

87th Legislative Session – 2012

Committee: Joint Appropriations

Thursday, February 09, 2012

P - Present
E - Excused
A - Absent

Roll Call

P Wismer
P Dennert
P Sutton
P White
P Dryden
P Bolin
P Romkema
P Deelstra
P Peters
P Novstrup (Al)
P Heineman
P Haverly
P Juhnke
P Putnam
P Carson
P Tidemann
P Wink, Vice-Chair
P Brown, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Chairman Corey Brown.

Department of Social Services

Secretary Kim Malsam-Rysdon met with the Joint Committee on Appropriations to discuss the department's proposed FY13 budget. Also in attendance were Brenda Tidball-Zeltinger, Lynne Valenti, Carrie Johnson, Virgena Wieseler, Pam VanMeeteren, Shawna Fullerton, Laura Shafer, and Doug Dix. Documents 1-8 were distributed.

The department's proposed budget totals \$1,041,053,224 involving \$387,250,078 in general funds, \$644,190,304 in federal funds and \$9,612,842 in other funds with 1,646.3 FTEs. This budget represents an overall increase of \$7,737,484 involving an increase of \$24,511,912 in general funds, a decrease of \$17,336,810 in federal funds, an increase of \$562,382 in other funds and an increase of 5.5 FTEs. The department's funding sources include 37.2% from the general fund, 61.9% from federal funds and 0.9% from other funds. Secretary Malsam-Rysdon said the department was very reliant on federal funds. Approximately 79% goes to Medicaid and CHIP, 4.2% to TANF, 4.0% to LIEAP, 2.1% to Child Care Block Grants, 1.7% to Title IV – E Foster Care & Adoption and 9.0% to over 48 other federal funds.

Major general fund impacts to the department budget include:

- Federal Medical Assistance Percentage (FMAP) – an increase of \$16,335,750 in general funds. The FMAP is determined annual for the federal fiscal year and is established using a formula comparing each state's average per capita income level with the national income average. State FMAP rates range anywhere from 50% to 74%. For FY13 the Title 19 state match will move from 40.34% to 43.07%. The CHIP state match will move from 28.24% to 30.15%.
- Provider Inflation – an increase of \$7,188,920 in general funds. Secretary Malsam-Rysdon said this provider inflation is outside any one-time funding that is being considered to assist the providers; this is an impact to the department's base budget. This includes several categories within the Medicaid Program where the department has to give inflationary increases for certain types of services and also includes the discretionary inflation to the base budget which for most programs is 1.8%.
- Changes in Medicaid – a decrease in general funds of \$2,203,515. Secretary Malsam-Rysdon said the net impact of Medicaid changes come from several different areas, including changes in the number of Medicaid eligibles, the cost of services and the utilization of services shows a downward trend. In addition, the department is proposing to reinstate the graduate medical education program that was cut last year, implementing changes suggested by the Medicaid Solutions Workgroup and lastly reimbursement changes for certain procedures that are performed in hospitals dealing with implantable devices.
- Other Reductions/Increases– an increase of \$3,190,757 involving employee compensation, Mental Health and Alcohol and Drug consumer expansion, Child Protection Services subsidized Adoptions and Guardianships.

Senator Peters asked for an update on the department's plan to hire 4 nurses in the Medical Services Division. Secretary Malsam-Rysdon said the department did hire the nurses to work with providers to ensure that people are getting the most appropriate level of care at the lowest level possible that meets their needs and to help with utilization management, particularly with inpatient hospital settings. The program is fully staffed and recently implemented a notification process with all inpatient stays of at least 6 days. Secretary Malsam-Rysdon said if it is likely

there will be a high cost inpatient stay, the program looks at the other factors and length of stay is just one. However, a lot of the long stays are unavoidable. After day 6 it becomes a very expensive stay within Medicaid. Long stays tend to happen more frequently in larger hospitals because smaller hospitals transfer patients to other facilities. The department has developed good working relationships with the hospitals and has found discharge resources for 4 people, one of which had been hospitalized for over a year. In addition, the program has found situations where the receiving provider wasn't a Medicaid provider and staff was able to help speed up that process. The next phase will be to do additional work on out-of-state placements,

Senator Heineman requested the department provide a report on the program's expectations and what has been the result of the work. In response to Representative Carson's question, Secretary Malsam-Rysdon said the nurses were funded with 75% federal and 25% general funds.

