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**Department of Health and  
Mental Hygiene  
Fiscal 2005 Budget Overview**

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

**January 2004**

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*Analysis of the FY 2005 Maryland Executive Budget, 2004*

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**Department of Health and Mental Hygiene**  
**Fiscal 2005 Budget Overview**

**Continued Growth**  
**Fiscal 2002 – 2005**  
**(\$ in Millions)**

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 2005</u>	<u>FY 04-5</u> <u>Change</u>
Operations	\$519	\$531	\$533	\$14	\$549	\$16
Contractual Services	4,340	4,816	5,011	671	5,440	429
Grants	95	102	93	-2	97	4
FY 2004 Deficiencies			250	250		-250
Contingent & Back of Bill Reductions					-14	-14
<b>Adjusted Grand Total</b>	<b>\$4,954</b>	<b>\$5,449</b>	<b>\$5,887</b>	<b>\$933</b>	<b>\$6,072</b>	<b>\$185</b>
<b>General Fund</b>	<b>\$2,694</b>	<b>\$2,814</b>	<b>\$2,863</b>	<b>\$169</b>	<b>\$3,168</b>	<b>\$305</b>
FY 2004 Deficiencies			6	6		
Contingent and Back of Bill reductions					-14	
<b>Adjusted General Funds</b>	<b>\$2,694</b>	<b>\$2,814</b>	<b>\$2,869</b>	<b>\$175</b>	<b>\$3,154</b>	<b>\$285</b>
<b>Special Fund</b>	<b>\$219</b>	<b>\$306</b>	<b>\$290</b>	<b>\$71</b>	<b>\$242</b>	<b>-\$48</b>
FY 2004 Deficiencies			2	2		
<b>Adjusted Special Funds</b>	<b>\$219</b>	<b>\$306</b>	<b>\$292</b>	<b>\$73</b>	<b>\$242</b>	<b>-\$50</b>
<b>Federal Funds</b>	<b>\$2,029</b>	<b>\$2,313</b>	<b>\$2,468</b>	<b>\$439</b>	<b>\$2,656</b>	<b>\$188</b>
FY 2004 Deficiencies			243	243		
<b>Adjusted Federal Funds</b>	<b>\$2,029</b>	<b>\$2,313</b>	<b>\$2,711</b>	<b>\$682</b>	<b>\$2,656</b>	<b>-\$55</b>
<b>Reimbursable Funds</b>	<b>\$13</b>	<b>\$16</b>	<b>\$16</b>	<b>\$3</b>	<b>\$19</b>	<b>\$3</b>
<b>Adjusted Grand Total</b>	<b>\$4,954</b>	<b>\$5,449</b>	<b>\$5,887</b>	<b>\$933</b>	<b>\$6,072</b>	<b>\$185</b>
<b>Annual % Change</b>		<b>10.0%</b>	<b>8.0%</b>		<b>3.1%</b>	

Note: \$3.9 million in fiscal 2004 deficiency appropriations are also contingent on legislation.

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

## Department of Health and Mental Hygiene Adjustments to the Fiscal 2004 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 2004 general fund appropriation by \$84.4 million and spending supported by the Cigarette Restitution Fund (CRF) by \$3.9 million. These reductions were approved by the Board of Public Works (BPW) in July 2003. Some of the reductions were offset by increases in other revenues (notably federal funds). However, overall the total fund reduction was almost \$110 million.

As shown in **Exhibit 1**, the total reduction to DHMH's general fund appropriation was in the same proportion as the BPW reduction to the State's total general fund budget minus mandated education aid, or 2.8%. Reductions to the CRF dollars available to DHMH amounted to a slightly lower reduction of 2.3%.

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#### Exhibit 1 DHMH Reductions as a Percentage of the State General Fund Budget (\$ in Millions)

	<u>Fiscal 2004 Appropriation</u>	<u>BPW Reduction</u>	<u>Reduction as % of Appropriation</u>
Statewide – General Funds	\$10,514.3	\$204.3	1.9%
General Funds Less Mandated Education Aid	7,196.4	204.3	2.8%
DHMH – General Funds	2,978.6	84.4	2.8%
DHMH Cigarette Restitution Fund	173.3	3.9	2.3%

Source: Department of Legislative Services

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As shown in **Exhibit 2**, relative reductions by unit within DHMH vary, but as would be expected, large programs see the largest dollar reductions. For example, Medicaid which consumes 58% of the department's general funds provided 60% of the budget reductions, 2.9% of its general fund appropriation.

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**Exhibit 2**  
**General Fund Reductions by DHMH Unit**  
**(\$ in Millions)**

<u>Unit</u>	<u>Fiscal 2004 Appropriation</u>	<u>BPW Reduction</u>	<u>Reduction as % of GF Appropriation</u>
Medicaid	\$1,731.0	\$50.4	2.9%
Developmental Disabilities	396.4	16.2	4.1%
Mental Hygiene	560.5	10.1	1.8%
Alcohol and Drug Abuse	77.8	4.1	5.2%
Community Health	69.3	1.7	2.5%
Office of Health Care Quality	9.8	0.6	6.1%
Family Health	45.1	0.4	0.9%
Chronic Hospitals	32.7	0.1	0.3%
AIDS	6.1	0.3	4.3%
Laboratories	16.3	0.3	1.8%
Administration	33.6	0.3	0.9%

Source: Department of Legislative Services

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The Mental Hygiene Administration (MHA), with the second largest general fund budget in the department (19%) provided 12% of the reduction, representing a relatively small cut of 1.8% of its general fund appropriation. However, MHA has been struggling with significant deficits in recent years making reductions here more difficult to realize. The Developmental Disabilities Administration (DDA) consumes 13% of the department's general funds and provided 19% of the reduction, or 4.1% of its general fund appropriation. However, most of that reduction was due to efforts to claim more federal funds thereby not impacting services.

