

Department of Health and Social Services

All Dollars in Thousands

| | (GF Only) | Change | % Change | See |
|---|----------------------|--------------|----------|-----|
| FY18 Conference Committee (GF Only) | \$1,122,142.6 | | | |
| FY18 Fiscal Notes | - | | | |
| CarryForward | 4,894.5 | | | 1 |
| Misc Adjustments | - | | | |
| Multi-Years/Specials | - | | | |
| Vetoes | - | | | |
| FY18 Management Plan (GF only) | \$1,127,037.1 | \$4,894.5 | 0.4% | |
| One-time Items Removed | (8,025.2) | | | |
| Fiscal Note One-Time Items | (21,689.3) | | | |
| Fund Source Change | - | | | |
| Temporary Increments (IncTs) | 757.9 | | | |
| Maintenance Increments (IncMs) and Increments | 1,693.9 | | | |
| FY19 Contractual Salary Increases | 823.0 | | | |
| FY19 Adjusted Base Budget (GF only) | \$1,100,597.4 | (\$26,439.7) | -2.3% | |
| Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent | - | | | |
| FY19 Governor's GF Increments/Decrements/Fund Changes | 143,630.4 | | | |
| FY19 Governor's Agency Request (GF only) | \$1,244,227.8 | \$143,630.4 | 13.1% | |

| FY19 Governor's Increments, Decrements, Fund Changes and Language | FY19 Adjusted Base Budget (GF Only) | FY19 Governor's Request (GF only) | Change from FY19 Adj Base to FY19 Governor's Request | See Note: |
|---|-------------------------------------|-----------------------------------|--|------------------|
| Appropriation | | | 143,630.4 | |
| Children's Services | 93,100.0 | 94,058.7 | 958.7 | 3 |
| Public Health | 68,776.6 | 68,401.6 | (375.0) | 6 |
| Senior and Disabilities Services | 31,151.9 | 36,677.0 | 5,525.1 | 2,12 |
| Medicaid Services | 554,792.1 | 692,313.7 | 137,521.6 | 2 |
| Non-General Fund Agency Summary | FY19 Adjusted Base Budget | FY19 Governor's Request | Change from FY19 Adj Base to FY19 Governor's Request | See Note: |
| Other State Funds (all allocations) | 117,155.2 | 123,145.7 | 5,990.5 | 2 |
| Federal Funds (all allocations) | 1,463,477.9 | 1,884,983.0 | 421,505.1 | 2,3,4,5 |
| Total Non-General Funds (all allocations) | \$1,580,633.1 | \$2,008,128.7 | \$427,495.6 | |
| Position Changes (From FY18 Authorized to Gov) | 3,541 | 3,513 | (28) | |
| PFT | 3,411 | 3,390 | (21) | |
| PPT | 47 | 44 | (3) | |
| Temp | 83 | 79 | (4) | |
| Governor's Capital Request | State Funds (GF + Other) | Federal Funds | Total | See Note: |
| Planning and Research | - | - | - | |
| Maintenance and Repairs | - | - | - | |
| Remodel, Reconstruction and Upgrades | 1,050.0 | - | 1,050.0 | |
| New Construction and Land Acquisition | - | - | - | |
| Equipment and Materials | 1,388.6 | 350.8 | 1,739.4 | |
| Information Systems and Technology | - | - | - | |
| Other | - | - | - | |
| TOTAL CAPITAL | \$2,438.6 | \$350.8 | \$2,789.4 | |

Department of Health and Social Services

The Department of Health and Social Services (DHSS) promotes and protects the health and well-being of Alaskans through the following activities:

- Provide quality of life in a safe living environment for Alaskans;
- Manage health care coverage for Alaskans in need;
- Facilitate access to affordable health care for Alaskans;
- Strengthen Alaskan families;
- Protect vulnerable Alaskans; and
- Promote personal responsibility and accountable decisions by Alaskans.

BUDGET SUMMARY

The Governor's FY19 Department of Health and Social Services general fund operating budget request is \$143,630.4 (13.1%) above the FY19 Adjusted Base [an increase of \$143,578.0 Unrestricted General Funds (UGF) and an increase of \$52.4 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

PROGRAM EXPANSION

1. **Requests in the Department of Health and Social Services Related to the Public Safety Action Plan (PSAP): \$18 million UGF (FY18-FY21).** To address a steady increase in both property and violent crimes, Governor Walker asked public safety agencies to evaluate the causes of increased crime and to recommend an action plan. The Public Safety Action Plan is the result of this request.

