

M00A01
Administration
Department of Health and Mental Hygiene

Operating Budget Data

(\$ in Thousands)

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$22,965	\$31,355	\$46,763	\$15,409	49.1%
Special Fund	60	304	630	326	107.1%
Federal Fund	11,895	12,339	37,459	25,120	203.6%
Reimbursable Fund	<u>6,017</u>	<u>5,354</u>	<u>3,929</u>	<u>-1,424</u>	<u>-26.6%</u>
Total Funds	\$40,936	\$49,352	\$88,782	\$39,430	79.9%

- Growth in the Department of Health and Mental Hygiene (DHMH) Administration budget is distorted by a series of one-time influences in both the fiscal 2007 working appropriation and the fiscal 2008 allowance. Absent these influences, growth is a more moderate 8%.
- Underlying budget growth is primarily in personnel costs, information technology expenditures, and assigned charges.

Personnel Data

	<u>FY 06</u> <u>Actual</u>	<u>FY 07</u> <u>Working</u>	<u>FY 08</u> <u>Allowance</u>	<u>FY 07-08</u> <u>Change</u>
Regular Positions	457.10	462.10	477.10	15.00
Contractual FTEs	<u>11.99</u>	<u>13.80</u>	<u>14.68</u>	<u>0.88</u>
Total Personnel	469.09	475.90	491.78	15.88

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	17.75	3.72%
Positions Vacant as of 12/31/06	40.8	8.83%

- The increase in 15 regular full-time equivalents (FTEs) in the DHMH Administration fiscal 2008 allowance is derived from 21 FTEs transferred into the budget from the Medical Care Programs Administration and the abolition of 6 long-term vacant positions.

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

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Analysis in Brief

Major Trends

Repeat Audit Findings: The Department of Health and Mental Hygiene has been able to sustain a reduction in repeat audit findings for a complete audit cycle.

Residential and Program Buildings Meeting Licensing Requirements, Building Standards, and Patient Needs: The number of residential and program buildings that meet licensing requirements, building standards, and are suitable to meet the needs of patients is falling.

Retention Rates: Retention amongst key classifications dropped slightly in fiscal 2006. Difficulty in the retention of skilled direct care workers is evident.

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Add language to reduce funds for data processing communications expenses.		
2. Delete long-term vacant positions.	\$ 468,070	8.0
3. Delete funds for management retreats.	24,000	
4. Delete funds for an Advance Directive Registry.	50,000	
5. Delete funds for Maryland Board of Physicians database development.	600,000	
6. Delete funds for Medicaid operational restructuring.	4,850,000	
Total Reductions	\$ 5,992,070	8.0

Updates

REAL ID and the Division of Vital Records: The states are still awaiting a decision from the Department of Homeland Security on the implementation requirements for the federal REAL ID Act. The impact on the Division of Vital Records could be significant, and the deadline for implementation is looming.

Provider Rates: Adequacy and Aligning Payments to Outcomes: In response to 2006 *Joint Chairmen's Report* narrative, the department submitted a report concerning rate adequacy and efforts to link payments to quality of care.

Firefighter Occupational Health Studies and Funding for Comprehensive Health Screenings: The 2006 *Joint Chairmen's Report* included narrative asking the Department of Health and Mental Hygiene to explore opportunities for firefighter participation in occupational health research studies. The department's response is provided.

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Administration
Department of Health and Mental Hygiene

Operating Budget Analysis

Program Description

The Department of Health and Mental Hygiene (DHMH) Administration budget analysis includes the following offices within the department:

- Office of the Secretary;
- Operations;
- Deputy Secretary for Public Health; and
- Deputy Secretary for Health Care Financing.

The **Office of the Secretary** establishes policies regarding health services and supervises the administration of the health laws of the State and its subdivisions. For the purposes of this budget analysis, the financial management function within the Office of the Secretary is included in this analysis while the Office of Health Care Quality and Health Occupations Boards are discussed in separate analyses.

Operations is the general support agency for the whole department, providing administrative, information technology, and general services (such as central warehouse management, inventory control, fleet management, space management, and management of engineering/construction projects).

The **Deputy Secretary for Public Health Services** is responsible for policy formulation and program implementation affecting the health of Maryland's citizens through the actions and interventions of the following administrations:

- Community and Family Health Administrations;
- AIDS Administration;
- Office of the Chief Medical Examiner;
- Office of Preparedness and Response;
- Laboratories Administration;
- Alcohol and Drug Abuse Administration;
- Mental Hygiene Administration; and
- Developmental Disabilities Administration.

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The **Deputy Secretary for Health Care Financing** is responsible for the activities and mission of the Medical Care Programs Administration.