**Exhibit 3** shows the cost containment reductions characterized by type of cut. This analysis categorizes the reductions as follows:

- **Cost shifts** where the cost of providing a service is passed onto another provider or group or is simply absorbed by an existing provider. These reductions are the largest category of reduction, 37%. For example, the imposition of hospital day limits on the medically needy generates savings in Medicaid but increases uncompensated care. However, the department has sought to mitigate the impact of a number of these cost shifts by adjusting hospital rates through the Health Services Cost Review Commission to reflect higher levels of uncompensated care and thus in turn passing the costs onto other payers.

**Exhibit 3**  
**Categorization of DHMH Reductions**  
 (\$ in Millions)

	<u>Cost Shifts</u>	<u>Service Reductions</u>	<u>Fund Swaps</u>	<u>Local Aid</u>	<u>Administrative Savings</u>	<u>Total</u>
Medicaid	\$31.1	\$2.5	\$6.0		\$10.8	<b>\$50.4</b>
Developmental Disabilities	0.8	0.4	14.5		0.5	<b>16.2</b>
Mental Hygiene	1.2	1.1	1.8		6.0	<b>10.1</b>
Alcohol and Drug Abuse		1.8	1.6		0.7	<b>4.1</b>
Community Health				\$1.5	0.2	<b>1.7</b>
Office of Health Care Quality			0.5		0.1	<b>0.6</b>
Family Health			0.4			<b>0.4</b>
Chronic Hospitals					0.1	<b>0.1</b>
AIDS		0.1	0.2			<b>0.3</b>
Laboratories			0.2		0.1	<b>0.3</b>
Administration					0.3	<b>0.3</b>
Cigarette Restitution Fund		1.8			2.1	<b>3.9</b>
<b>Total</b>	<b>\$33.1</b>	<b>\$7.7</b>	<b>\$25.2</b>	<b>\$1.5</b>	<b>\$20.9</b>	<b>\$88.4</b>
<b>Percent of Total</b>	<b>37%</b>	<b>9%</b>	<b>29%</b>	<b>2%</b>	<b>24%</b>	

Source: Department of Legislative Services

For other adjustments, for example reducing the growth in reimbursement rates for Managed Care Organizations (MCOs), savings are generated for Medicaid, but the MCOs are required to provide the same level of services at the lower level of reimbursement. However, it is a reduction in the growth in rates (from 6.3 to 5.3%) not an absolute reduction in rates.

- **Service reductions** where the number or extent of services provided are cut. For example, reducing the expansion of people served under the Waiver for Older Adults that provides community-based services as an alternative to nursing home placement. Another example is the reduction of the expansion in cancer prevention, screening, and treatment grants in Baltimore City. Only 9% of the reductions are categorized as service reductions. Further, typically these are reductions to expansions anticipated in fiscal 2004 rather than actual reductions below fiscal 2003 levels of service.

*M – DHMH - Fiscal 2005 Budget Overview*

- **Fund swaps** which involve the substitution of other fund sources (almost always federal funds) for general funds. These reductions account for 29% of the department's reductions. For example, the department is seeking an increased attainment of federal funds from increasing enrollment for persons with developmental disabilities in a Medicaid waiver and expanding the range of waiver services. Other examples include one-time swaps of over-attained federal block grant funds for general fund expenditures.
- **Local aid** reductions. For example, reducing discretionary funds provided to local health departments under the Targeted Local Health grant program. These reductions represent only 2% of the total, and the department is working to mitigate even this reduction by seeking to increase federal fund attainment for local health departments.
- **Administrative savings** whereby certain administrative actions are intended to generate savings. These account for 24% of the department's reductions. For example, accounting changes for pharmacy rebates generate one-time savings, utilization review which is intended to generate savings by ensuring that services are being appropriately provided, as well as traditional administrative actions such as holding open vacancies and deferring equipment replacement.

Although these reductions were presented to BPW in July, the actual implementation of the reductions has not always generated the promised savings:

- Savings from Medicaid hospital day limits were reduced from \$20 million of general funds to \$10 million.
- Delays in implementation of the freeze on medical day care rates, the discount on payments to pharmacies for the ingredient cost of drugs, and the change in the reimbursement methodology for District of Columbia hospitals cost the State an additional \$1.5 million of general funds.
- Utilization review of certain mental health services was anticipated to generate savings of \$5 million in general funds. Utilization review has been rolled out as a cost containment measure in previous years but has had little measurable success. In any event, the Department of Legislative Services would note that any success in utilization review will pale compared to the anticipated fiscal 2004 deficit in MHA's community services budget.

