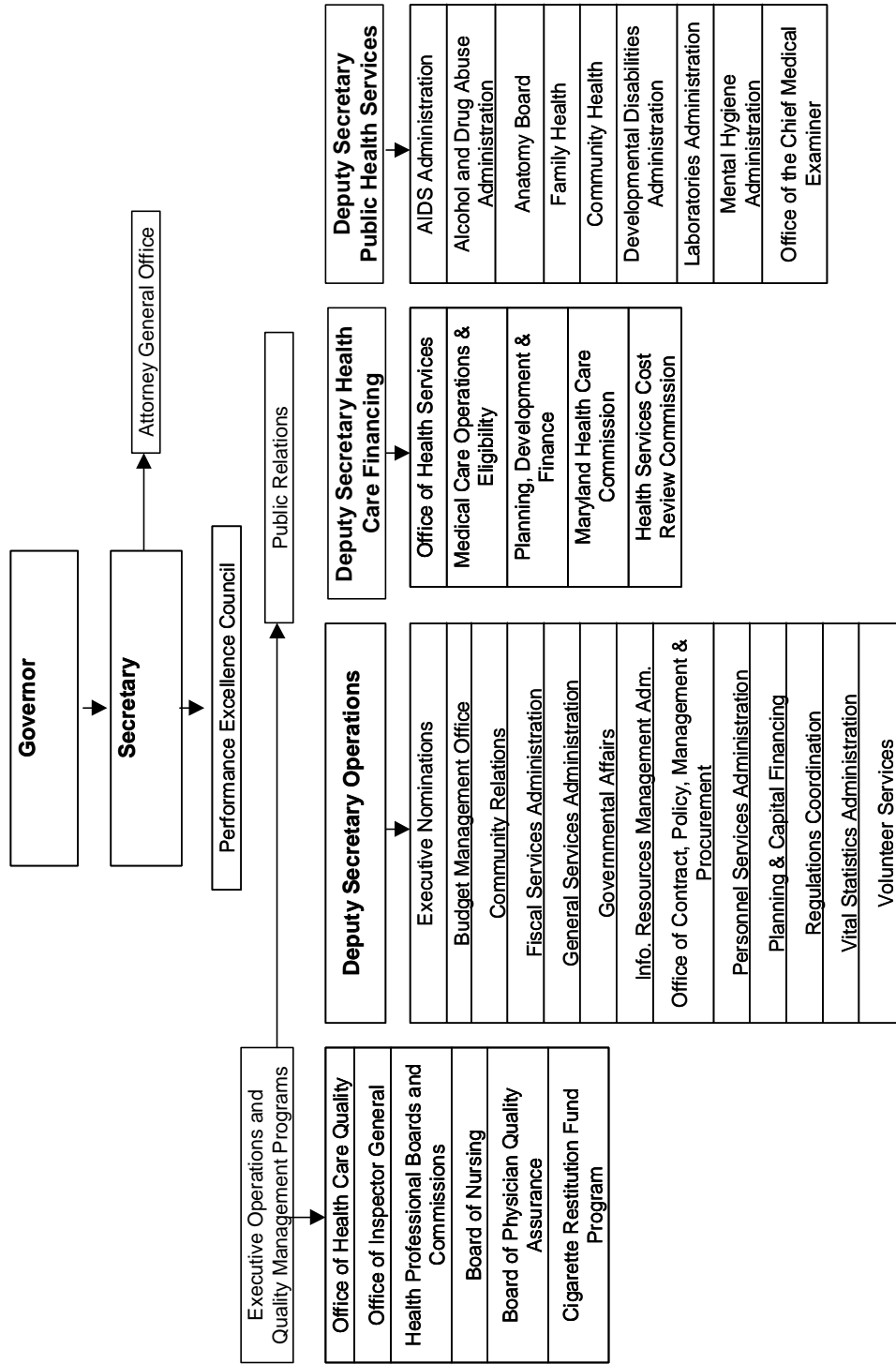

**Department of Health and
Mental Hygiene
Fiscal 2004 Budget Overview**

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

January 2003

M00
Department of Health and Mental Hygiene
Fiscal 2004 Budget Overview

Maryland Department of Health and Mental Hygiene



Department of Health and Mental Hygiene
The Moving Picture
Fiscal 2002 through 2004
(\$ in Millions)

