

Health and Human Services

General Fund

Prior to the release of Governor Jesse Ventura's "Big Fix," the Health and Human Services (H&HS) budget was projected to be \$6.473 billion in FY 2002-03 and \$7.312 billion in FY 2004-05 based on figures from the November 2001 forecast. From this base appropriation, the Governor proposes a net reduction of state spending in H&HS programs of \$129.3 million in FY 2002-03 and \$283.5 million in FY 2004-05. The proposed reductions in the state's share of Health and Human Services programs would result in a decline in state spending of 1.9 percent and 3.9 percent, in the current and future biennia, respectively.

The Governor achieves these reductions through a combination of reductions in spending and increases in revenues or cost-sharing arrangements. In FY 2002-03, the Governor proposes spending decreases of \$111.6 million. In FY 2004-05, the Governor proposes spending reductions of \$275.6 million. The Governor also proposes general fund revenue increases of \$17.7 million in FY 2002-03 and \$7.9 million in FY 2004-05.

All of the Governor's Health and Human Services budget recommendations are confined to the Department of Human Services and the Department of Health.

Federal TANF block grant

The Governor proposes a net reduction in federal TANF spending of \$7.6 million for the FY 2002-03 biennium but an increase of \$33.9 million in FY2004-05. For the Department of Human Services, the Governor proposes a net increase of \$880,000 in FY 2002-03 and \$33.9 million in FY 2004-05. In addition to DHS, the Governor proposes a spending reduction from federal TANF of \$8.5 million in FY 2003 only. Of the Governor's recommendations, \$10.7 million in FY 2002-03 and \$42.9 million simply refinance existing spending with federal TANF dollars, resulting in savings to the general fund.

Health care access fund

The Governor proposes spending reductions of \$10.9 million in FY 2002-03 and \$30.3 million in FY 2004-05. The Governor, however, does not address the structural imbalance that exists in the Health Care Access fund. In spite of the Governor's recommendations, the fund's projected expenditures will exceed revenues in each fiscal year for which the state budgets by an average of \$59.6 million. Without addressing the imbalance by either increasing revenues to the fund or decreasing spending, the state will likely face the prospect that the MinnesotaCare program and/or other health care access initiatives funded out of the Health Care Access fund will face the prospect of curtailing its spending in the very near future.

Endowment fund

The Governor proposes to eliminate the Medical Education and Research Costs fund base appropriation of \$4.9 million in FY 2002. The Governor also proposes to transfer \$6.0 million of the statutory appropriation for statewide tobacco prevention activities in FY 2003 and FY 2004 in conjunction with the proposed increase in the cigarette and tobacco products tax from \$0.48 per unit to \$0.77 per unit.

Department of Human Services

The Governor proposes to reduce spending at the Department of Human Services (DHS) by \$97.0 million (1.6 percent) in FY 2002-03 and \$261.2 million (3.7 percent) in FY 2004-05. In addition, the Governor proposes to increase general fund revenues by \$11.7 million in FY 2002-03 and \$1.9 million in FY 2004-05. Proposals from the Department of Human Services are listed below.

The Governor's spending reductions (net of revenues or federal match) for the Department include:

- \$6.8 million in FY 2003 and \$30.1 million in FY 2004-05 as a result of relocating and/or consolidating services at regional treatment centers, centralizing business functions of the state operated service system, and modifying current clinical services;
- \$7.0 million in FY 2002-03 and \$7.2 million in FY 2004-05 by reducing central office administrative expenditures. The reductions are the result of eliminating certain administrative activities, reducing one-time salary savings, and imposing across-the-board spending reductions;
- \$8.8 million in FY 2002-03 and \$14.6 million in FY 2004-05 through the reduction or elimination of funding increases for a variety of facilities. For the FY 2002-03 biennium, the initiatives include eliminating the FY 2003 increase for low-rate nursing facilities, reducing funding for nursing home construction projects, modifying rate increases for ICF/MRs, modifying the schedule for planning and development for aging services, eliminating special rate increases for several categories of group homes, and eliminating one year of funding for the supportive housing and managed care pilot;
- \$1.1 million in FY 2002-03 and \$1.4 million in FY 2004-05 to eliminate funding for home-sharing grants, epilepsy grants, congregate housing, and the adult foster care respite pilot;
- \$4.8 million in FY 2002-03 and \$10.1 million in FY 2004-05 to delay the allocation of MR/RC (often called developmental disabilities (DD) waiver) slots for community-based waiver services for people with disabilities by 180 days for new recipients of the waiver slots;
- \$2.5 million in FY 2002-03 and \$5.0 million in FY 2004-05 by eliminating base funding for chemical dependency (CD) treatment for individuals with income above the Medical Assistance (MA) and General Assistance Medical Care (GAMC) income standard but below 215 percent of the federal poverty guidelines (FPG). This category of eligibility is often referred to as Tier II CD treatment services. In addition to the reduction of the Tier II base appropriations, \$15.2 million from the Chemical Dependency treatment fund reserve account will be transferred to the general fund. Of this amount, \$6.6 million would have been used to fully fund Tier II services in FY 2003, while the remaining unneeded funds would likely have been returned to the general fund;

- \$7.5 million in FY 2003-03 and \$18.1 million in FY 2004-05 by decreasing what the Department pays for prescription drugs from average wholesale price (AWP) less nine percent to AWP less 14 percent, increasing the dispensing fee paid to pharmacists from \$3.65 to \$4.15 per drug, and expanding the state's Maximum Allowable Cost program to all drugs not just drugs on the federal government's upper limit list;
- \$10.7 million in FY 2003 and \$17.5 million in FY 2004-05 through the withholding of five percent of payments made to managed care companies as of January 1, 2003. Assuming the companies comply with DHS-mandated performance measures, the amount withheld will be returned 12 to 18 months later. Savings that would accrue to the Health Care Access fund equal \$5.4 million in FY 2003 and \$10.2 million in FY 2004-05;
- \$1.3 million in FY 2003 and \$5.7 million in FY 2004-05 by reducing by 2.0 percent an adjustment made to non-metro PMAP counties, effective January 1, 2003;
- \$6.1 million in FY 2003 and \$19.1 million in FY 2004-05 as a result of reducing inpatient and outpatient hospital payments in MA, GAMC, and MinnesotaCare by one percent in fiscal years 2003, 2004, and 2005. Savings to the Health Care Access fund are projected to be \$2.6 million in FY 2003 and \$7.6 million in FY 2004-05;
- \$557,000 in FY 2003 and \$5.8 million in FY 2004-05 by repealing the planned MA expansion for children with autism;
- \$800,000 in FY 2003 by repealing the Dental Access Grants program funded with Health Care Access fund dollars;
- \$1.9 million in FY 2003 and \$9.9 million in FY 2004-05 from the Health Care Access fund by repealing coverage of dental services for single adults in the MinnesotaCare program;
- \$1.9 million in FY 2003 and \$7.3 million in FY 2004-05 by imposing limits on the use of annuities and sole benefit trusts to shelter assets that otherwise would be considered applicable toward the cost of care for MA long-term care recipients;
- \$689,000 in FY 2003 and \$1.9 million in FY 2004-05 as a result of repealing the planned expansion of MA to breast and cervical cancer;
- \$1.8 million in FY 2003 and \$17.7 million in FY 2004-05 by repealing the planned expansion of the Prescription Drug Program to seniors with income between 120 and 135 percent of FPG and the disabled with income up to 120 percent of FPG. The proposal also adds a ten percent reserve amount to the program's appropriation;
- \$500,000 in FY 2003 and \$2.0 million in FY 2004-05 as a result of defining work as that from which taxes are withheld for individuals enrolled in the MA-EPD (Employed Persons with Disabilities) program;