In at least one case, a small cut to the Baltimore City needle exchange program, the reduction was rescinded to be replaced by a reduction elsewhere in the department. In addition, in at least one instance, the proposed fund swap in the AIDS Administration has yet to be approved by the federal government.

## **Deficiency Appropriations**

Deficiency appropriations in DHMH total just over \$250 million and are listed in **Exhibit 4**. The deficiency for DDA is contingent on the passage of legislation allowing DHMH to assess a provider tax of 6% on Intermediate Care Facilities for the Mentally Retarded (ICF-MR). In Maryland, all four ICF-MR facilities are operated by the State. The assessment of the tax will increase general fund revenues by a net \$1.8 million in fiscal 2004.

Federal fund deficiencies distinguish between “normal” federal funds and those federal funds earned by the State due to the temporary higher Medicaid match rate. The State anticipates earning \$137 million more in federal funding in fiscal 2004 than was anticipated when the budget was developed. The State is using \$105.7 million of this overattainment to offset deficits in mental health and Medicaid. The remaining \$31.3 million will be used to offset other general fund expenditures with the general funds being returned to the general fund as a planned reversion. The Governor's fiscal 2005 allowance assumes this reversion in order to balance the budget. For the purposes of the charts in this analysis, that planned reversion is also assumed, reducing general fund expenditures in fiscal 2004 by \$31.3 million.

**Exhibit 4**  
**Department of Health and Mental Hygiene**  
**Fiscal 2004 Deficiencies**

<u>Unit</u>	<u>Item</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Federal Medicaid Overmatch</u>	<u>Total</u>
DHMH Administration	Contingency fee contract for federal fund revenue maximization	\$800,000				<b>\$800,000</b>
Community and Family Health	Offset deficit in the Breast and Cervical Cancer Program		\$2,000,000			<b>2,000,000</b>
Mental Hygiene	Offset fiscal 2003 unfunded liability in community services			\$27,000,000	\$27,000,000	<b>54,000,000</b>
Mental Hygiene	Facility renovations as part of system reconfiguration	915,967				<b>915,967</b>
Developmental Disabilities	Provide funds for ICF-MR provider fee	3,869,170				<b>3,869,170</b>
Medicaid	Offset deficit in Medicaid program			78,700,000	78,700,000	<b>157,400,000</b>
Medicaid	Offset general fund expenditures				31,300,000	<b>31,300,000</b>
<b>Total</b>		<b>\$5,585,137</b>	<b>\$2,000,000</b>	<b>\$105,700,000</b>	<b>\$137,000,000</b>	<b>\$250,285,137</b>

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

M - DHMH - Fiscal 2005 Budget Overview

**Department of Health and Mental Hygiene  
Fiscal 2005 Contingency Reductions and Revenue Adjustments**

**Contingency Reductions**

The fiscal 2005 allowance contains three reductions contingent on the passage of legislation:

- \$10,000,000 general fund reduction contingent on the privatization of the Carter Center in Baltimore City. DHMH is currently working with the University of Maryland Medical Systems (UMMS) to transfer the facility to UMMS. UMMS will continue to operate acute care psychiatric beds at the facility.
- \$1,577,000 general fund reduction contingent on legislation allowing the charging of indirect costs to the Health Regulatory Commissions. The commissions will reimburse DHMH for departmental support at a rate equal to the federal indirect cost recovery rate.
- A reduction of just over \$2.5 million in total funds contingent on legislation to delete the deferred compensation match for State employees.

**Revenue Adjustments**

The Governor's fiscal 2005 allowance is predicated on the assessment of taxes, the raising of fees, and the transfer of fund balances. Among the actions that relate to DHMH include:

- Provider taxes on nursing homes and ICF-MRs. The assessment of the provider tax on these health care facilities is anticipated to increase general fund revenues by just under \$34.7 million. This revenue is contingent upon the passage of legislation. However, because imposing these taxes also increase program costs by \$16.2 million, the net benefit to the general fund is \$18.5 million.
- Fees imposed by the Office of Health Care Quality and Community Health Administration are anticipated to raise just over \$1.1 million. These fee increases are contingent on the passage of legislation.
- Fees imposed by the Chief Medical Examiner for autopsy reports will be increased to raise \$41,000. This increase does not require legislation. These fees are paid upon request of the medical examiner's report.
- \$4.4 million in fund balances will be transferred into the general fund contingent on the passage of legislation. This transfer comprises \$3 million from the Spinal Cord Injury Trust Fund and \$1.4 million from various health occupations boards.