	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>\$ Change</u>	<u>% Change</u>
	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 03-04</u>	<u>FY 03-04</u>
General Fund	\$2,693.5	\$2,837.7	\$3,015.1	\$177.4	6.3 %
FY 2003 Cost Containment		-\$49.5		\$49.5	
FY 2003 Deficiencies		31.4		-31.4	
Contingent and Back of Bill Reductions		-0.3	\$-2.0	-1.7	
Adjusted General Funds	\$2,693.5	\$2,819.3	\$3,013.1	\$193.8	6.9 %
Special Fund	\$218.7	\$333.4	\$284.4	-\$49.0	-14.7 %
Contingent and Back of Bill Reductions		-\$20.0	-\$0.1	\$19.9	
Adjusted Special Funds	\$218.7	\$313.4	\$284.3	-\$29.1	-9.3 %
Federal Funds	\$2,029.0	\$2,222.6	\$2,470.0	\$247.4	11.1 %
FY 2003 Deficiencies		\$30.0		-\$30.0	
Contingent and Back of Bill Reductions			\$-0.2	-0.2	
Adjusted Federal Funds	\$2,029.0	\$2,252.6	\$2,469.8	\$217.2	9.6 %
Reimbursable Funds	\$13.1	\$12.6	\$15.4	\$2.8	22.2 %
Adjusted Grand Total	\$4,954.3	\$5,397.9	\$5,782.6	\$384.7	7.1 %

Source: Department of Legislative Services; Department of Budget and Management

Department of Health and Mental Hygiene Adjustments to the Fiscal 2003 Appropriation

Cost Containment

As part of the State's response to its budget problems, the Department of Health and Mental Hygiene (DHMH) has had to reduce its fiscal 2003 general fund appropriation by almost \$49.5 million. **Exhibit 1** details the broad categories of cost containment as well as reductions by administration. A number of points can be made from the exhibit:

- The \$49.5 million general fund reduction represents 1.7% of DHMH's fiscal 2003 general fund legislative appropriation. However, cost containment was offset by \$31.4 million in general fund deficiencies. When cost containment and deficiencies are accounted for, DHMH's adjusted fiscal 2003 general fund appropriation is \$125.8 million (4.7%) higher than fiscal 2002 actual general fund expenditures.
- \$37.6 million (76%) of the total savings are in Medicaid, \$32 million of which relate to higher than anticipated federal fund attainment associated with the recent waiver granted to Medicaid in connection with the Maryland Pharmacy Discount Program. Specifically, the waiver included a provision allowing Maryland to claim federal matching dollars for the existing Maryland Pharmacy Assistance Program.
- Cuts have been targeted among the various administrations. For example, the fiscal 2003 general fund legislative appropriation of the Developmental Disabilities Administration (DDA), which represented 13.3% of DHMH's fiscal 2003 general fund legislative appropriation, is reduced by only \$20,000. Similarly, human service contract reductions are not made in DDA or the Mental Hygiene Administration (MHA) where the bulk of human service contracts are actually awarded, but are made in all other administrations where such contracts are found.
- The \$1.5 million reduction in mental health based on utilization review is a reduction that MHA has consistently used as part of its own cost containment proposals. However, such savings have never been realized, and it is doubtful if MHA could demonstrate such savings. The recent performance audit of MHA by the Office of Legislative Audits underscores MHA's lack of oversight over delivery of community mental health services and raises questions of their ability to generate such savings.