The primary goals of the various secretariats that comprise the analysis are of two broad categories:

- Goals of the administrations under the oversight of those secretariats. For example, the Deputy Secretary for Public Health Services has a variety of public and behavioral health goals related to programs in such administrations as Developmental Disabilities, Community Health, Family Health, and so forth.
- Goals that relate to specific functions within the various secretariats. For example, the Deputy Secretary for Public Health Services has goals related to grievance resolutions at State institutions; Operations has goals related to services provided to the department as a whole such as the timely award of contracts.

Performance Analysis: Managing for Results

For the purpose of this analysis, performance analysis review is limited to measures of specific administrative activities of the units included in DHMH Administration. Selected data are shown in **Exhibit 1**. As shown, there is little change in performance between fiscal 2003 and 2006. A number of issues are raised from the exhibit:

Exhibit 1
Selected Program Measurement Data
DHMH – Administration
Fiscal 2003-2008

	<u>Actual Fiscal 2003</u>	<u>Actual Fiscal 2004</u>	<u>Actual Fiscal 2005</u>	<u>Actual Fiscal 2006</u>	<u>Working Fiscal 2007</u>	<u>Allowance Fiscal 2008</u>
Repeat OLA audit comments (%)	47	28	29	27	28	28
Condition of facility infrastructure systems (% in good/excellent condition)	80	85	88	87	88	90
Employment rate within 20 key classifications (%)	89	91	91	90	91	91
State retention rate Grades 1-26 (%)	92	91	91	90	91	91
Birth certificates filed with the Division of Vital Records within 72 hours of birth (%)	95	96	96	95	95	95
Death certificates filed with the Division of Vital Records within 72 hours of death (%)	71	66	66	66	66	66

OLA: Office of Legislative Audits

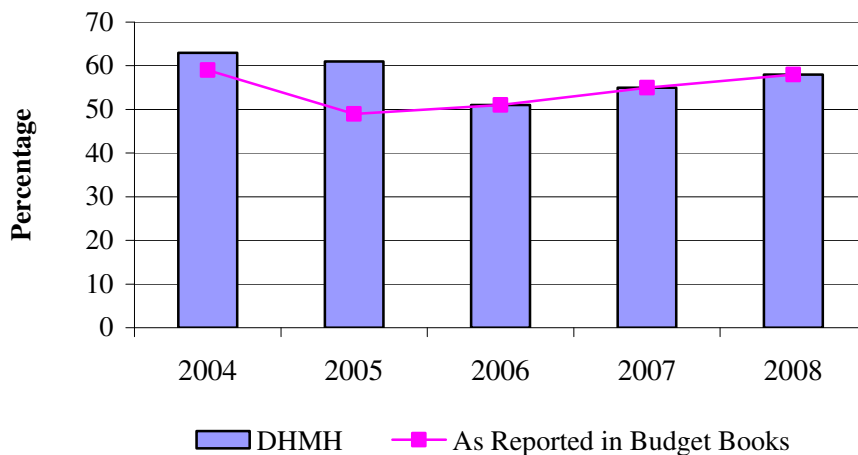
Note: Key classification retention data for fiscal 2006 as provided to the Department of Legislative Services by DHMH differs slightly from that reported in the Governor’s budget books.

Source: Department of Health and Mental Hygiene

- A concern of the Joint Audit Committee has been the extent to which audit comments repeat from one audit to the next. One DHMH objective, repeat Office of Legislative Audits’ (OLA) audit comments, speaks to this issue. Specifically, the measure illustrates how many of the audit comments for any particular DHMH unit are repeated from the previous audit of the same unit. While the measure is imperfect since it does not take into consideration the severity of different audit comments, it does point to some measure of effort to improve fiscal compliance. As recently as fiscal 1999, almost half of the audit comments in DHMH audits were repeat comments. This had fallen in recent years to fewer than 30% although it jumped back to 47% in fiscal 2003. However, DHMH has now managed one complete OLA audit cycle (typically three years) with lowered repeat audit findings.

- DHMH’s objectives in terms of the appropriateness of the physical environment at its facilities as well as facility infrastructure systems continue to reveal a need for some considerable capital improvement. The percent of facility infrastructure systems in good/excellent condition was at 87% in fiscal 2006, slightly down from 88% in fiscal 2005. However, as shown in **Exhibit 2**, in fiscal 2006 only 51% of residential and program buildings met licensing requirements, current building standards, and patient/client needs – a number which has been worsening. Problems include crumbling porches; issues with the heating, ventilation, and air-conditioning systems; roof deterioration; and plumbing and electrical concerns.

Exhibit 2
Residential and Program Buildings Meeting Licensing Requirements, Building Standards, and Patient Needs
Fiscal 2004-2008 (%)



Note: Data provided to DLS by DHMH for fiscal 2004 and 2005 are different from that presented in the Governor’s budget books.