Office of the Secretary:

The recommended budget totals \$27,264,867 with 182.7 FTEs and involves \$7,603,435 in general funds, \$19,643,816 in federal funds and \$17,616 in other funds. This represents an increase of \$634,084 with \$276,185 in general funds, \$356,504 in federal funds and \$1,395 in other funds.

Division of Economic Assistance:

Benefits specialists are located in 64 communities across the state. The trend of those served by SNAP shows the growth rate of households returned to the pre-recession level of 12.02% between FY10 and FY11. The department is projecting the average number of households to be served in FY13 at 49,282. In response to Representative Bolin's question, Secretary Malsam-Rysdon said the qualifications for eligibility have not changed; the increase in numbers is clearly economical and there are likely more that qualify but chose not to participate. Representative Bolin and Senator Novstrup both expressed their concern with the 12.2% growth in households using SNAP. Secretary Malsam-Rysdon said this is a Federal program relative to the income guidelines.

Representative Wismer asked for information on the \$300,000 cut made last year from employment services in the SNAP program. Secretary Malsam-Rysdon said there was a reduction in employment training program but reminded the Committee most SNAP participants are working households. The department works with those that are not employed and are able to work to find employment. The employment services training program was previously in 20 counties and is down to 2 counties (Minnehaha/Pennington) where 68% of the SNAP cases live. The reduction involved 5.5 FTEs and \$204,000 in general funds. Since that change in July the department has served 2,489 individuals in the 2 counties and had previously served 3,600 in the 20 counties. Over 1,000 job placements were handled between July-December. In response to Senator Juhnke's question, Secretary Malsam-Rysdon said people go off both SNAP and TANF on a regular basis and these are net numbers.

Growth trends for TANF were also going up and are now closer to the pre-recession numbers. Projections for FY 13 are 3,408 with an average length of stay on the program of 4 months. In response to Senator Brown, Secretary Malsam-Rysdon said there are times of the year when there are more individuals participating in the programs, especially seasonal work such as construction and farm work.

The budget for Economic Assistance totals \$80,776,868 with 319.5 FTEs. This includes \$21,177,808 in general funds, \$59,282,039 in federal funds and \$317,021 in other funds. There is an \$8 million decrease in federal funds due to ARRA weatherization funds going away. The budget seeks an increase in general funds of \$571,443.

Division of Medical Services:

Medical services are provided through a system of 10,400 providers across the state. And despite the cuts last year, the providers have continued to provide service to the people who have Medicaid as their payer source.

Secretary Malsam-Rysdon said 69% of those served are children and 31% adults. Coverage for adults is limited to the elderly or disabled and those with extremely low income.

Growth in the number of eligibles is still going up but less than expected. Projections for FY13 are 118,542 involving 13,515 CHIP children, 67,899 Title 19 children and 37,128 Title 19 adults. In response to Representative Bolin's question, Secretary Malsam-Rysdon said Title 19 adults are those with a disability, an elder with low income and in long term care, or a small group of very low income families with dependent children and the household income is 52% of the federal poverty level or below. In response to Committee questions, Secretary Malsam-Rysdon said the majority of children served are from low-income families, families with no insurance. The Committee was reminded that just because the children qualify for services, it doesn't mean the adults in the family qualify. Medicaid for kids is at 140% of the poverty level.

Senator Putnam said the Governor put it best when he said 1 out of 7 people in South Dakota are eligible for Medicaid. In response to Representative White's question, Secretary Malsam-Rysdon said if the family has private insurance that would be used first, before Medicaid. In response to Representative Wismer's question, Secretary Malsam-Rysdon said private insurance is not an eligibility criteria for Medicaid and the department does not require private insurance coverage. In some cases, Medicaid can help with insurance premiums if it is cost effective for the program. Senator Brown asked how the potential federal health reform act will impact South Dakota's Medicaid numbers. Secretary Malsam-Rysdon said the department estimates an additional 54,000 adults will become eligible for Medicaid. Representative Wismer asked what percent of the 54,000 would be eligible for Indian Health Services. Secretary Malsam-Rysdon said Native Americans represent approximately 36% of all individuals on Medicaid in South Dakota. Secretary Malsam-Rysdon explained if the individuals is Medicaid eligible and receives services through IHS South Dakota receives 100% federal funds. However, if that same

individual is not able to get the care they need through IHS South Dakota does not get 100% federal funds. Secretary Malsam-Rysdon said she does not believe IHS is adequately funded.