- \$60,000 in FY 2003 and \$2.0 million in FY 2004-05 by refining transitional health care coverage into MinnesotaCare for children losing eligibility for MA. This initiative passed by the 2001 legislature was estimated to cost \$937,000 in FY 2005. Due to an error by DHS in drafting the proposal, the estimated cost of the proposal has risen to \$8.5 million in FY 2005. The Governor proposes to modify the language in statute rather than recommend language that would restore what the legislature originally intended;
- \$453,000 in FY 2003 and \$1.6 million in FY 2004-05 as a result of repealing language passed last session to allow MFIP enrollees to participate in education and training programs from 13 to 24 months instead of the more limiting exception basis. Savings to federal TANF funds amount to \$2.2 million in FY 2003 and \$7.9 million in FY 2004-05;
- \$1.7 million in FY 2003 and \$3.4 million in FY 2004-05 by eliminating the Work First grants program (\$404,000) and reducing Fraud Prevention grants (\$100,000) and state funding for the Food Stamp Employment and Training program (\$1.2 million);
- \$6.7 million in FY 2003 and \$1.0 million in FY 2004-05 by eliminating funding for the parents fair share program and state supplemental welfare to work grants and reducing funding for work literacy grants. The department also proposes to reduce funding for Local Intervention Grants and Supported Work as these programs failed to spend their full allocation of funding from FY 2002 and these unspent appropriations will carry forward into FY 2003;
- \$4.0 million in FY 2002-03 and \$100,000 in FY 2004 by temporarily reducing TANF appropriations for MAXIS systems costs;
- \$1.7 million in FY 2003 and \$3.3 million in FY 2004-05 by eliminating grant funding for at-risk children whose mothers have substance abuse problems or have been incarcerated, criminal justice training grants, and community social services supplemental grants; and
- \$6.8 million in FY 2003 and \$13.6 million in FY 2004-05 by reducing by 5 percent all the Department's non-forecast grant programs with the exception of the Community Social Services subsidy. To mitigate the effects of the reductions at the county-level, DHS proposes a one-time transfer of \$3.0 million to the Community Social Services subsidy in FY2003 to be paid for with a transfer from the federal TANF block grant.

The Governor's proposals to increase cost sharing arrangements or revenues to the general fund for DHS include:

- \$3.0 million in FY 2003 and \$12.0 million in FY 2004-05 by doubling the current cost sharing requirement for state operated services from 10 percent to 20 percent. County governments will be responsible for the additional costs;

- \$3.1 million in FY 2002-03 and \$11.7 million in FY 2004-05 through the imposition on counties of a ten percent cost-sharing arrangement for individuals under age 65 with disabilities who continue in nursing home placements after 90 days;
- \$158,000 in FY 2002-03 and \$3.0 million in FY 2004-05 in net revenue by establishing a preferred drug/supplemental rebate program. This program will require drug manufacturers to provide additional rebates on prescriptions with similar properties but higher costs. While the program will be voluntary, the drug products of manufacturers who refuse to participate in the program will be subject to prior authorization;
- \$4.0 million in FY 2003 and \$8.0 million in FY 2004-05 by reducing the University of Minnesota's general fund appropriation and replacing it with federal Medical Assistance dollars that are funneled through the PMAP rates paid to the University. NOTE: This reduction actually does not occur within the Department of Human Services but rather at the University of Minnesota;
- \$10.7 million in FY 2003 and \$24.0 million in FY 2004-05 by reducing the state's general fund commitment to the MFIP program and replacing it with federal TANF dollars. This change has no affect on services; and
- \$19.0 million FY 2004-05 by reducing the state's funding of the Community Social Services Act and replacing the funding with federal TANF dollars. This funding swap does not affect services.

Department of Health

The Governor proposes to reduce spending at the Department of Health by \$14.6 million (9.2 percent) in FY 2002-03 and the same amount (8.9 percent) in FY 2004-05. The Governor also proposes to increase general fund revenues by \$6.0 million in FY 2003 and FY 2004 with a transfer from the Tobacco Use and Local Public Health Endowment fund. Proposals from the Department of Health are listed below. Unless otherwise noted, the proposals involve general fund reductions.