Department of Health and Mental Hygiene
Exhibit 1. Fiscal 2003 Cost Containment
 (\$ in Thousands)

	<u>Community & Family Health</u>	<u>Developmental Disabilities</u>	<u>Alcohol/Drug Abuse</u>	<u>Mental Health</u>	<u>Medicaid</u>	<u>Other</u>	<u>Total</u>
Human service contracts reduction	\$789		\$2,158		\$151	\$87	\$3,185
ADAA contract reduction		1,200					1,200
Availability of federal funds (block grants and indirect costs)	700		330	1,800		800	3,630
Hiring freeze savings	200					893	1,093
Mental health utilization review				1,500			1,500
Renal dialysis patient recoveries						575	575
Deferral of energy loan payment				569			569
Miscellaneous grant and operating expenses	100					204	324
Medicaid					37,409		37,409
Total	\$1,789	\$20	\$3,688	\$3,869	\$37,560	\$2,559	\$49,485

ADAA = Alcohol and Drug Abuse Administration
 Source: Department of Budget and Management

Deficiency Appropriations

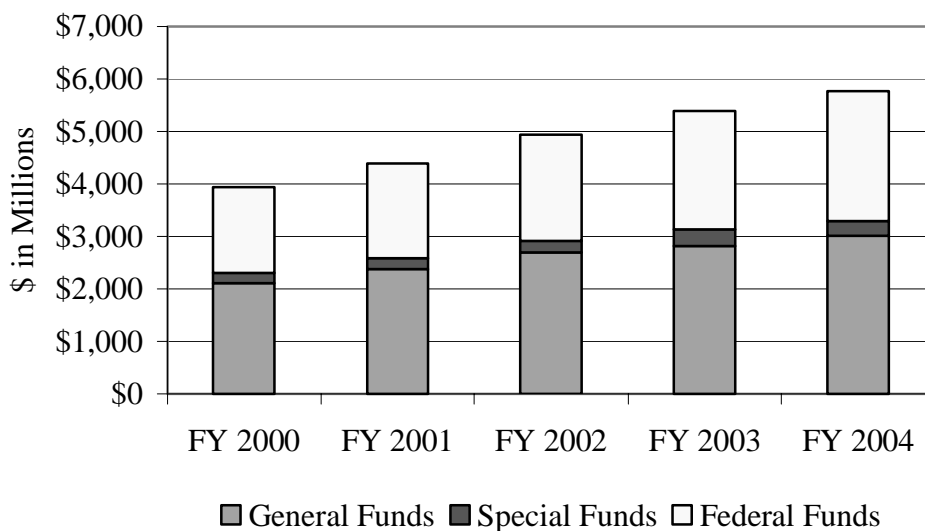
There are three fiscal 2003 deficiency appropriations in DHMH totaling just under \$61.5 million (\$31.5 million general funds and \$30 million federal funds). Of these:

- \$60 million (\$30 million each general and federal funds) is for the deficit in MHA's community services program. When added to other grant adjustments to be made by MHA, this amount should be sufficient to cover MHA's anticipated fiscal 2003 deficit.
- \$1 million is provided to cover lower than anticipated turnover savings across the State-run psychiatric hospitals.
- \$412,5000 is provided in DHMH Administration for a contingency fee to Maximus Inc. Maximus is helping DHMH maximize federal Medicaid and Medicare revenues.

Contingent Reductions

The fiscal 2003 working appropriation also reflects one reduction contingent upon the proposed Budget Reconciliation and Financing Act, namely fiscal 2003 funding of the employee transit initiative. The total reduction for DHMH is \$362,535 (\$310,870 general funds, \$20,688 special funds, and \$30,977 federal funds).