*M – DHMH - Fiscal 2005 Budget Overview*

**Department of Health and Mental Hygiene  
Budget Overview: All Funding Sources<sup>(1)</sup>  
Fiscal 2002 through 2005  
(\$ in Thousands)**

	<b>Actual FY 2002</b>	<b>Actual FY 2003</b>	<b>Working FY 2004</b>	<b>Allowance FY 2005</b>	<b>\$ Change FY 04-05</b>	<b>% Change FY 04-05</b>
<b>Medical Programs/Medicaid</b>	<b>\$3,122,684</b>	<b>\$3,454,614</b>	<b>\$3,845,579</b>	<b>\$3,990,064</b>	<b>\$144,485</b>	<b>3.8%</b>
Provider Reimbursements	2,935,563	3,237,695	3,622,562	3,798,250	175,688	4.8%
Maryland Children's Health Program (MCHP)	123,589	151,730	153,930	124,925	-29,005	-18.8%
Other	63,532	65,189	69,087	66,889	-2,198	-3.2%
<b>Mental Hygiene</b>	<b>\$739,525</b>	<b>\$805,015</b>	<b>\$829,408</b>	<b>\$798,021</b>	<b>-\$31,387</b>	<b>-3.8%</b>
Program Direction	6,211	6,082	6,189	6,409	220	3.6%
Community Services	481,775	541,265	567,462	545,283	-22,179	-3.9%
Facilities	251,539	257,668	255,757	246,329	-9,428	-3.7%
<b>Developmental Disabilities</b>	<b>\$476,306</b>	<b>\$524,504</b>	<b>\$557,007</b>	<b>\$602,182</b>	<b>\$45,175</b>	<b>8.1%</b>
Program Direction	4,884	4,517	4,567	4,693	126	2.8%
Community Services	405,480	454,424	484,085	527,893	43,808	9.0%
Facilities	65,942	65,563	68,355	69,596	1,241	1.8%
<b>Community and Family Health</b>	<b>\$263,791</b>	<b>\$286,082</b>	<b>\$262,550</b>	<b>\$270,200</b>	<b>\$7,650</b>	<b>2.9%</b>
Targeted Local Health	63,115	66,407	64,929	65,371	442	0.7%
Women, Infants, and Children (WIC)	51,741	53,328	53,136	56,277	3,141	5.9%
Cigarette Restitution Fund (CRF)	52,492	58,228	45,783	38,028	-7,755	-16.9%
Other	96,443	108,119	98,702	110,524	11,822	12.0%
<b>Alcohol and Drug Abuse</b>	<b>\$112,453</b>	<b>\$124,026</b>	<b>\$127,819</b>	<b>\$135,805</b>	<b>\$7,986</b>	<b>6.2%</b>
<b>Other Budget Areas</b>	<b>\$239,596</b>	<b>\$255,004</b>	<b>\$264,858</b>	<b>\$275,241</b>	<b>\$10,383</b>	<b>3.9%</b>
DHMH Administration	42,347	45,606	43,469	40,701	-2,768	-6.4%
Office of Health Care Quality	13,303	13,309	14,113	13,886	-227	-1.6%
Health Occupations Boards	16,536	17,653	19,048	19,885	837	4.4%
Chronic Disease Hospitals	39,189	40,982	40,500	41,287	787	1.9%
AIDS Administration	44,922	48,573	47,991	53,984	5,993	12.5%
Chief Medical Examiner	5,667	6,599	6,467	7,055	588	9.1%
Laboratories Administration	19,775	20,592	20,152	20,409	257	1.3%
Health Regulatory Commissions	57,857	61,690	73,118	78,034	4,916	6.7%
<b>Total Funding</b>	<b>\$4,954,355</b>	<b>\$5,449,245</b>	<b>\$5,887,221</b>	<b>\$6,071,513</b>	<b>\$184,292</b>	<b>3.1%</b>

<sup>(1)</sup> Includes fiscal 2004 deficiencies and assumes fiscal 2005 contingent reductions are adopted.

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

Source: Department of Legislative Services; State Budget

**Department of Health and Mental Hygiene  
Budget Overview: General Funds Only<sup>(1)</sup>  
Fiscal 2002 through 2005  
(\$ in Thousands)**

	<u>Actual FY 2002</u>	<u>Actual FY 2003</u>	<u>Working FY 2004</u>	<u>Allowance FY 2005</u>	<u>\$ Change FY 04-05</u>	<u>% Change FY 04-05</u>
<b>Medical Programs/Medicaid</b>	<b>\$1,567,639</b>	<b>\$1,583,431</b>	<b>\$1,649,557</b>	<b>\$1,898,686</b>	<b>\$249,129</b>	<b>15.1%</b>
Provider Reimbursements	1,490,314	1,497,502	1,560,233	1,820,675	260,442	16.7%
Maryland Children's Health Program (MCHP)	44,599	52,963	53,434	43,279	-10,155	-19.0%
Other	32,726	32,966	35,890	34,732	-1,158	-3.2%
<b>Mental Hygiene</b>	<b>\$505,740</b>	<b>\$565,528</b>	<b>\$551,436</b>	<b>\$566,086</b>	<b>\$14,650</b>	<b>2.7%</b>
Program Direction	5,011	5,287	5,282	5,389	107	2.0%
Community Services	254,797	307,311	295,444	319,344	23,900	8.1%
Facilities	245,932	252,930	250,710	241,353	-9,357	-3.7%
<b>Developmental Disabilities</b>	<b>\$339,843</b>	<b>\$376,089</b>	<b>\$384,104</b>	<b>\$399,825</b>	<b>\$15,721</b>	<b>4.1%</b>
Program Direction	4,536	4,389	4,201	4,266	65	1.5%
Community Services	270,027	306,779	312,243	326,602	14,359	4.6%
Facilities	65,280	64,921	67,660	68,957	1,297	1.9%
<b>Community and Family Health</b>	<b>\$117,349</b>	<b>\$115,962</b>	<b>\$112,294</b>	<b>\$112,925</b>	<b>\$631</b>	<b>0.6%</b>
Targeted Local Health	57,340	61,936	60,436	60,878	442	0.7%
Women, Infants, and Children (WIC)	750	200	200	250	50	25.0%
Cigarette Restitution Fund (CRF)	0	0	0	0	0	0.0%
Other	59,259	53,826	51,658	51,797	139	0.3%
<b>Alcohol and Drug Abuse</b>	<b>\$64,483</b>	<b>\$73,447</b>	<b>\$73,748</b>	<b>\$81,768</b>	<b>\$8,020</b>	<b>10.9%</b>
<b>Other Budget Areas</b>	<b>\$98,485</b>	<b>\$99,825</b>	<b>\$97,371</b>	<b>\$95,078</b>	<b>-\$2,293</b>	<b>-2.4%</b>
DHMH Administration	29,012	27,177	26,396	22,818	-3,578	-13.6%
Office of Health Care Quality	9,087	9,222	9,196	8,432	-764	-8.3%
Health Occupations Boards	158	168	167	174	7	4.2%
Chronic Disease Hospitals	32,261	33,969	33,532	34,719	1,187	3.5%
AIDS Administration	6,073	6,067	5,782	5,785	3	0.1%
Chief Medical Examiner	5,652	6,499	6,338	6,810	472	7.4%
Laboratories Administration	16,242	16,723	15,960	16,340	380	2.4%
Health Regulatory Commissions	0	0	0	0	0	0.0%
<b>Total Funding</b>	<b>\$2,693,539</b>	<b>\$2,814,282</b>	<b>\$2,868,510</b>	<b>\$3,154,368</b>	<b>\$285,858</b>	<b>10.0%</b>