(<http://law.alaska.gov/pdf/admin/PublicSafetyActionPlan.pdf>)

The PSAP focuses efforts in four main areas:

1. Improving outcomes in the criminal justice system;
2. Identifying public safety resource needs, particularly for rural communities;
3. Improving access to mental health and substance abuse treatment; and
4. Addressing the opioid epidemic and drug trafficking.

The Governor's budget includes \$33.5 million to fund PSAP efforts in the following departments:

- Department of Corrections: \$10,447.6 UGF to address a growing prison population;
- Department of Law: \$1,163.2 UGF for 5 prosecutors and 3 support staff;
- Department of Public Safety: \$3,850.6 UGF and 10 positions; and

- **Department of Health and Social Services: \$18 million (FY18-FY21) for substance use disorders grant funding.**

Part III of the Governor's PSAP addresses how improved mental health and substance abuse services can reduce the number of individuals entering the criminal justice system. The \$18 million multi-year (FY18-FY21) supplemental funding requested to expand substance use disorder (SUD) services will address gaps in the continuum of care identified by local communities as follows:

- **\$3 million** for grantee start-up costs to assist development of local infrastructure necessary to provide programs;
- **\$4.5 million** for medically monitored withdrawal management ("detoxification") services;
- **\$1.5 million** for ambulatory withdrawal management (individuals who do not require inpatient withdrawal management);
- **\$4.5 million** for residential and outpatient substance use disorder treatment and recovery maintenance services;
- **\$3 million** for sobering centers or 72-hour substance misuse crisis evaluation services; and
- **\$1.5 million** for housing assistance and supports.

Legislative Fiscal Analyst Comment: During the 2016 session, the department received a \$6 million UGF multi-year supplemental appropriation (FY16-FY19) to combat Substance Use Disorders [Sec. 9, Ch. 1, 4SSLA 2016 (HB 257)]. The department has received few applications for grants, reportedly due to infrastructure costs associated with starting up these types of programs. Of the \$6 million, \$4.9 million was unspent through FY17 and was carried forward into FY18.

The department has indicated that obtaining \$3 million in late FY18 for grantee start-up costs may put money in the hands of grantees a few months earlier than obtaining a FY19 appropriation. As requested, the entire \$18 million will appear as a FY18 appropriation. Most of the \$18 million is expected to be expended in FY19 and beyond.

The legislature may wish to explore whether

- the available portion of the existing \$6 million appropriation could be used to meet current needs—thereby reducing the need for additional appropriations;
- a capital grant is a more appropriate means of funding this program—capital grants offer similar flexibility without distorting year-to-year operating budget comparisons.

2. **Medicaid Services.** The FY19 Governor's budget can be compared in two ways. The traditional method used by the legislature compares the FY19 Request to the FY18 Management Plan. This comparison reflects an increase of \$127.6 million UGF, \$737.5 MHTAAR (Other), and \$418.9 million Federal Receipts. The following table highlights significant FY19 changes that occur in the Medicaid budget.

| FY19 Budget Changes to Medicaid Services (excludes MHTAAR) | | | | |
|--|---|----------------------|-----------------|---------------------|
| FY19 Medicaid Projection Increments | | Allocation | UGF | DGF |
| | | | Federal | Total |
| Behavioral Health Medicaid Services | | \$ 18,743.1 | \$ 27,353.7 | \$ 46,096.8 |
| Adult Preventive Dental Medicaid Services | | \$ 5,391.0 | \$ 5,963.3 | \$ 11,354.3 |
| Health Care Medicaid Services | | \$ 111,350.2 | \$ 10.0 | \$ 359,660.8 |
| Senior and Disabilities Medicaid Services | | \$ 13,658.4 | | \$ 13,658.4 |
| | <i>sub-total FY19 Medicaid Projections</i> | \$ 149,142.7 | \$ 10.0 | \$ 392,977.8 |
| | | | | \$ 542,130.5 |
| Third year Medicaid Reform; Telemedicine; Drug Database Ch. 25 (SLA 2016) SB 74 | | | | |
| | | Allocation | UGF | DGF |
| | | | Federal | Total |
| Behavioral Health Medicaid Services | | \$ 330.0 | \$ 375.0 | \$ 5,032.5 |
| Health Care Medicaid Services | | \$ (9,916.7) | \$ 42.4 | \$ (2,716.7) |
| Senior and Disabilities Medicaid Services | | \$ (12,378.5) | | \$ 23,621.6 |
| | <i>sub-total Third Year SB 74 Changes</i> | \$ (21,965.2) | \$ 417.4 | \$ 25,937.4 |
| | | | | \$ 4,389.6 |
| | <i>Net FY19 Increases Over FY18 Mgmt. Plan</i> | \$ 127,177.5 | \$ 427.4 | \$ 418,915.2 |
| | | | | \$ 546,520.1 |

An alternative comparison to FY18, similar to comparisons included in the Governor's FY19 budget presentation, incorporates the following FY18 budget items:

- \$100 million UGF supplemental (requested), and
- \$525 million Federal Receipts (approved by the Legislative Budget and Audit Committee on November 9th, 2017, RPL #06-08-0367).

