05 additional anticipated expenditures of \$8 million is \$38.2 million for the 2005-07 biennium. This amount does not reflect any inflationary or utilization increases for Medicaid.

Medical services copayments and limits - Section 9 of Senate Bill No. 2012 requires the department to establish a \$6 copayment for medical assistance recipients for each emergency room visit that is not designated an emergency service by the medical services provider and to establish other copayments or limits and make other programmatic changes within the medical services program to operate the program within the funding levels appropriated for the 2003-05 biennium.

Nursing facility expenditures to date - The Legislative Assembly appropriated \$318.4 million, of which \$102.1 million is from the general fund for nursing facility payments under the medical assistance program for the 2003-05 biennium.

Prescription drug expenditures to date - The Legislative Assembly provided total funding of \$95.2 million for prescription drug costs under the medical assistance program for the 2003-05 biennium.

Medical assistance payment rates for inpatient, outpatient, and physician services - The Legislative Assembly added \$1,562,500, of which \$500,000 is from the general fund, to medical assistance grants with the priority for use of the funding designated for increasing payments for inpatient, outpatient, and physician services.

Drug utilization review - House Bill No. 1430 requires the Department of Human Services to implement drug utilization review and drug prior authorization for the medical assistance program.

Intergovernmental transfer payments - Federal funds generated from intergovernmental transfer payments to nursing facilities in Dunseith and McVille for deposit in the health care trust fund were estimated to be \$12.4 million for the first year of the biennium and \$6.2 million for the second year.

The department has established the \$6 copayment for "nonemergency" use of emergency rooms and has established a number of service limits and copayments for medical services effective September 2003. These changes are projected to reduce medical assistance expenditures by \$500,000, of which \$150,000 is from the general fund for the 2003-05 biennium.

Through March 2004, the department has spent \$99.7 million, of which \$28.2 million is from the general fund for nursing facility care under the medical assistance program. In total, actual expenditures to date are \$900,000 less than the estimate based on the amounts appropriated. Actual expenditures are less than estimated due to fewer individuals receiving nursing facility services than anticipated and the actual cost per person being less than estimated. Because of the FMAP enhancement, general fund expenditures through March 2004 are \$1.8 million less than estimated.

Through March 2004, the department has spent \$31.8 million, of which \$9 million is from the general fund on prescription drugs in the medical assistance program. In total, actual expenditures to date are \$2.1 million more than the estimate based on the amounts appropriated. Actual expenditures are more than estimated due to usage and costs being more than anticipated. Because of the FMAP enhancement, general fund expenditures through March 2004 are \$425,000 less than estimated.

Effective April 1, 2004, the department increased inpatient hospital payment rates by 2.7 percent and physician services rates by 1.8 percent. These increases are estimated to cost \$1.4 million for the remaining 15 months of the 2003-05 biennium. Outpatient rates were not adjusted.

The department has established a drug use review board. The board has finalized prior authorization criteria for two classes of highly used drugs--antihistamines and proton pump inhibitors.

The July 2003 intergovernmental transfer payment resulted in a \$13.6 million deposit of federal funds into the health care trust fund, \$1.2 million more than anticipated. The department is projecting the second year payment to be \$6.2 million, the same amount projected during the 2003 legislative session.

Personal care services - Senate Bill No. 2194 provided that the department seek federal approval to allow certain eligible individuals receiving personal care services under the service payments for elderly and disabled (SPED) program to receive those services under the medical assistance program.

SPED sliding fee schedule - Senate Bill No. 2083 provided legislative intent that the department reduce the income limit levels used for determining an eligible individual's share of the cost of SPED services by \$100 for each monthly income level for recipients with liquid assets not exceeding \$25,000 and by \$250 for each monthly income level for recipients with liquid assets exceeding \$25,000 but which do not exceed \$50,000. In addition, the section provides that the department disregard a portion of income relating to verified prescription drug costs of the recipient.

Child care assistance - The Legislative Assembly appropriated \$27.1 million of federal and other funds to the department for the child care assistance program for the 2003-05 biennium. The department reduced this amount by approximately \$500,000 when it allocated the \$4 million undesignated general fund reduction made to the program and policy subdivision by the 2003 Legislative Assembly. The adjusted 2003-05 biennium appropriation is \$26.6 million.

Federal temporary assistance for needy families (TANF) block grant expenditures - Section 8 of Senate Bill No. 2012 requires the department to make the changes necessary to programs utilizing funding from the TANF block grant to provide that by the end of the 2003-05 biennium, the total anticipated spending on these programs for each fiscal year does not exceed North Dakota's annual federal TANF block grant allocation.

The department has submitted a state plan amendment to the federal Centers for Medicare and Medicaid Services (CMS) to implement personal care as a Medicaid service for these individuals. The department is continuing to negotiate with CMS on the amendment. When it is approved, it may be retroactively effective to September 2003.

Effective in August 2003, the department reduced the income limit levels for recipients with liquid assets not exceeding \$25,000 by \$300 per month and for recipients with liquid assets exceeding \$25,000 but not exceeding \$50,000 by \$450 per month and began allowing a separate income deduction for verified prescription drug costs. An Attorney General's letter opinion issued in December 2004 indicated that the department's new fee schedules were not in compliance with the provisions of Senate Bill No. 2083. As a result of the letter opinion, the department retroactively adjusted its rate schedules to August 2003 by increasing all income limit levels by \$200 per month and continued to allow the separate income deduction for verified prescription drug costs to be in compliance with the provisions of Senate Bill No. 2083.