**Department of Health and Mental Hygiene
Five-year Funding Trends
Fiscal 2000 through 2004
(\$ in Millions)**



	Actual FY 2000	Actual FY 2001	Actual FY 2002	Working FY 2003	Allowance FY 2004	\$ Change FY 03-04	% Change FY 03-04
General Funds	\$2,109.2	\$2,379.5	\$2,693.5	\$2,819.3	\$3,013.1	\$193.8	6.9%
Special Funds	198.1	204.6	218.7	313.4	284.3	-29.1	-9.3%
Federal Funds	1,635.9	1,809.1	2,029.0	2,252.6	2,469.8	217.2	9.6%
Reimbursable Funds	10.4	10.5	13.1	12.6	15.4	2.8	22.2%
Total	\$3,953.6	\$4,403.7	\$4,954.3	\$5,397.9	\$5,782.6	\$384.7	7.1%

Note: Numbers may not sum to total due to rounding.

M – DHMH - Fiscal 2004 Budget Overview

**Department of Health and Mental Hygiene
Budget Overview: All Funding Sources
Fiscal 2001 through 2004
(\$ in Thousands)**

Program	Actual FY 2001	Actual FY 2002	Working FY 2003	Allowance FY 2004	\$ Change FY 03-04	% Change FY 03-04
Medical Programs/Medicaid	\$2,736,530	\$3,122,684	\$3,410,678	\$3,773,767	\$363,089	10.6%
Provider Reimbursements	2,582,525	2,935,563	3,179,459	3,540,212	360,753	11.3%
Maryland Children's Health Program (MCHP)	96,632	123,589	162,646	165,242	2,596	1.6%
Other	57,373	63,532	68,573	68,313	-260	-0.4%
Mental Hygiene	\$684,107	\$739,525	\$791,720	\$786,587	-\$5,133	-0.6%
Program Direction	5,468	6,211	6,435	6,241	-194	-3.0%
Community Services	442,096	481,775	524,363	523,563	-800	-0.2%
Facilities	236,543	251,539	260,922	256,783	-4,139	-1.6%
Developmental Disabilities	\$438,798	\$476,306	\$524,131	\$561,499	\$37,368	7.1%
Program Direction	4,658	4,884	4,727	4,641	-86	-1.8%
Community Services	368,619	405,480	453,181	491,486	38,305	8.5%
Facilities	65,521	65,942	66,223	65,372	-851	-1.3%
Community and Family Health	\$224,782	\$263,791	\$282,686	\$266,688	-\$15,998	-5.7%
Targeted Local Health Women, Infants, and Children (WIC)	57,031	63,115	66,429	66,429	0	0.0%
Cigarette Restitution Fund (CRF)	32,661	52,492	58,907	48,957	-9,950	-16.9%
Other	84,365	96,443	106,081	97,356	-8,725	-8.2%
Alcohol and Drug Abuse	\$97,334	\$112,453	\$126,332	\$135,519	\$9,187	7.3%
Other Budget Areas	\$222,110	\$239,596	\$262,300	\$258,604	-\$3,696	-1.4%
DHMH Administration	38,538	42,347	47,141	43,002	-4,139	-8.8%
Office of Health Care Quality	11,997	13,303	14,374	14,275	-99	-0.7%
Health Occupations Boards	15,849	16,536	18,110	18,969	859	4.7%
Chronic Disease Hospitals	36,508	39,189	41,590	41,196	-394	-0.9%
AIDS Administration	43,592	44,922	48,748	48,304	-444	-0.9%
Chief Medical Examiner	5,625	5,667	6,199	6,422	223	3.6%
Laboratories Administration	18,479	19,775	21,779	20,773	-1,006	-4.6%
Health Regulatory Commissions	51,522	57,857	64,359	65,663	1,304	2.0%
Total Funding	\$4,403,661	\$4,954,355	\$5,397,847	\$5,782,664	\$384,817	7.1%

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services; State Budget

M – DHMH - Fiscal 2004 Budget Overview

**Department of Health and Mental Hygiene
Budget Overview: General Funds Only
Fiscal 2001 through 2004
(\$ in Thousands)**