<sup>(1)</sup> Includes fiscal 2004 deficiencies and assumes fiscal 2005 contingent reductions are adopted.

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)**

	<b>General Fund</b>	<b>Special Fund</b>	<b>Federal Fund</b>	<b>Reimb. Fund</b>	<b>Total</b>
2004 Working Appropriation	\$2,868,510	\$292,300	\$2,710,726	\$15,685	\$5,887,221
2005 Governor's Allowance	\$3,154,368	\$241,656	\$2,656,059	\$19,428	\$6,071,513
Amount Change	\$285,858	-\$50,644	-\$54,667	\$3,743	\$184,292
Percent Change	10.0%	-17.3%	-2.0%	23.9%	3.1%

**Where It Goes:**

<b>Major Personnel Expense Changes</b>	<b>\$8,420</b>
Increments .....	\$5,965
Health insurance (regular employees and retirees) .....	1,488
New positions (38 full-time equivalent (FTE) positions).....	1,485
Abolished positions (8 FTE).....	-518
<b>Tobacco Settlement Initiatives</b>	<b>-\$7,766</b>
Governor’s Initiative to Conquer Cancer in Maryland.....	-2,956
Governor’s Initiative to End Smoking In Maryland.....	-4,810
<b>Major Programmatic Changes (Exc. Medical Care Programs Administration)</b>	
<b>Alcohol and Drug Abuse Administration</b>	<b>\$5,825</b>
Residential treatment in lieu of incarcerations.....	4,000
Partial restoration of fiscal 2004 cost containment .....	1,825
<b>Mental Hygiene Administration</b>	<b>-\$37,432</b>
Community mental health fee-for-service funding for Medicaid-eligible individuals	32,337
Expansion of statewide community mental health services .....	5,000
Carter Center Privatization (contingent on legislation).....	-10,000
Savings from hospital consolidation .....	-10,769
Deficiency appropriation (offsetting fiscal 2003 deficits).....	-54,000
<b>Developmental Disabilities Administration</b>	<b>\$39,508</b>
Wage initiative (Chapters 109 and 110, Acts of 2001) .....	17,788
New community placements.....	12,547
Annualization of prior year Waiting List Initiative placements.....	5,326
Downsizing initiative .....	2,254
Growth at State Residential Centers.....	1,593