When the FY18 RPL and the Governor's FY18 \$100 million dollar UGF supplemental request are added to FY18 before comparing FY18 to FY19, general funds are \$27.6 million above and federal authority is \$106 million *below* anticipated FY18 costs.

Legislative Fiscal Analyst Comment: The Governor's \$100 million dollar UGF FY18 supplemental request includes \$93 million for regular Medicaid funding and \$7 million for the Children's Health Insurance Reauthorization Act [CHIPRA (also known as Denali KidCare)]. As of 1/9/18, Congress had not re-authorized the federal CHIPRA program. If re-authorization does not occur, the federal reimbursement rate for eligible children will decline from the enhanced rate of 88% to the regular Medicaid rate of 50%. This reduction in federal match would result in a projected \$7 million shortfall for the remaining half of fiscal year FY18.

Although the Governor's request includes \$7 million for FY18, it does not appear to contain the approximately \$14 million that would be needed to replace lost federal funding in FY19 (assuming the program is not reauthorized by Congress). Additional information on CHIPRA funding allotments can be found at:

<https://www.macpac.gov/publication/federal-chip-funding-when-will-states-exhaust-allotments/>

However, there are other considerations. In addition to FY19 increases stated above, the Governor also included two open-ended language items (one for unrestricted general funds and one for federal receipt authority, both "estimated to be \$0"), to cover Medicaid costs that exceed the Governor's request (see additional comments under section 14 in the discussion of Operating Language in this publication).

Legislative Fiscal Analyst Comment: Similar language included last year applied to FY17, not to the current fiscal year. That language was specifically intended to end the recent practice of delaying provider reimbursement, effectively shifting costs to the following fiscal year. The appropriation successfully encouraged the payment of FY17 liabilities in FY17, thus allowing FY18 to start cost calculations with a clean slate.

At this stage in the budget process, an open-ended appropriation may be a sign of danger. A \$100 million FY18 UGF supplemental indicates that Medicaid costs are growing much faster than expected and/or that Medicaid was severely underfunded in FY18.

The Governor's request for FY19 UGF Medicaid costs includes \$100 million to match FY18 authorization plus \$27 million for cost increases expected in FY19. Open-ended language provides incentive to underestimate anticipated costs (in order to restrain apparent spending).

Ideally, cost projections should fully fund program costs and appropriations should match projections. That method provides the clearest picture of program costs. Routine supplemental appropriations are a poor second choice, since supplemental costs sometimes slide under the radar. An open-ended appropriation at the beginning of a fiscal year leaves the legislature with limited knowledge/control of program costs.

The Legislative Finance Division is working with the Office of Management and Budget and the department to gain a better understanding of the underlying assumptions used to derive Alaska's Medicaid projections.

MAINTENANCE OF SERVICES

3. **Children's Services/Front Line Social Workers - Fully Fund 31 Positions**
Added in FY18: \$1,440.5 Total (\$481.8 Federal Receipts/ \$958.7 UGF). To account for recruitment delays in FY18, the legislature added 75% of funding needed -- \$2,425.7 UGF and \$1,435.5 federal receipts -- for 31 new PFT positions. These positions were added to reduce excessive caseloads of new workers, extend training to a more appropriate level, and add mentors and supervisors. The department contends that this request fully funds these new positions in FY19.

Legislative Fiscal Analyst Comment: As of December 31, 2017, 28 of the 31 positions have been hired with start dates ranging from October 2017 to February 2018. The final three positions are at varying levels of recruitment.

4. **Children's Services/ Front Line Social Workers – Increased Federal Authority Due to Amendment to Public Assistance Cost Allocation Plan (PACAP): \$6.5 million Federal Receipts.** Additional authority is requested to reflect the department's ability to claim additional Title IV-E federal receipts for foster care, adoption, and guardianship programs and for indirect costs in the Children's Services Management allocation.

Title IV-E funding is the largest federal funding stream for child welfare activities and helps fund services provided to children that have been removed from families and are considered "needy". Additional Title IV-E federal funding is available to the Office of Children's Services for the following reasons:

- OCS has implemented systems to better capture Title IV-E activities;
- the allocation methodology for Family Resource activities was changed from a penetration rate to a blended rate; and
- four activities associated with training were approved for an enhanced match of 75% versus 50%.