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

- One measure of the department’s ability to attract and retain a skilled workforce is the employment rate within 20 key classifications (see **Exhibit 3**). These 20 classifications are taken from over 750 classification levels used by DHMH and are considered by the department to be a representative sample of those classifications key to fulfilling the mission of the department. The employment rate is calculated by dividing the number of filled positions versus total positions on a monthly basis and then averaged for the year. As shown in Exhibit 1, this particular measure had improved between fiscal 2003 and 2004 from 89 to 91%, and stayed at that level until fiscal 2006 when it fell back to 90%.

Exhibit 3
DHMH MFR Retention Goal: 20 Key Classification Levels

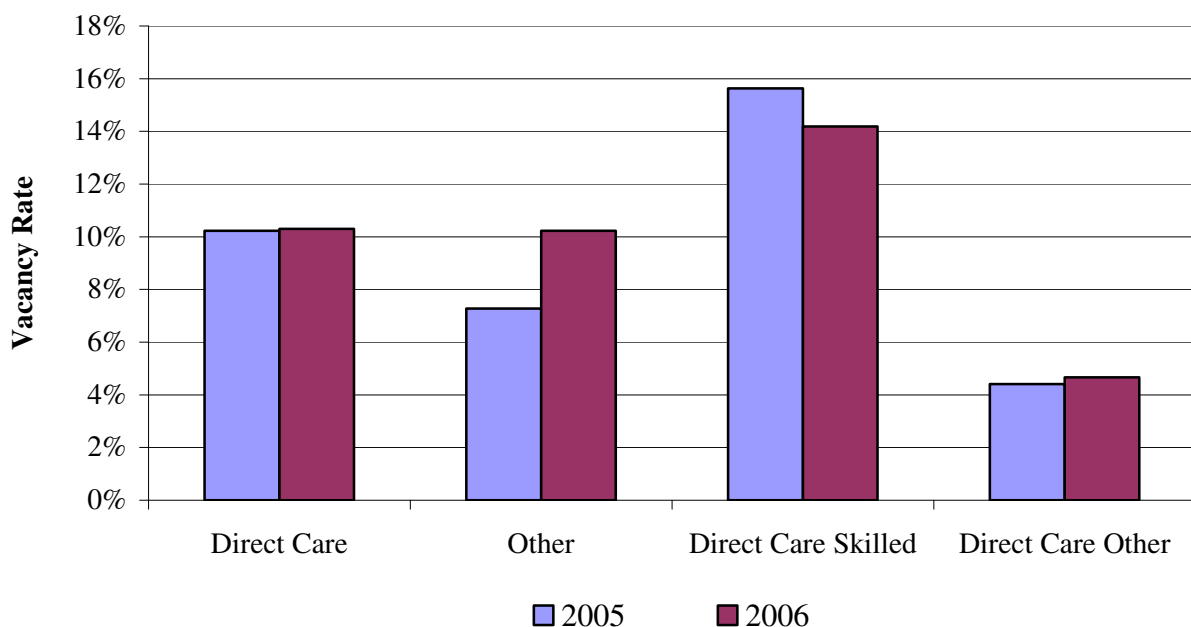
Sanitarian IV/Environmental Sanitarian II	Direct Care Assistant II
Coordinator Special Programs Health Services/Developmental Disabilities	Community Health Nurse II
Medical Care Program Specialist II	Health Facility Surveyor Nurse I
Agency Procurement Specialist II	Registered Nurse
Office Secretary III	Computer Network Specialist II
Public Health Lab Scientist General and Lead	Fiscal Accounts Clerk II
Social Worker II, Health Services	Accountant II
Program Administrator II, Health Services	Physician Clinical Specialist
Alcohol and Drug Counselors	Physician Program Manager
Epidemiologist III	Health Policy Analyst, Advanced

Source: Department of Health and Mental Hygiene

Digging behind this data a little further, as shown in **Exhibit 4**, it is interesting to note that for fiscal 2006 the direct care categories included in this analysis have vacancy rates at the same level as non-direct care categories, although it was the increase in vacancies among the non-direct care categories that drove the decline in retention between fiscal 2005 and 2006. More striking is the difference within the direct care categories between skilled direct care workers (for example nurses and physicians) and other direct care workers (in this instance direct care assistants). In fiscal 2006 for example, vacancy rates for skilled direct care workers are almost three times higher than for other direct care workers.

This distinction is not readily apparent in terms of the State's response to specific vacancy issues. For example, in the fiscal 2007 budget, higher shift differentials were given to both nurses and direct care assistants. The fiscal 2008 allowance contains limited targeted retention funding, principally continuing the \$346,000 for mission critical bonuses for nurses that was in the fiscal 2007 budget. Nurses with good evaluations and five or fewer unscheduled absences are eligible for \$3,000 bonuses. It is too early to know how many nurses will receive these bonuses, although 719 are eligible (funding assumes only 16% of eligible nurses will actually meet the requirements).