<u>Program</u>	<u>Actual FY 2001</u>	<u>Actual FY 2002</u>	<u>Working FY 2003</u>	<u>Allowance FY 2004</u>	<u>\$ Change FY 03-04</u>	<u>% Change FY 03-04</u>
Medical Programs/Medicaid	\$1,342,836	\$1,567,639	\$1,587,832	\$1,747,253	\$159,421	10.0%
Provider Reimbursements	1,278,602	1,490,314	1,497,502	1,653,783	156,281	10.4%
MCHP	34,281	44,599	55,327	57,394	2,067	3.7%
Other	29,953	32,726	35,003	36,076	1,073	3.1%
Mental Hygiene	\$469,449	\$505,740	\$561,872	\$564,994	\$3,122	0.6%
Program Direction	4,697	5,011	5,503	5,329	-174	-3.2%
Community Services	232,957	254,797	300,520	307,919	7,399	2.5%
Facilities	231,795	245,932	255,849	251,746	-4,103	-1.6%
Developmental Disabilities	\$319,678	\$339,843	\$376,213	\$401,369	\$25,156	6.7%
Program Direction	4,274	4,536	4,403	4,273	-130	-3.0%
Community Services	250,490	270,027	306,276	332,355	26,079	8.5%
Facilities	64,914	65,280	65,534	64,741	-793	-1.2%
Community and Family Health	\$105,217	\$117,349	\$116,613	\$115,662	-\$951	-0.8%
Targeted Local Health	52,538	57,340	61,936	61,936	0	0.0%
WIC	1,000	750	200	1,000	800	400%
CRF	0	0	0	0	0	0.0%
Other	51,679	59,259	54,477	52,726	-1,751	-3.2%
Alcohol and Drug Abuse	\$50,137	\$64,483	\$75,868	\$83,545	\$7,677	10.1%
Other Budget Areas	\$92,140	\$98,485	\$100,895	\$100,331	-\$564	-0.6%
DHMH Administration	26,844	29,012	27,780	26,939	-841	-3.0%
Office of Health Care Quality	8,161	9,087	9,731	9,901	170	1.7%
Health Occupations Boards	165	158	159	168	9	5.7%
Chronic Disease Hospitals	30,258	32,261	34,200	34,229	29	0.1%
AIDS Administration	5,171	6,073	6,119	6,092	-27	-0.4%
Chief Medical Examiner	5,625	5,652	6,199	6,422	223	3.6%
Laboratories Administration	15,916	16,242	16,707	16,580	-127	-0.8%
Health Regulatory Commissions	0	0	0	0	0	0.0%
Total Funding	\$2,379,457	\$2,693,539	\$2,819,293	\$3,013,154	\$193,861	6.9%

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services; State Budget

**Governor’s Proposed Budget Changes
Department of Health and Mental Hygiene
(\$ in Thousands)**

Where It Goes:

Personnel Expenses	-\$5,646	
Health insurance (regular employees and retirees).....		\$10,645
Reduced turnover expectancy		10,593
Social Security contributions		-1,089
Deletion of deferred compensation match		-2,178
Adjustment for fiscal 2003 one-time bonus and other fringe benefit changes.....		-3,951
Workers’ compensation.....		-9,124
Abolished positions (317.1 full-time equivalent (FTE) positions).....		-10,542
Tobacco Settlement Initiatives	-\$9,861	
Cancer Prevention, Education, Screening, and Treatment Program		-4,890
Tobacco Use Prevention and Cessation Program.....		-4,971
Major Programmatic Changes (Exc. Medical Care Programs Administration)		
Alcohol and Drug Abuse Administration	\$5,590	
S.T.O.P. grants		5,590
Mental Hygiene Administration	-\$874	
Community mental health fee-for-service funding for Medicaid-eligible individuals		47,502
Community mental health grants and contracts funding.....		11,624
Fiscal 2003 community services deficiency.....		-60,000
Developmental Disabilities Administration	\$37,785	
Wage initiative (Chapters 109 and 110, Acts of 2001).....		16,170
New community placements		15,315
Annualization of prior year Waiting List Initiative placements		6,101
Downsizing initiative.....		1,348
Cost containment measures		-1,149
Community and Family Health Administrations	-\$6,827	
WIC		2,677
Deletion of federal grant for Estuary Associated Syndrome.....		-1,316
Deletion of subsidy to Prince George’s Hospital Center		-2,000
Deletion of subsidy to the University of Maryland Medical System (UMMS)		-3,000
Reduction in federal emergency preparedness funding		-3,188
Other Programs	-\$3,226	
DHMH Administration: Deletion of one-time emergency preparedness grants		-1,926
DHMH Administration: Transfer of E-Samis funding to the Department of Budget and Management (DBM)		-1,300