Legislative Fiscal Analyst Comment: Because the department received federal approval for the amendment on May 2, 2017, the Legislative Budget and Audit (LB&A) Committee approved a \$6.5 million RPL for FY17. The FY19 request adds federal receipts to the FY19 base budget; an FY18 supplemental budget request for additional federal authority is likely.

5. Alaska Pioneer Homes/Pioneer Homes: \$525.0 Federal Receipts. By maintaining a minimum 75% veteran occupancy, the Alaska Veterans and Pioneer Home in Palmer is certified as a residential veteran's home facility by the Veterans Administration (V.A.). As such, the Alaska Veterans and Pioneer Home in Palmer bills the V.A. for veterans that occupy the home.

The division is working with the V.A. to receive certification that acknowledges the level of care being provided at the Alaska Veterans and Pioneer Home in Palmer is at a higher level of service than domiciliary care. This certification will allow the Alaska Veterans and Pioneer Home to be reimbursed at a higher daily rate for up to 14 residents (\$46.25 per day to \$107.16 per day with an anticipated one percent market basket rate adjustment in October 2018). The division anticipates receiving the certification in the spring of 2018.

Legislative Fiscal Analyst Comment: The subcommittee may wish to discuss a possible UGF reduction to offset the increase in federal funds.

FUNDING REDUCTIONS

6. Public Health/ Chronic Disease Prevention and Health Promotion–Reduce Tobacco Use Education and Cessation Fund Authority: (\$375.0)

Tob ED/CES (DGF). The Tobacco Use Education and Cessation Fund primarily supports the Tobacco Prevention and Control program and receives annual deposits of about \$9 million, composed of approximately one-third cigarette taxes (received monthly) and two-thirds tobacco master settlement agreement (received annually in April). Appropriations from this fund have previously been reduced by \$746.4 in FY14 and \$400.0 in FY15, bringing available funding to \$1,521.4 (or 13.7 percent of the fund's \$11.1 million starting point). Without reductions in spending, current projections indicate that the program is expected to run into cash flow issues by FY20 and will be facing a shortfall by FY21.

ORGANIZATIONAL CHANGES

7. New Senior and Disabilities Community Based Grants Allocation (Senior and Disabilities Services Appropriation). The following three allocations were consolidated into the new Senior and Disabilities Community Based Grants allocation for grant services that serve the same, or similar, populations:

- Senior Community Based Grants;
- Community Developmental Disabilities Grants; and
- Senior Residential Services.

8. Transfer Community Health Grants Allocation to Emergency Programs

Allocation (Public Health Appropriation). According to the department, incorporating Community Health Grants into the Emergency Programs allocation will provide for greater financial accountability and program transparency because the Emergency Programs component has programmatic and fiscal oversight of the functions of the Community Health Grants program.

9. Transfer Assessment and Planning Allocation into Administrative Support Services Allocation (Departmental Support Services

Appropriation). All funding supports a single contract that provides planning, assessment, and forecasting activities for the Alaska Medicaid program. The management and support of this contract is housed within the division's Administrative Support Services Medicaid unit. The transfer of this authority aligns the contract with the personal services that support the activities.

10. Deletion of the Federal Performance Bonus Allocation. Due to a significant nation-wide decline in federal performance bonus funding over the past few years, the FY19 request decrements \$5.3 million of the \$6 million of uncollectible funding, transfers the remaining \$700.0 of federal unrestricted authority to the Administrative Support Services allocation for Alaska Psychiatric Institute renovations, and zeroes out the federal "Performance Bonus" allocation.

Legislative Fiscal Analyst Comment: The Children's Health Insurance Program Re-authorization Act of 2009 (CHIPRA) established a five-year federal "Performance Bonus" program for states to support the enrollment and retention of eligible children in Medicaid (the federal program ended in FY13).

OTHER ITEMS

11. Replace UGF with General Fund Match: Net Zero Change (\$130,519.4)

UGF/ \$130,519.4 GF/Match (UGF). For the past few years the Legislative Finance Division has recommended that the department more accurately reflect general funds that match federal funds. The FY19 budget includes \$130,519.4 in fund changes from UGF to General Fund Match in the following appropriations:

| Replacement of UGF with GF Match | |
|----------------------------------|---------------|
| | Appropriation |
| Behavioral Health | \$ 1,271.8 |
| Children's Services | \$ 8,419.9 |
| Public Assistance | \$ 58,516.9 |
| Public Health | \$ 31,140.5 |
| Senior & Disabilities Services | \$ 17,256.7 |
| Departmental Support Services | \$ 13,913.6 |
| Total | \$ 130,519.4 |