*M – DHMH - Fiscal 2005 Budget Overview*

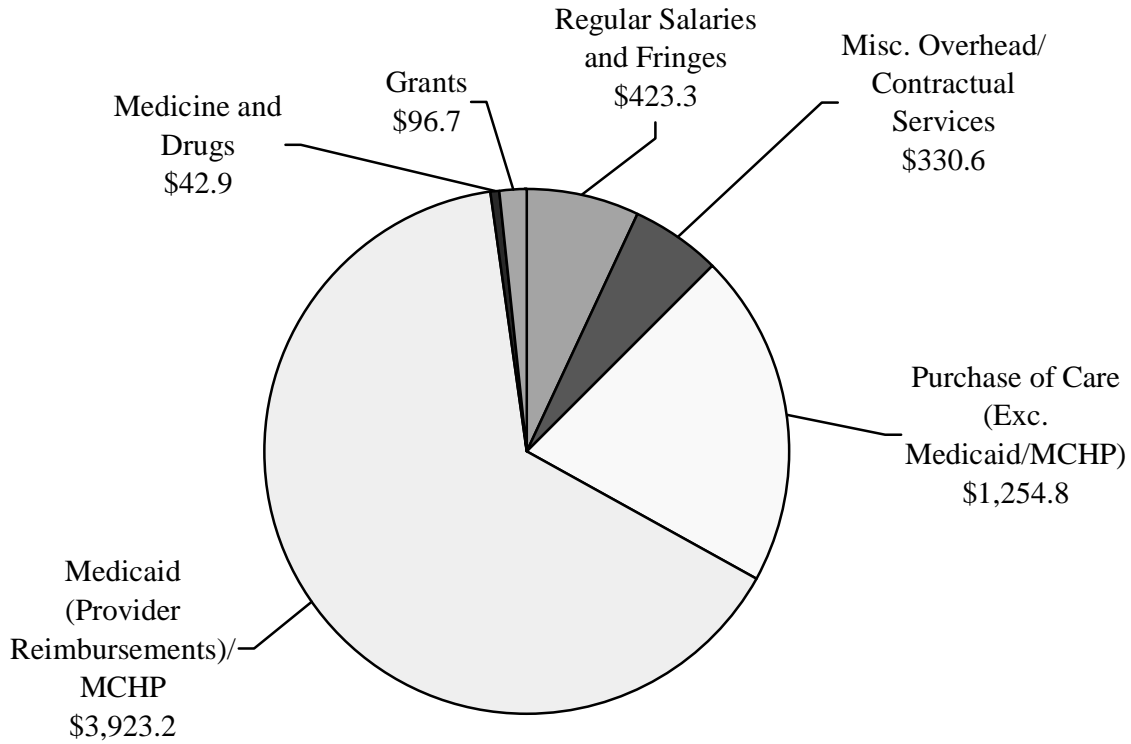
**Where It Goes:**

<b>Community and Family Health Administrations</b>	<b>\$13,224</b>	
Federal emergency preparedness funding.....		11,083
WIC .....		3,141
Spinal Cord Injury Trust Fund grants.....		-1,000
<b>Other Programs</b>	<b>\$7,701</b>	
AIDS Administration: Increase in federal HIV Care Formula Grant.....		5,508
Health Regulatory Commissions: Increase in Trauma Fund .....		3,000
Health Regulatory Commissions: Increase in Uncompensated Care Fund.....		2,000
DHMH Administration: Major Information Technology Projects .....		-1,250
DHMH Administration: Reduction based on anticipated indirect cost recoveries.....		-1,557
<b>Medicaid/Medical Care Programs Administration</b>	<b>\$142,794</b>	
Changes in enrollment, medical inflation, and utilization .....		193,343
Enhanced payments to nursing homes to offset impact of provider fee .....		24,600
Managed Care Organization Dental Pool .....		4,000
Maryland Children’s Healthcare Program enrollment freeze lifted .....		351
Pay fiscal 2003 bills with fiscal 2004 dollars.....		-62,000
Annualization of fiscal 2004 cost containment .....		-17,500
Other		12,018
<b>Total Change</b>		<b>\$184,292</b>

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

## Department of Health and Mental Hygiene

### Fiscal 2005 Allowance Functional Breakdown of Spending (\$ in Millions)



**Department of Health and Mental Hygiene  
Regular Employees (FTE)  
Fiscal 2002 through 2005**

	<u>Actual</u> <u>FY 2002</u>	<u>Actual</u> <u>FY 2003</u>	<u>Working</u> <u>FY 2004</u>	<u>Allowance</u> <u>FY 2005</u>	<u>Change</u> <u>FY 04-05</u>	<u>% Change</u> <u>FY 04-05</u>
<b>DHMH Administration</b>	548.8	546.3	500.9	497.9	-3.0	-0.6%
<b>Office of Health Care Quality</b>	228.8	202.8	184.4	185.4	1.0	0.5%
<b>Health Occupations Boards</b>	199.0	186.5	181.5	181.5	0.0	0.0%
<b>Community and Family Health</b>						
<b>Administration</b>	382.4	390.9	341.4	339.4	-2.0	-0.6%
<b>AIDS Administration</b>	68.0	74.0	64.0	64.0	0.0	0.0%
<b>Chief Medical Examiner</b>	75.0	75.0	76.0	76.0	0.0	0.0%
<b>Chronic Hospitals</b>	626.0	609.0	584.3	584.3	0.0	0.0%
<b>Laboratories Administration</b>	278.0	304.5	282.5	282.5	0.0	0.0%
<b>Alcohol and Drug Abuse</b>						
<b>Administration</b>	55.0	55.0	51.5	51.5	0.0	0.0%
<b>Mental Hygiene Administration</b>	3,938.2	3,749.7	3,530.5	3,530.5	0.0	0.0%
Administration	100.4	96.4	88.2	88.2	0.0	0.0%
Institutions	3,837.8	3,653.3	3,442.3	3,442.3	0.0	0.0%
<b>Developmental Disabilities</b>						
<b>Administration</b>	1,459.2	1,346.5	1,249.2	1,258.2	9.0	0.7%
Administration	152.5	149.5	140.5	149.5	9.0	6.4%
Institutions	1,306.7	1,197.0	1,108.7	1,108.7	0.0	0.0%
<b>Medical Care Programs</b>						
<b>Administration</b>	594.7	574.1	570.1	609.7	39.6	6.9%
<b>Health Regulatory Commissions</b>	101.7	97.7	93.6	93.6	0.0	0.0%
<b>Language Reduction in Allowance</b>				-267.6	-267.6	n/a
<b>Total Regular Positions</b>	<b>8,554.8</b>	<b>8,211.9</b>	<b>7,709.8</b>	<b>7,486.8</b>	<b>-223.0</b>	<b>-2.9%</b>