**Exhibit 4
DHMH 20 Key Classification Levels
Vacancy Rates
Fiscal 2005 and 2006**



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

Governor’s Proposed Budget

As shown in **Exhibit 5**, the Governor’s fiscal 2008 allowance for DHMH administration increases just over \$39.4 million, 79.9%. However, this change is driven by a number of one-time influences in the fiscal 2007 working appropriation and fiscal 2008 allowance that serve to distort true change in the budget.

Normal Growth

The major ongoing changes are in personnel costs (retirement costs, increments, and other fringe benefit adjustments), even allowing for savings generated by the abolition of six regular positions (all long-term vacancies). Other significant changes are the inclusion of \$600,000 for the overhaul of databases utilized by the Maryland Board of Physicians, as well as various assigned costs over which the department has little control (the Department of Budget and Management (DBM) paid telecommunications, the EMaryland marketplace assessment, and costs associated with the utilization of the Office of Administrative Hearings).

Exhibit 5
Governor’s Proposed Budget
DHMH – Administration
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2007 Working Appropriation	\$31,355	\$304	\$12,339	\$5,354	\$49,352
2008 Governor's Allowance	<u>46,763</u>	<u>630</u>	<u>37,459</u>	<u>3,929</u>	<u>88,782</u>
Amount Change	\$15,409	\$326	\$25,120	-\$1,424	\$39,430
Percent Change	49.1%	107.1%	203.6%	-26.6%	79.9%

Where It Goes

Personnel Expenses

-\$5,253

Regular positions transferred from Medical Care Programs Administration (21 FTEs) ..	\$1,569
Retirement contributions.....	609
Increments and other compensation.....	596
Turnover adjustments.....	314
Workers' compensation premium assessment.....	205
Social Security contributions	147
Other fringe benefit adjustments.....	24
Employee and retiree health benefits one-time savings	-8,378
Abolished positions (6 FTEs)	-340

Information Technology and Communications

\$867

Maryland Board of Physicians database development.....	600
DBM paid telecommunications	217
Miscellaneous software upgrades	50

Transferred from Medical Care Programs Administration

41,620

Various Medicaid information technology projects.....	9,547
Administrative care coordination/ombudsman grants to local health departments to provide outreach services to ensure access to services for Medicaid and Medicaid-eligible populations and resolving disputes between HealthChoice enrollees and MCOs.....	9,322
MCHP eligibility determination grants to local health departments.....	6,324
HealthChoice administrative contract with UMBC's Center for Health Program Development and Management to provide data analysis and operational support, reports and studies required under the 1115 waiver, and development of capitation rates.....	6,086
1115 waiver enrollment services and audit contract.....	3,845

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Where It Goes

Pregnant women and children eligibility determination grants to local health departments.....	2,345
MCO service quality assurance external review contract.....	1,420
Operation of preferred drug list program.....	950
Prescription drug utilization review contract.....	573
Recipient/provider satisfaction surveys.....	420
Various outreach and evaluation activities.....	375
HEDIS (MCO performance measure) validation.....	339
Contractual employment.....	74
Miscellaneous changes	2,130
Utility increase to reflect higher electricity rates (budgeted centrally but to be distributed to the institutions).....	1,827
Office of Administrative Hearings assigned costs.....	176
Security services.....	66
DBM assigned eMaryland marketplace assessment.....	61
Implementation of Advance Directives legislation (Chapter 223 of 2006).....	50
Allegany County diabetes management project.....	-50
Other	67
Total	\$39,430

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

One-time Influences

There are three major one-time influences that shape the growth in the DHMH Administration budget:

- One-time savings from employee and retiree health benefits which effectively reduce growth in the DHMH Administration budget by almost \$8.4 million. This is divided into two elements: no funding for fiscal 2008 retiree health costs that would otherwise be charged to this budget; and the fact that all surplus fiscal 2007 health care funding for DHMH (just under \$7.7 million) that will ultimately be reverted to the general fund.
- The transfer of a variety of administrative grants and contracts, personnel, and miscellaneous expenses totaling almost \$43.2 million into the DHMH Administration budget (specifically, into the budget for the Deputy Secretary for Health Care Financing) from the Medical Care Programs Administration.

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For the most part, these grants and contracts are ongoing expenditures related to operation of the Medicaid and Maryland Children's Health Program. However, one of the items includes a specific enhancement in fiscal 2008. Specifically, the allowance adds \$4.85 million to begin the operational restructuring of the Maryland Medicaid Program, including upgrading or replacing current Medicaid Management Information System which was designed over 10 years ago. This restructuring is considered important as there is a sense that the operational component of the Medicaid Program cannot easily keep up with policy changes made to the program.