12. SB 74 Medical Assistance Reform (aka Medicaid Reform) Update. During the 2016 legislative session, the legislature passed legislation that added a number of Medicaid reform requirements to AS 47.05.270. Some of the requirements are included below:

- Behavioral health system reform
- Expanding the use of telehealth
- Enhancing fraud prevention, detection, and enforcement
- Reducing the cost of home and community-based services for behavioral health, senior, and disabilities services
- Redesigning the Medicaid payment process
- Pharmacy initiatives
- Referrals to community and social support services
- Electronic distribution of Explanation of Benefits (EOBs) to Medicaid recipients
- Enhanced care management

SB 74 requires the department to submit an annual report to the legislature by November 15 of each year on the status of the statutorily required reforms. The *AK DHSS Annual Medicaid Reform Report* can be found at:

http://dhss.alaska.gov/HealthyAlaska/Documents/redesign/FY-2017_Annual_Medicaid_Reform_Report.pdf

The FY19 Governor's budget restores \$5,425.1 UGF in the Senior and Disabilities Services Appropriation associated with unachievable savings projections under Medicaid Reform (SB 74).

13. Extend Senior Benefits Payment Program Scheduled to Sunset in FY18: \$19,986.1 UGF. HB 236 (which currently resides in the House Health and Social Services Committee) would extend the Senior Benefits Payment Program sunset clause to FY22. The program provides low-income seniors with modest cash assistance to pay for expenses like food, heating, electricity, transportation and prescription medication. Without action, the program will end in FY18.

14. Potential FY17 UGF Over-expenditures: For FY17, DHSS reported spending \$5.8 million UGF more than was authorized. According to the department, the majority of over-expenditures are associated with encumbrances that have been paid with UGF in anticipation of federal reimbursement. The department indicated it does not believe these FY17 over-expenditures will require ratifications.

Note, however, that FY16 reported actual expenditures were \$7.5 million above authorization. The Division of Legislative Audit subsequently identified six appropriations with potential FY16 over-expenditures totaling \$10.7 million UGF. Subcommittees may wish to have the department address the issue of over-expenditure / supplemental appropriation / ratification.

CAPITAL PROJECTS

The Governor's budget proposes a total DHSS capital budget of \$2.8 million, which is comprised of \$2.44 million of state funds and \$350.8 of federal funds. The three projects requested are listed below.

- **Office of Children's Services Safety and Support Enhancements: \$1,239.4 Total [\$350.8 Federal Receipts/ \$888.6 (UGF)].** Child protective services employees in Alaska are increasingly subjected to verbal abuse, including threats of death or harm. In extreme cases, employees have been physically assaulted by Office of Children's Services' clients. Funding will primarily address office and building safety (e.g. security enhancements, moving some field offices, etc.) and upgraded mobile equipment for Child Welfare professionals.
- **MH Essential Program Equipment: \$500.0 Total [\$250.0 MHTAAR (Other)/ \$250.0 AHFC Dividends (UGF)].** This is a periodic competitive capital grant project administered by the Department of Health and Social Services. Funds allow grantees to purchase durable goods (snow blowers, kitchen equipment, therapeutic equipment, etc.) that are essential to the core services and programs offered to clients. This capital project is offered every other year, and applications for grant funds consistently exceed funds available.
- **MH Home Modification and Upgrades to Retain Housing: \$1,050.0 Total [\$750.0 AHFC Dividends (UGF)/ \$300.0 MHTAAR (Other)].** This is a competitive capital grant program that provides housing modifications for persons with special needs in order to help people remain in their homes, thus reducing costs of providing supported housing or moving to institutional housing.

The Governor's "Alaska Economic Recovery Plan" proposes the following:

- **\$1 million UGF from the proposed Alaska Economic Recovery Act account for Emergency Medical Services Match for Code Blue Project.** This project supports community purchases of essential emergency medical response equipment. Funding is granted to communities and can generate matching funds of up to \$4 million in federal, local, and private funding; and
- **\$2 million UGF for Pioneer Homes Renovations and Repairs.**
 - \$747.3 UGF from the proposed Alaska Economic Recovery Act account for renovation work at the Anchorage Pioneer Home to provide additional capacity for individuals with Alzheimer's Disease or Related Dementia and complex behaviors; and
 - \$1,252.7 UGF from the proposed Alaska Economic Recovery Act account for structural upgrades to the Ketchikan Pioneer Home.

Funding for the Alaska Economic Recovery Act account requires passage of separate legislation. See the Capital Overview in this publication for more details.