Specific initiatives include:

- \$9.7 million in FY 2002-03 and FY 2004-05 by eliminating the general fund base for the Medical Education and Research Costs trust fund;
- \$400,000 in FY 2002-03 and FY 2004-05 by repealing the summer health care internship program, slated to begin in FY 2002;
- \$294,000 in FY 2002-03 and FY 2004-05 by eliminating the health and long-term care career promotion grants program passed by the 2001 legislature;
- \$420,000 in FY 2004-05 by reducing by 50 percent eligibility for the loan forgiveness program for dentists;

- \$1.3 million in FY 2002-03 and FY 2004-05 by eliminating grant funding for Juvenile Assessment Center Grants;
- \$900,000 in FY 2002-03 and \$1.1 million in FY 2004-05 by reducing the department's funding for fetal alcohol syndrome;
- \$240,000 in FY 2002-03 and FY 2004-05 by repealing the recently passed children's health improvement grants program;
- \$200,000 in FY 2002 by eliminating a one-time grant to Minneapolis for food safety education;
- \$402,000 in FY 2002-03 and \$502,000 in FY 2004-05 by eliminating funding for the Occupational Respiratory Disease Information System;
- \$650,000 in FY 2002 to reduce unused appropriations for two recent initiatives –suicide prevention and eliminating health disparities;
- \$500,000 in FY 2002-03 and FY 2004-05 to reduce administrative staff;
- \$5.1 million in savings to federal TANF in FY 2003 and costs of \$1.2 million as a result of returning unspent TANF dollars from FY 2002-03;
- \$2.5 million in FY 2003 by reducing funding for the TANF home visiting program; and
- \$6.0 million in FY 2003 and FY 2004 as a result of a transfer of statutory appropriations from the statewide tobacco interest earnings to the general fund. The transfer to the general fund, approximately 1/3 of the statewide tobacco prevention allocation, is made possible by the Governor's proposed \$0.29 increase in the cigarette tax statewide tobacco.

Implications

The Governor proposes a wide range of initiatives to reduce the state's commitment of general fund resources to Health and Human Services program. Service recipients, program providers, county governments and state employees will all be affected by proposals contained with the Governor's budget recommendations for the Department of Health and the Department of Human Services. The pain that accompanies the process of reducing the current budget deficit is shared almost universally in the Governor's proposed Health and Human Services recommendations.

According to formal presentations of the budget recommendations, most state agencies would experience spending reductions between five and ten percent. While the Department of Health fits into that overall reduction category, the Department of Human Services does not. In percentage terms, the overall reduction at the Department of Health is 9.2 percent in FY 2002-03 and 8.9 in FY 2004-05. For the Department of Human Services, on the other hand, spending

reductions amounted to 1.6 percent in FY 2002-03 and 3.7 percent in FY 2004-05. Of course, each percent reduction in DHS' biennial budget for the FY 2002-03 is equivalent to \$64.7 million, such that a 5 percent reduction in the FY 2002-03 biennium would approximate \$323 million. In absolute terms, the spending reduction at DHS translates to \$97.0 million in FY 2002-03 and \$261.2 million in FY 2004-05.

It is worth noting that several big-ticket items were not included in the Governor's recommendations. Despite the fact that enrollment is not slated to begin until July 1, 2002, the Governor's 2001 legislative initiative to enroll more children in health care programs was not altered in the budget recommendations. The Governor also did not recommend changing the second-year of a two-year rate adjustment for continuing care providers that was provided in the 2001 session. Finally, the Governor did not propose using any of the principle from the \$1.247 billion endowment created with one-time revenues from the tobacco settlement agreement to balance the budget. However, the Governor's budget recommendations include a proposal to transfer of \$6.0 million in FY 2003 and FY 2004 to the general fund from statutory appropriations that would otherwise have been used for statewide tobacco prevention activities.

In closing, the Governor's budget recommendations do not address an impending fiscal crisis in the Health Care Access fund. Despite the fact that the expenditures out of the fund continue to exceed revenues by an average of \$56 million each year from FY 2002 through FY 2005, no recommendations have been made to address this fiscal discrepancy. Without a significant increase in revenues, decrease in expenditures, or a combination of the two, the future viability of the fund and the programs it supports remain in question.

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