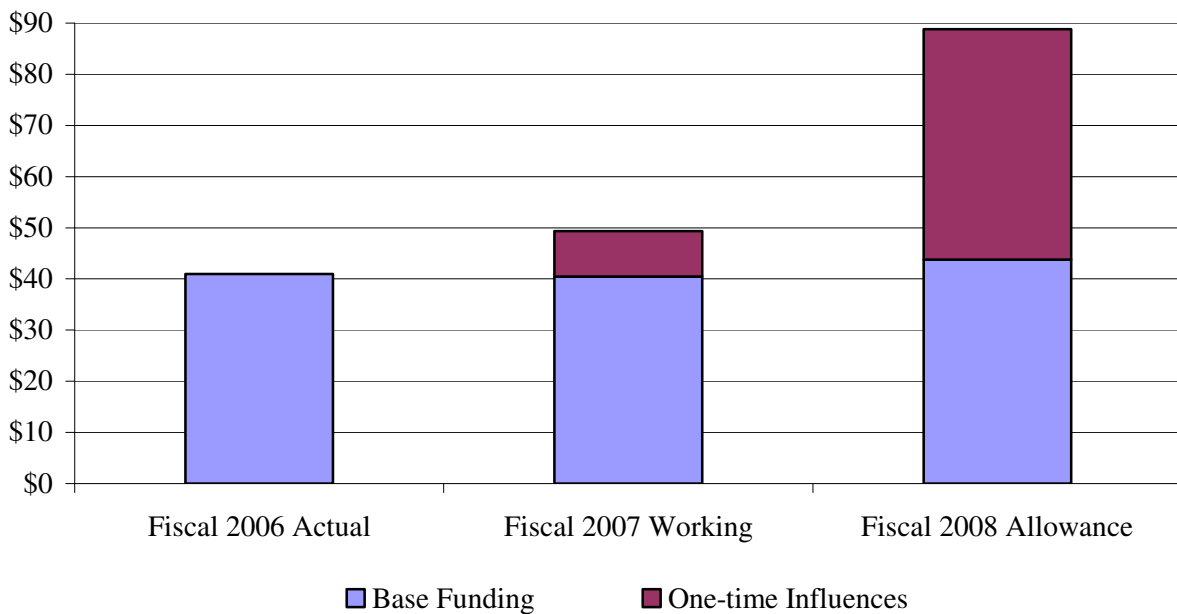
At this time, DHMH is really in a pre-planning phase, developing an advanced planning document to secure a vendor to analyze Medicaid's operations and to plan for operational restructuring that could begin some time in fiscal 2008. However, based on a review of the advanced planning time-line, this seems unlikely.

- The inclusion in the DHMH Administration budget of funding to reflect the recent hike in electricity rates. Specifically, the fiscal 2008 allowance includes just over \$1.8 million to support a 39.8% increase in electricity rates based on anticipated utilization. This funding will ultimately be distributed to the various DHMH institutions during fiscal 2008.

An Alternative View of Growth

As shown in **Exhibit 6**, when the various one-time influences are removed, actual budget growth between the fiscal 2007 working appropriation and the fiscal 2008 allowance is more modest – just over \$3.3 million, 8%.

Exhibit 6
An Alternative View of Growth in the DHMH Administration
Fiscal 2006-2008
(\$ in Millions)



Source: Department of Legislative Services

Contingent Reduction

There is one contingent reduction that will impact the DHMH Administration budget; specifically, \$1.25 million in general funds will be reduced from the fiscal 2008 allowance contingent on legislation allowing the charging of indirect costs to the Health Regulatory Commissions. If approved, the budget impact will be zero in that the removed general funds will be backfilled by reimbursable funds. This contingent reduction is similar to one made in the past three budgets.

Recommended Actions

1. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That \$125,000 in reimbursable funds shall be deleted from M00C01.03 Information Resources Management Administration. The Governor shall develop a schedule for allocating this reimbursable fund restriction across the various units within the Department of Health and Mental Hygiene that receive services from the Information Resources Management Administration and across all funds based upon agency use of those services. The restriction under this section shall equal at least the amounts indicated for the budgetary fund types listed:

<u>Fund</u>	<u>Amount</u>
<u>General</u>	<u>\$65,000</u>
<u>Special</u>	<u>30,000</u>
<u>Federal</u>	<u>30,000.</u>

Explanation: Reduce funds for data processing communications expenses. This reduction still provides a \$100,000 increase over the most recent actual.