Source: State Budget

- The vacancy rate of the department as of December 31, 2003, was 6.34%, or 488.55 vacancies. The budgeted turnover rate for the department is 3.54%. To meet this turnover rate, the department on average requires 385 vacancies.
- The language reduction of 267.6 positions reflects the proposed privatization of the Carter Center and the implementation of bed reconfiguration at the State-run psychiatric hospital.
- Of the new positions, major changes reflect:
  - Efforts to increase DDA federal fund attainment (26 positions combined in Medicaid and Developmental Disabilities); and
  - The transfer of responsibility for the Rare and Expensive Case Management Program from the University of Maryland, Baltimore County (UMBC) to DHMH (10.6 positions all but one of which are transferred from UMBC).

**Department of Health and Mental Hygiene  
Contractual Employees (FTE)  
Fiscal 2002 through 2005**

	<u>Actual FY 2002</u>	<u>Actual FY 2003</u>	<u>Working FY 2004</u>	<u>Allowance FY 2005</u>	<u>Change FY 04-05</u>	<u>% Change FY 04-05</u>
<b>DHMH Administration</b>	19.8	17.2	27.0	23.2	-3.8	-13.9%
<b>Office of Health Care Quality</b>	3.5	2.6	5.4	4.4	-1.0	-18.5%
<b>Health Occupations Boards</b>	15.6	15.5	36.5	34.8	-1.7	-4.7%
<b>Community and Family Health</b>						
<b>Administration</b>	15.4	12.5	20.2	20.2	0.0	0.0%
<b>AIDS Administration</b>	0.0	0.0	0.0	0.0	0.0	0.0%
<b>Chief Medical Examiner</b>	0.8	1.1	2.2	2.3	0.2	7.4%
<b>Chronic Hospitals</b>	20.4	21.0	24.8	18.5	-6.3	-25.3%
<b>Laboratories Administration</b>	14.9	6.4	3.3	3.8	0.5	15.2%
<b>Alcohol and Drug Abuse</b>						
<b>Administration</b>	20.5	3.6	3.0	3.0	0.0	0.0%
<b>Mental Hygiene Administration</b>	185.7	187.4	193.1	180.9	-12.2	-6.3%
Administration	0.6	1.2	2.8	1.1	-1.8	-62.5%
Institutions	185.1	186.1	190.3	179.9	-10.4	-5.5%
<b>Developmental Disabilities</b>						
<b>Administration</b>	59.4	49.3	92.2	91.2	-1.0	-1.0%
Administration	23.1	20.8	31.9	33.9	2.0	6.3%
Institutions	36.3	28.5	60.3	57.3	-3.0	-4.9%
<b>Medical Care Programs</b>						
<b>Administration</b>	52.8	40.9	77.3	99.3	22.0	28.4%
<b>Health Regulatory Commissions</b>	0.3	0.0	2.0	2.0	0.0	0.0%
<b>Total Contractual Positions</b>	<b>408.9</b>	<b>357.4</b>	<b>486.9</b>	<b>483.7</b>	<b>-3.2</b>	<b>-0.7%</b>

Source: State Budget

**Department of Health and Mental Hygiene  
Fiscal 2002 through 2005  
Budget Overview: Selected Service Measures**

	<u>Actual FY 2002</u>	<u>Actual FY 2003</u>	<u>Working FY 2004</u>	<u>Allow FY 2005</u>	<u>Change FY 04-05</u>	<u>% Change FY 04-05</u>
<b>Medical Programs/Medicaid</b>						
Medicaid Enrollees	464,560	482,413	511,890	535,300	23,410	4.6%
Maryland Children's Healthcare Program	101,272	113,201	98,960	98,400	-560	-0.6%
<b>Developmental Disabilities Administration</b>						
Residential Services	4,514	4,529	4,748	4,824	76	1.6%
Day Services	8,539	8,274	8,916	9,467	551	6.2%
In-home support services	6,988	7,189	7,660	8,092	432	5.6%
Average daily census at institutions	466	421	402	392	-10	-2.5%
<b>Mental Hygiene Administration</b>						
Average daily populations at State-run psychiatric hospitals:						
Hospitals excluding RICAs and Assisted Living	1,184	1,185	1,205	1,131	-74	-6.1%
RICAs	112	116	112	143	31	27.7%
Assisted Living	88	92	95	100	5	5.3%
<b>Total</b>	<b>1,384</b>	<b>1,393</b>	<b>1,412</b>	<b>1,374</b>	<b>-38</b>	<b>-2.7%</b>
Number receiving community mental health services:						
Medicaid eligible	72,488	77,833	81,300	85,150	3,850	4.7%
Medicaid-ineligible	16,123	15,004	15,500	15,900	400	2.6%
<b>Total</b>	<b>88,611</b>	<b>92,837</b>	<b>96,800</b>	<b>101,050</b>	<b>4,250</b>	<b>4.4%</b>
<b>Alcohol and Drug Abuse Administration</b>						
Residential services	6,784	6,816	7,466	7,828	362	4.8%
Outpatient services	30,405	32,894	34,285	34,285	0	0.0%