M – DHMH - Fiscal 2004 Budget Overview

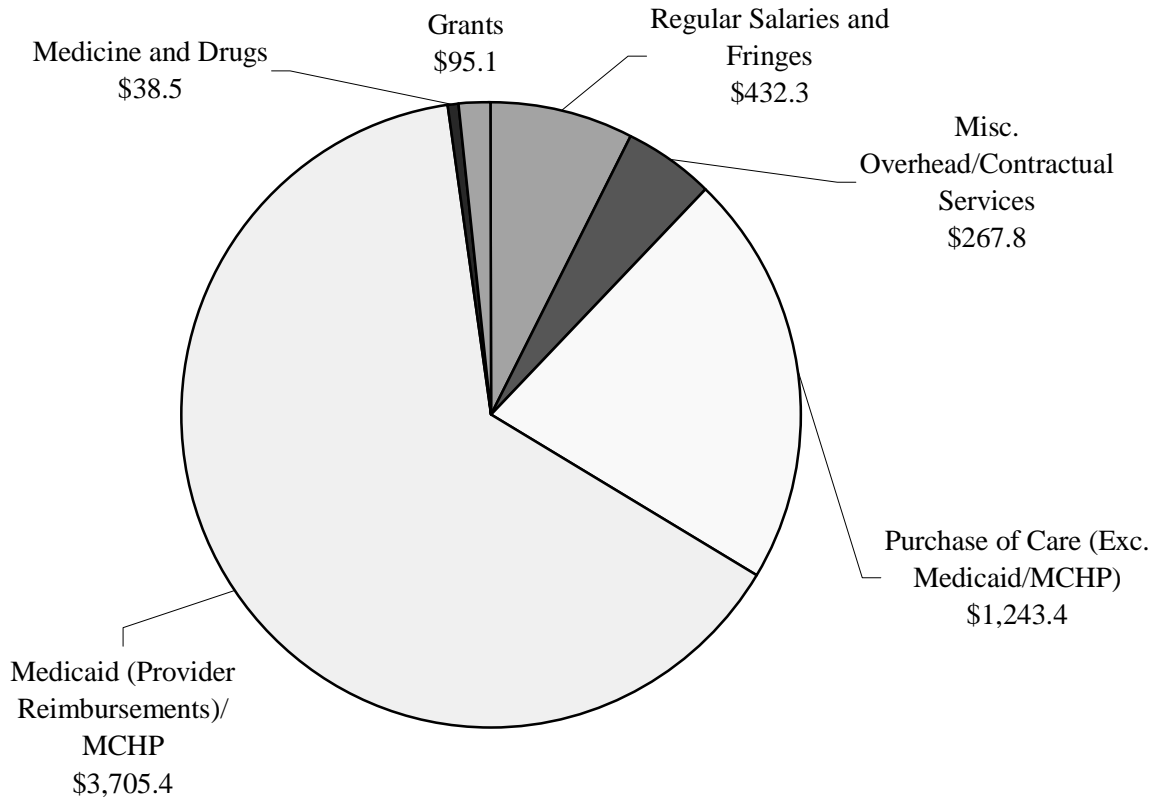
Where It Goes:

Medicaid/Medical Care Programs Administration	\$363,904
Changes in enrollment, medical inflation, and utilization	314,739
Fiscal 2003 budget understates federal fund expenditures.....	30,000
Nursing home cost containment discontinued.....	10,600
Maryland Pharmacy Discount Program.....	17,547
Annualization and expansion (1,000 persons) of Waiver for Older Adults	10,462
Kidney Disease Program.....	556
Preferred drug list	-15,000
Other cost containment	-5,000
Other	3,972
Total Change	\$384,817

Note: Numbers may not sum to total due to rounding.