	<u>Amount Reduction</u>		<u>Position Reduction</u>
2. Delete long-term vacant positions (016062, 022183, 015267, 062272, 049262, 015512, 015468, and 016208). These positions have all been vacant at least 12 months.	\$ 400,660	GF	8.0
	\$ 67,410	FF	
3. Delete funds for management retreats.	24,000	GF	
4. Delete funds for an Advance Directive Registry. Chapter 223 of 2006 established a voluntary advance directive registry in the Department of Health and Mental Hygiene. The fiscal note on the bill included information from the department indicating that the cost of developing and operating this registry in fiscal 2008 would be over \$320,000. The funding provided in the allowance is inadequate to complete the required task and the implementation of the directory should be deferred until adequate funding is provided.	50,000	GF	

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5. Delete funds for Maryland Board of Physicians database development. The Maryland Board of Physicians has consistently argued that the current information system it employs does not adequately support its operating processes. However, the Department of Health and Mental Hygiene (DHMH) is currently investigating using a different database to consolidate many of the front-end licensing functions for all of the health occupations boards and that database has other modules that could better serve all of the boards. If DHMH makes a subsequent determination that the Maryland Board of Physicians should proceed with a separate database, it may process a budget amendment to allow the project to proceed.

600,000 SF

6. Delete funds for Medicaid operational restructuring. This initiative has yet to reach the point where costs associated with restructuring can be reliably estimated. The change in administration may also alter the focus of the initial consultant’s report that is designed to offer alternative strategies for restructuring and which has yet to be let.

1,213,000 GF
3,637,000 FF

Total Reductions	\$ 5,992,070	8.0
Total General Fund Reductions	\$ 1,687,660	
Total Special Fund Reductions	\$ 600,000	
Total Federal Fund Reductions	\$ 3,704,410	

Updates

1. REAL ID and the Division of Vital Records

Under the federal REAL ID Act of 2005, beginning in May 2008, it is anticipated that anybody living or working in the United States will require a federally approved identification (ID) card, for example, to travel on an airplane, or enter a federal building such as a post office. Until the Department of Homeland Security (DHS) issues regulations to implement the Act, specific requirements are unknown. The major impact of the REAL ID Act is expected to be on the operation of the Motor Vehicle Administration (MVA) as State drivers' licenses and other similar State-issued ID documents will have to meet federal ID standards established by DHS. These standards will include, for example, the requirement to prove legal residency something which is not currently the case in Maryland.

One key element of the new ID card involves documentation showing the person's date of birth. MVA must verify the authenticity of documentation presented. This will require interaction between the Division of Vital Records and the MVA and also the MVAs of other states. The key costs to the Division of Vital Records will be the development and operation of any system to handle this interface with MVA and other states, as well as keying in and matching historical records.

According to DHMH, the National Association for Public Health Statistics and Information Systems (NAPHSIS) has developed and implemented an electronic system (the Electronic Verification of Vital Events (EVVE)) to immediately confirm information on a birth certificate presented at a government office irrespective of the place or date of issuance. According to NAPHSIS, the system was piloted in eight states: Colorado, Hawaii, Mississippi, Minnesota, Iowa, Missouri, California, and Oklahoma.

Indeed, given the upcoming REAL ID requirement, NAPHSIS is currently piloting the EVVE system with the American Association of Motor Vehicle Administrators so that users at participating MVA offices can query participating vital records offices to verify the birth certificate presented by the applicant for a driver's license or other ID card. As of January 2006, Iowa and South Dakota MVA offices are participating in the pilot together with five state vital records offices: Iowa, Minnesota, Missouri, South Dakota, and North Dakota.

No funding for Maryland's Division of Vital Records to participate in such a system or to make any other changes for requirements of the REAL ID Act has been provided in this or prior budgets. However, MVA and the Division of Vital Records have held preliminary meetings to discuss the requirements of the Act. Concern about the impending implementation date and the lack of specificity from DHS has prompted legislation at the federal level to delay implementation. At this time, however, the May 2008 deadline remains in place.

2. Provider Rates: Adequacy and Aligning Payments to Outcomes

In the 2006 session, the Department of Legislative Services reviewed a number of major rates set by DHMH for a variety of services provided by private providers. The review highlighted issues about rate adequacy and also that in many cases there was little connection between the rates and outcomes achieved by providers. Narrative was included in the *Joint Chairmen's Report* for DHMH to further investigate this issue.

The DHMH response was as follows:

- In terms of an assessment of rate adequacy, the department noted that it had not had sufficient time to answer such a complicated question. However, it averred that in most programs rates are inadequate.
- In terms of linking provider rates with quality of care, the response noted that several agencies within the department are already building such linkages into contracts and many more are beginning to do so. Some of the barriers to linking payments to performance include that base funding is inadequate and adding additional requirements may be unreasonable, how to identify measures that accurately reflect quality of care, and how to add incentives in a marketplace where demand for services may be higher than available service capacity.

3. Firefighter Occupational Health Studies and Funding for Comprehensive Health Screenings

The 2006 *Joint Chairmen's Report* included narrative asking DHMH to explore opportunities for firefighter participation in occupational health research studies. The narrative was based on concern about the occupational hazards faced by firefighters. The narrative also requested the department to detail funding sources for comprehensive health screenings for career and volunteer firefighters.