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

## The most significant HIPAA Challenge for DHMH? Meeting Security Standards

In 1996 Congress passed the federal Health Insurance Portability and Accountability Act (HIPAA). Initially better known for its sponsors, Senators Kennedy and Kassebaum and for provisions facilitating the portability of health insurance, HIPAA's most significant impact for state health agencies and healthcare organizations generally has been in the area of administrative simplification. The intent of HIPAA administrative simplification is to streamline and standardize the electronic filing and processing of health insurance claims, thereby reducing administrative costs and at the same time providing better service for providers, insurers, and patients.

Specifically, HIPAA establishes uniform transaction and code set requirements, privacy standards, the adoption of unique identifier codes, security and electronic signature standards, and penalties for noncompliance. For DHMH, HIPAA compliance is required for information systems involving such activities as claims submissions and attachments processing, enrollment and eligibility transactions, claims payment and remittance notices, and health care referrals or claims authorizations. Compliance will be ongoing as standards may be subject to change. Significant civil penalties can be assessed for noncompliance with appropriate deadlines.

As shown in **Exhibit 6**, key initial compliance deadlines have been phased in over a number of years.

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### Exhibit 6 Selected HIPAA Initial Compliance Deadlines

<u>HIPAA Compliance Item</u>	<u>Deadline*</u>
Privacy of individually identifiable health information	April 2003
Standards for electronic transactions and code sets	April 2004
Security standards	April 2005

\* Standards are generally required to be implemented within two years of the effective date of a final rule. However, congressional or administrative action can delay the implementation of a final rule. For example, congressional action delayed the initial deadline for compliance with transaction and code set requirements from October 2002 to October 2003 and these were subsequently delayed again by the federal Department of Health and Human Services to April 2004. Deadlines also vary by size of health care provider, with small providers receiving additional time to comply. For the sake of simplicity, the deadlines above are specific to DHMH.

Source: Department of Legislative Services; Centers for Medicare and Medicaid Services; Department of Health and Mental Hygiene

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DHMH's response to HIPAA has been difficult to assess. For Medicaid systems, compliance response has certainly not been inhibited by a shortage of resources as Medicaid provides a 75% match rate for HIPAA compliance activities. However, for non-Medicaid systems, compliance must

be met with 100% state funds. Complicating matters has been the slow roll-out of HIPAA standards from the federal Centers for Medicare and Medicaid Services (CMS).

In a *Joint Chairmen's Report* to the General Assembly in 2001, DHMH conceded that compliance with security standards could be the biggest challenge and the biggest expense facing DHMH. In that report, it was anticipated that State expenditures would jump sharply in fiscal 2004 and 2005 (to just over \$5.1 million) in order to meet security deadlines although at that time the standards were not yet published. However, spending has been much more limited:

- The fiscal 2004 Major Information Technology Development Project Fund budget (MITDPF) included \$254,500 for Medicaid HIPAA efforts (matched by \$763,500 in federal funds) and \$500,000 for unspecified non-Medicaid HIPAA activities. The Department of Budget and Management subsequently requested and received approval to expend an additional \$271,136 from MITDPF in order to undertake an assessment of the Hospital Management Information System (HMIS) compliance with security standards.
- The fiscal 2005 budget includes only funds for Medicaid HIPAA compliance expenditures (\$250,000 general funds in the MITDPF and \$750,000 in Medicaid).

**Exhibit 7** details the various information technology systems within DHMH that must be HIPAA compliant and the initial compliance status of those systems.

As shown in Exhibit 7, DHMH has been able to make headway with initial HIPAA compliance deadlines. However, while the smaller systems are compliant with security standards, the larger systems are only now undergoing security assessments. While to date concerns about the potential expense of HIPAA have not materialized, there is still potential for significant expenditures if extensive remediation is required for any one of the larger systems. Certainly the fiscal 2005 allowance does not contain funding to support any such expenditures ahead of the April 2005 compliance deadline.

**Exhibit 7**  
**DHMH Systems that Must Meet HIPAA Standards**  
**Status Report**

<u>System</u>	<u>Function</u>	<u>Compliance with Key HIPAA Standard</u>		
		<u>Privacy</u>	<u>Billing</u>	<u>Security</u>
HMIS	Census and billing for State hospitals and residential centers.	✓	✓	Assessment underway
Kidney Program, Children’s Medical, and Breast and Cervical Cancer Claims System.	Originally three disparate systems that have been combined into one system serving the claims processing needs of all three programs.	✓	✓	✓
AIDS MADAP	Claims system for HIV/AIDS drugs provided through MADAP.	See note		
Medicaid Management Information System	Claims and billing systems for Medicaid.	✓	Ongoing	Ongoing
DHMH Data Network	Backbone network accessed by all systems for transmission of data via the Internet.	n/a	n/a	Assessment underway

Note: The AIDS Administration is currently negotiating to have a private vendor assume responsibility for claims. This item is expected to be reviewed by BPW on January 28. If this occurs, responsibility for HIPAA compliance shifts to the vendor.

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