Department of Health and Mental Hygiene

Fiscal 2004 Allowance Functional Breakdown of Spending (\$ in Millions)



**Department of Health and Mental Hygiene
Regular Employees (FTE)
Fiscal 2001 through 2004**

<u>Program</u>	<u>Actual FY 2001</u>	<u>Actual FY 2002</u>	<u>Working FY 2003</u>	<u>Allowance FY 2004</u>	<u>Change FY 03-04</u>	<u>% Change FY 03-04</u>
DHMH Administration	549.3	548.8	546.3	530.3	-16.0	-2.9%
Office of Health Care Quality	209.8	228.8	202.8	188.8	-14.0	-6.9%
Health Occupations Boards	196.0	199.0	186.5	182.5	-4.0	-2.1%
Community and Family Health Administrations	356.4	382.4	390.9	343.9	-47.0	-12%
AIDS Administration	68.0	68.0	74.0	64.0	-10.0	-13.5%
Chief Medical Examiner	72.0	75.0	75.0	75.0	0.0	0.0%
Chronic Hospitals	595.5	626.0	609.0	595.0	-14.0	-2.3%
Laboratories Administration	271.0	278.0	304.5	281.5	-23.0	-7.6%
Alcohol and Drug Abuse Administration	54.0	55.0	55.0	53.0	-2.0	-3.6%
Mental Hygiene Administration	3,924.6	3,938.2	3,749.7	3,603.6	-146.1	-3.9%
Administration	96.9	100.4	96.4	89.3	-7.1	-7.4%
Institutions	3,827.7	3,837.8	3,653.3	3,514.3	-139.0	-3.8%
Developmental Disabilities Administration	1,472.7	1,459.2	1,346.5	1,307.5	-39.0	-2.9%
Administration	145.5	152.5	149.5	142.5	-7.0	-4.7%
Institutions	1,327.2	1,306.7	1,197.0	1,165.0	-32.0	-2.7%
Medical Care Programs Administration	545.7	594.7	574.1	574.1	0.0	0.0%
Health Regulatory Commissions	98.1	101.7	97.7	95.7	-2.0	-2.0%
Total Regular Positions	8,413.1	8,554.8	8,211.9	7,894.8	-317.1	-3.9%

Source: State Budget

The fiscal 2003 and 2004 budgets reflect significant change in regular employment in DHMH. Indeed, from the fiscal 2003 allowance to the fiscal 2004 allowance, DHMH has seen a fall in regular employment of 678 FTEs, 7.9%. **Exhibit 2** details the various actions that have combined to produce this reduction.

Exhibit 2

Department of Health and Mental Hygiene Changes in Regular Employment Fiscal 2003 Allowance to Fiscal 2004 Allowance (FTEs)

Fiscal 2003 Allowance	8,572.8
Legislative reductions	-28.3
Section 37 abolitions	<u>-445.1</u>
Net fiscal 2003 legislative appropriation	8,099.4
Positions created by the Board of Public Works under the “Rule of 500”	<u>112.5</u>
Fiscal 2003 working appropriation	8,211.9
Fiscal 2004 abolitions	<u>-317.1</u>
Fiscal 2004 allowance	7,894.8
Change	-678.0

Source: Department of Legislative Services; Department of Budget and Management

As with fiscal 2003 regular employment changes, most of the 317.1 abolished positions reflected in the fiscal 2004 allowance are at various State institutions: State-run psychiatric hospitals, State residential centers, and the two chronic hospitals. These facilities account for 185, 58.3% of the total reductions. This is not unexpected, however, since two-thirds of total DHMH positions are in fact at these facilities.