In its response, the department concluded that there is currently limited opportunity for conducting occupational health research amongst firefighters. What funding is available for occupational health research tends to be more generic and not focused on one particular occupation. However, screening guidelines are available for firefighters specifically (developed by the National Fire Protection Association) and the population generally. DHMH operates a number of screening programs, but these are targeted by insurance status rather than occupation. However, firefighters without insurance would obviously be eligible for these programs. A full list of available programs is detailed in the response.

Current and Prior Year Budgets

Current and Prior Year Budgets Administration (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2006					
Legislative Appropriation	\$18,533	\$60	\$14,416	\$4,287	\$37,297
Deficiency Appropriation	2,685	0	0	0	2,685
Budget Amendments	2,542	0	-1,851	1,931	2,622
Reversions and Cancellations	-795	0	-671	-201	-1,667
Actual Expenditures	\$22,965	\$60	\$11,895	\$6,017	\$40,936
Fiscal 2007					
Legislative Appropriation	\$31,242	\$336	\$12,339	\$4,169	\$48,086
Budget Amendments	113	-32	0	1,185	1,266
Working Appropriation	\$31,355	\$304	\$12,339	\$5,354	\$49,352

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

Fiscal 2006

The fiscal 2006 legislative appropriation for DHMH Administration was increased by just over \$3.6 million. This increase was derived as follows:

- Deficiency appropriations added almost \$2.7 million in general funds to the legislative appropriation. This funding backfilled a reduction in federal fund indirect costs made by Section 31 of Chapter 443 of 2005 (fiscal 2006 budget bill). That section required the reversion to the State general fund of that portion of federal indirect cost recoveries attributed to statewide costs. In DHMH, 23.7% of total federal fund indirect cost recoveries were attributed to statewide costs.
- Budget amendments increased the legislative appropriation by just over \$2.6 million. General fund budget amendments increased the legislative appropriation by just over \$2.5 million. Most of this change is derived as follows:
 - \$893,000 is added through close-out transactions. Most of this increase is for higher than anticipated salaries and fringe benefits and network equipment for the Hospital Management Information System.
 - An \$803,000 increase to reflect the transfer of health insurance funds budgeted in DBM.
 - \$656,000 of unspent health insurance and telecommunications funds from the rest of DHMH are transferred into the Office of the Secretary.
 - \$333,000 in funding representing a combination of the share of the fiscal 2006 cost-of-living adjustment (COLA) originally budgeted in DBM for the DHMH Administration budgets, plus supplemental funding from DBM to support COLA costs that had been expected to be supported by federal indirect cost recoveries that were no longer available as a result of the required reversion of federal indirect cost recoveries attributed to statewide costs.
 - \$115,000 to reflect the transfer of funds from the Medical Programs Administration into the deputy secretary for Health Care Financing to support salaries for a newly appointed deputy secretary plus support staff.
 - An offset of \$359,000 because of further consolidation of emergency preparedness funding in the Community Health Administration.

However, federal fund budget amendments offset the increase in the legislative appropriation from general fund budget amendments. Federal fund budget amendments reduced the legislative appropriation by almost \$1.9 million. The major changes included:

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- An increase of \$767,000 in higher than anticipated federal fund indirect cost recoveries to offset a general fund reduction made by the legislature based on the expectation of increased federal fund attainment.
- An increase of \$656,000 for a variety of emergency preparedness activities.
- A reduction of \$2.6 million due to a required reversion of statewide federal fund indirect cost recoveries.
- A reduction of \$967,000 based on consolidation of emergency preparedness funding in the Community Health Administration.

Reimbursable fund budget amendments added just over \$1.9 million to the legislative appropriation. This was almost entirely due to additional funding attained from the Health Regulatory Commissions. Chapter 444 of 2005, the Budget Reconciliation and Financing Act, authorized DHMH to assess the commissions for administrative support services and reduced general funds by the same amount.

- Finally, the appropriation was reduced by just under \$1.7 million in reversions and cancellations. Of this, \$795,000 was a general fund reversion, virtually all of which (\$788,000) was unspent health insurance funds. Most of the cancellations, \$671,000 were in federal funds. The two biggest cancellations were \$442,000 in the Centers for Disease Control bio-terrorism funds due to lower costs for the public health information network and printing and \$138,000 in lower than anticipated Medicaid claims.

Fiscal 2007

To date, the fiscal 2007 legislative appropriation has been increased by just under \$1.3 million. This change is derived as follows:

- General fund budget amendments have increased the appropriation by \$113,000. This slight increase is a combination of actions increasing the appropriation, the most significant being a \$489,000 increase representing the share of the fiscal 2006 COLA originally budgeted in DBM for the DHMH Administration budgets, \$346,000 to reflect the transfer of funds from DBM to the Office of the Secretary for Annual Salary Review increases (specifically, nurse retention bonuses), \$54,000 primarily reflecting a transfer of a position from the Medical Care Programs Administration into the deputy secretary's office, \$52,000 for higher utility costs at the House of Ruth and the Patterson Avenue office building (general funds transferred from the AIDS Administration), and \$50,000 transferred from the Family Health Administration to the administration budget in order to make a grant to the University of Maryland School of Pharmacy to support a diabetes management project in Allegany County.