The department anticipates only \$21.6 million will be available for child care assistance expenditures during the 2003-05 biennium, which is \$5 million less than the adjusted appropriation of \$26.6 million. Of this \$5 million reduction, \$200,000 relates to a reduction in the federal child care development block grant funding available to North Dakota for the 2003-05 biennium and \$4.8 million relates to spending authority included in the department's 2003-05 executive budget recommendation that could be spent only if additional matching funds of \$1.5 million are provided during the biennium. The department does not anticipate the additional matching funds becoming available; therefore, the additional spending authority will not be used.

Based on expenditures through December 2003, the department is projecting the need for an additional \$2.2 million of funding during the 2003-05 biennium to meet the needs of the program based on activity during the first six months. The department is planning to make program changes effective in September 2004 to reduce program expenditures. The changes eliminate child care assistance for students taking higher education courses except for those students in vocational education or those receiving certificates or a vocational training degree or an associate of applied science degree.

The department has implemented changes to the TANF program to reduce expenditures to the level of North Dakota's block grant allocation. Changes include reducing a recipient's TANF benefit by up to \$50 if the recipient is also receiving housing assistance. The department plans to make additional changes to keep biennial expenditures within \$52.6 million for the 2005-07 biennium, which is North Dakota's anticipated TANF block grant amount.

Organizations from two regions requested funding for the first year of the

Developmental disabilities supported living arrangements - Section 11

was added requiring a 50/50 state/local match for the \$200,000 general fund appropriation provided for supported living arrangement services. The section also requires the department to allocate the \$200,000 appropriation proportionately to each human service region of the state based on the number of individuals with developmental disabilities seeking supported living arrangement services in each region.

Vocational rehabilitation surveys - Section 12 of Senate Bill No. 2012 provides legislative intent that the department only survey vocational rehabilitation clients who become employed regarding job retention and job satisfaction after three months of employment if allowed under federal regulations for the 2003-05 biennium.

Health center grants - Section 2 of Senate Bill No. 2012 appropriates \$50,000 from the general fund for grants to community entities to support community development and grant writing services for the purpose of health center grant application submission. The department may not award an individual grant of more than \$10,000.

biennium. The southeast region is anticipated to receive approximately \$109,000 and the west central region approximately \$9,000 for the first year. The department will be making available the remaining funds of approximately \$78,000 for the second year of the biennium.

Current federal regulations require the department to survey vocational rehabilitation clients who become employed after six months; therefore, the department has not changed its survey policies.

Four health centers responded to the department's first request for proposal. The department awarded two grants, rejected one, and is awaiting additional information on the other. The department issued a second request for proposal in May 2004.

Field Services

	FTE Positions	General Fund	Other Funds	Total
2003-05 legislative appropriation				
Mental health contingency pool		\$250,000		\$250,000
Northwest Human Service Center	51.00	3,630,039	\$3,645,640	7,275,679
North Central Human Service Center	114.78	7,841,196	6,723,674	14,564,870
Lake Region Human Service Center	63.00	4,637,960	3,782,973	8,420,933
Northeast Human Service Center	136.90	7,996,363	11,444,820	19,441,183
Southeast Human Service Center	184.20	9,509,320	11,215,222	20,724,542
South Central Human Service Center	86.00	5,627,107	5,731,868	11,358,975
West Central Human Service Center	120.00	8,463,209	9,121,635	17,584,844
Badlands Human Service Center	78.00	4,365,904	4,558,723	8,924,627
State Hospital	416.90	25,484,201	16,405,360	41,889,561
Developmental Center	458.04	8,811,229	31,949,828	40,761,057
Total Field Services	1,708.82	\$86,616,528	\$104,579,743	\$191,196,271

Item Description

State Hospital sexual offender treatment program - The State Hospital's 2003-05 biennium budget includes \$2.1 million and 24.9 FTE positions for the 22-bed secure services unit at the hospital which provides sexual offender treatment services, competency evaluations, and services to the dangerously mentally ill.

State Hospital unspecified general fund reduction - The Legislative Assembly reduced the general fund support for the State Hospital by \$2 million and allowed the department to determine the specific areas to reduce.

Status/Result

The State Hospital anticipates the need for an additional 10 beds to accommodate more individuals being committed for sexual offender treatment services during the 2003-05 biennium. The estimated cost of the expanded program for the period May 2004 through June 2005 is \$1.2 million, including 20 FTE positions.

To provide for the \$2 million general fund reduction, the State Hospital is reducing operating expenses by 10 percent, placing a freeze on filling any vacant nonnursing positions, eliminating any major remodeling, and

Developmental Center unspecified general fund reduction - The Legislative Assembly reduced the general fund support for the State Hospital by \$1 million and allowed the department to determine the specific areas to reduce.

Mental health contingency pool - The Legislative Assembly provided \$250,000 from the general fund for a funding pool to be distributed to human service centers for mental health and substance abuse services based on the needs of the regions.

suspending recruitment bonuses for nurses. The department has transferred \$300,000 of general fund money to the State Hospital from the Northwest, North Central, Lake Region, Northeast, and South Central Human Service Centers. Approximately \$150,000 of the transfers were made from administrative programs and the remaining \$150,000 from mental health programs.

To provide for the \$1 million general fund reduction, the Developmental Center eliminated 6.5 FTE positions saving \$550,000, reduced operating expenses and employee overtime saving \$271,000, generated an additional \$80,000 of income from its rate adjustment, generated \$69,000 of savings from vacant positions, and utilized \$30,000 of additional revenue from the 2001-03 biennium.

Funding in the mental health contingency pool has not yet been allocated by the department.