The vacancy rate of the department as of December 31, 2002, was 9.38%, or 770.45 vacancies. Interestingly, the budgeted turnover rate for the department is 3.68%. To meet this turnover rate, the department on average requires 290.53 vacancies. Even after accounting for the 317.1 abolished positions, there are 162.82 more vacancies than required to meet turnover requirements.

**Department of Health and Mental Hygiene
Contractual Employees (FTE)
Fiscal 2001 through 2004**

<u>Program</u>	<u>Actual FY 2001</u>	<u>Actual FY 2002</u>	<u>Working FY 2003</u>	<u>Allowance FY 2004</u>	<u>Change FY 03-04</u>	<u>% Change FY 03-04</u>
DHMH Administration	22.4	19.8	28.8	27.0	-1.8	-6.3%
Office of Health Care Quality	2.9	3.5	14.4	14.4	0.0	0.0%
Health Occupations Boards	12.6	15.6	24.0	35.8	11.7	48.8%
Community and Family Health Administrations	26.0	15.4	25.1	26.0	1.0	3.9%
AIDS Administration	0.0	0.0	0.0	0.0	0.0	0.0%
Chief Medical Examiner	0.3	0.8	2.3	2.7	0.4	17.6%
Chronic Hospitals	30.1	20.4	24.6	24.8	0.2	0.7%
Laboratories Administration	15.4	14.9	10.8	5.3	-5.5	-51.0%
Alcohol and Drug Abuse Administration	15.2	20.5	3.0	3.0	0.0	0.0%
Mental Hygiene Administration	188.7	185.7	175.9	176.4	0.5	0.3%
Administration	1.0	0.6	0.8	1.8	1.0	126.6%
Institutions	187.7	185.1	175.1	174.6	-0.5	-0.3%
Developmental Disabilities Administration	83.3	59.4	92.1	92.7	0.5	0.6%
Administration	20.9	23.1	39.2	39.2	0.0	0.0%
Institutions	62.4	36.3	53.0	53.5	0.5	1.0%
Medical Care Programs Administration	48.4	52.8	106.8	103.4	-3.4	-3.2%
Health Regulatory Commissions	3.0	0.3	0.0	6.0	6.0	n/a
Total Contractual Positions	448.2	408.9	507.7	517.4	9.6	1.9%

Source: State Budget

**Department of Health and Mental Hygiene
Fiscal 2001 through 2004
Budget Overview: Selected Service Measures**

	<u>Actual</u>	<u>Actual</u>	<u>Working</u>	<u>Allow</u>	<u>Change</u>	<u>%</u>
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>2003-2004</u>	<u>Change</u>
Medical Programs/Medicaid						
Medicaid Enrollees	441,989	464,560	488,360	500,040	11,680	2.4
Maryland Children’s Health Program	79,610	101,272	117,263	124,000	6,737	5.7
Developmental Disabilities Administration						
Residential Services	4,407	4,514	4,804	4,847	43	0.9
Day Services	8,452	8,539	9,464	9,343	-121	-1.3
In-home support services	6,194	6,988	7,464	8,113	649	8.7
Average daily census at institutions	508	466	435	413	-22	-5.1
Mental Hygiene Administration						
Average daily populations at State-run psychiatric hospitals:						
Hospitals excluding RICAs and Assisted Living	1,201	1,184	1,186	1,186	0	0.0
RICAs	143	129	143	143	0	0.0
Assisted Living	86	88	91	91	0	0.0
Total	1,430	1,401	1,420	1,420	0	0.0
Number receiving community mental health services:						
Medicaid eligible	66,663	71,320	74,173	77,140	2,967	4.0
Medicaid-ineligible	15,780	15,937	16,574	17,237	663	4.0
Total	82,443	87,257	90,747	94,377	3,630	4.0
Alcohol and Drug Abuse Administration						
Residential services	5,633	6,152	7,620	8,070	450	5.9
Outpatient services	20,798	28,915	34,226	38,225	3,999	11.7

Source: Department of Legislative Services; Department of Health and Mental Hygiene