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This increase is largely offset by other general fund amendments transferring funds out of the administration budget, the largest of these transfers being a \$777,000 transfer of funding related to a need to further realign funding for the fiscal 2007 COLA and health insurance costs and \$101,000 transferred back to DBM to partially cover the cost of a statewide salary study.

- Special fund budget amendments reduce the appropriation by \$32,000, again related to realigning funding for the fiscal 2007 COLA and health insurance costs.
- Reimbursable fund budget amendments increase the appropriation by \$1.185 million. Chapter 107 of 2006 authorized DHMH to assess the health regulatory commissions for administrative support services. The fiscal 2007 Administration budget assumed a \$1.185 million general fund reduction in anticipation of this legislation. Thus, the reimbursable funds simply backfill the general fund reduction that was already taken in the base budget.

**Object/Fund Difference Report
DHMH – Administration**

<u>Object/Fund</u>	<u>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	457.10	462.10	477.10	15.00	3.2%
02 Contractual	11.99	13.80	14.68	0.88	6.4%
Total Positions	469.09	475.90	491.78	15.88	3.3%
Objects					
01 Salaries and Wages	\$ 29,624,329	\$ 38,970,337	\$ 33,716,861	-\$ 5,253,476	-13.5%
02 Technical and Spec. Fees	473,003	478,803	553,072	74,269	15.5%
03 Communication	2,018,650	2,339,314	2,550,487	211,173	9.0%
04 Travel	527,169	525,594	539,898	14,304	2.7%
06 Fuel and Utilities	88,980	98,025	1,925,447	1,827,422	1864.2%
07 Motor Vehicles	36,149	44,677	42,487	-2,190	-4.9%
08 Contractual Services	4,538,275	4,174,241	46,725,962	42,551,721	1019.4%
09 Supplies and Materials	136,215	255,007	257,973	2,966	1.2%
10 Equipment – Replacement	161,260	92,930	93,168	238	0.3%
11 Equipment – Additional	1,272,200	387,500	401,736	14,236	3.7%
12 Grants, Subsidies, and Contributions	122,999	181,014	139,933	-41,081	-22.7%
13 Fixed Charges	1,936,844	1,804,087	1,834,851	30,764	1.7%
Total Objects	\$ 40,936,073	\$ 49,351,529	\$ 88,781,875	\$ 39,430,346	79.9%
Funds					
01 General Fund	\$ 22,964,943	\$ 31,354,650	\$ 46,763,447	\$ 15,408,797	49.1%
03 Special Fund	60,000	304,246	630,000	325,754	107.1%
05 Federal Fund	11,894,618	12,338,907	37,458,958	25,120,051	203.6%
09 Reimbursable Fund	6,016,512	5,353,726	3,929,470	-1,424,256	-26.6%
Total Funds	\$ 40,936,073	\$ 49,351,529	\$ 88,781,875	\$ 39,430,346	79.9%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

**Fiscal Summary
DHMH – Administration**

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
01 Office of the Secretary	\$ 4,025,798	\$ 12,216,655	\$ 4,843,309	-\$ 7,373,346	-60.4%
02 Financial Management Administration	7,106,038	7,480,012	7,624,206	144,194	1.9%
01 Dep. Sec. Operations - Executive Direction	17,252,698	17,800,117	20,471,947	2,671,830	15.0%
03 Information Resources Management Administration	9,141,619	8,228,482	8,320,966	92,484	1.1%
05 Major IT Development Projects	0	0	600,000	600,000	0%
01 Dep. Sec. Public Health	2,991,871	3,059,541	3,162,482	102,941	3.4%
01 Dep. Sec. Health Care Financing	418,049	566,722	43,758,965	43,192,243	7621.4%
Total Expenditures	\$ 40,936,073	\$ 49,351,529	\$ 88,781,875	\$ 39,430,346	79.9%
General Fund	\$ 22,964,943	\$ 31,354,650	\$ 46,763,447	\$ 15,408,797	49.1%
Special Fund	60,000	304,246	630,000	325,754	107.1%
Federal Fund	11,894,618	12,338,907	37,458,958	25,120,051	203.6%
Total Appropriations	\$ 34,919,561	\$ 43,997,803	\$ 84,852,405	\$ 40,854,602	92.9%
Reimbursable Fund	\$ 6,016,512	\$ 5,353,726	\$ 3,929,470	-\$ 1,424,256	-26.6%
Total Funds	\$ 40,936,073	\$ 49,351,529	\$ 88,781,875	\$ 39,430,346	79.9%

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.