The proposed budget for the Division of Medical Services totals \$563,562,022 with 50.0 FTEs. This involves \$187,602,573 in general funds, \$375,678,766 in federal funds and \$280,683 in other funds. The largest increase is \$10,466,500 in general funds for FMAP. In addition, the division is requesting restoration of last years cut to the Graduate Medical Education Program, an increase of \$1,225,700 in general funds and \$1,620,132 in federal funds for a total increase of \$2,845,832.

The Medicaid Solutions Workgroup brought forward 11 recommendations; two of which appear in this budget request. One is to increase the pharmacy co-payment from the current co-payment of \$3.00 to \$3.30 and to implement a co-pay of \$1.00 for generic drugs. The second recommendation is to place an annual limit on adult dental services (\$1,000 cap for non-emergency dental work) which results in a decrease \$550,000 (\$236,885 in general funds and \$313,115 in federal funds).

Inpatient Hospital Cost Saving Initiatives brings a change in reimbursement of implantable devices (pace makers, joint replacements) that results in a decrease of \$1,931,127 involving \$831,737 in general funds and \$1,099,390 in federal funds. Thirty-eight claims had a mark-up of 5-20 times the marketable price on implantable devices. Senator Putnam asked how this initiative would work. Secretary Malsam-Rysdon said the department is not trying to control the price of such devices, but only wants to pay what the device costs plus 10% and not allow the mark-up.

Secretary Malsam-Rysdon told the Committee the department was changing the projected number of Title 19 Medicaid clients for FY 13 from 106,614 in FY12 to 105,027 in FY13. This reduction results in a decrease in general funds of \$2,762,963 and a decrease in federal funds of \$4,738,415 for a net decrease of \$7,501,378. The projected number of CHIP eligibles is being increased by 677 resulting in an increase of \$496,065 in general funds and \$1,149,255 in federal funds, for a total of \$1,645,320.

Secretary Malsam-Rysdon said a federal change requires Medicaid programs to reimburse for primary care services provided by primary care providers at the Medicare rates. This results in an increase of \$1,754,213 in federal funds for 2 years, on a calendar year basis starting in January 2013. Another area of mandatory inflation is for federally qualified health centers, rural health clinics, crossover claims, Part A, B and C involving \$874,579 in general funds and \$728,908 in federal funds for a total of \$1,603,487.

The discretionary inflationary increase, an increase to the base budget of 1.8% for providers, involves \$2,476,478 in general funds, \$3,385,017 in federal funds for a total budget increase of \$5,861,495.

The net change for Medical Services is an increase of \$11,645,570 in general funds, and a decrease of \$8,008,048 in federal funds for a total increase of \$3,637,522.

Secretary Malsam-Rysdon explained that a federally qualified health care center must be located in areas of need. With a network across the state many facilities have multiple sights. Entities wanting to be qualified must apply to the federal government.

Senator Putnam asked if the match rate would change if and when the federal health care reform takes effect. Secretary Malsam-Rysdon said the department anticipates 54,000 more adults will be eligible for Medicaid under the federal health care reform act. For that new group the federal government will pay 100% of the cost of their services for 2014-2016. After 2016, that percentage will decrease gradually going down to 90% by 2019. The 90/10 match applies only to the newly eligible individuals.

Division of Adult Services and Aging:

The budget totals \$180,694,785 with 99.0 FTEs involving \$76,910,247 in general funds, \$102,295,383 in federal funds and \$1,489,155 in other funds. FMAP changes total \$4,067,624 in general funds with a like decrease in federal funds. Inflation for assisted living, nursing facilities, in-home services and elderly nutrition involves \$1,698,684 in general funds and \$1,880,766 in federal funds for a total of \$3,579,450.

Services in this division are provided for persons age 60 and older and adults with disabilities with specialists located in 25 communities across the state.

Division of Child Support:

Secretary Malsam-Rysdon reported 52,528 families were assisted in collecting child support. The budget totals \$7,432,635 with 83.0 FTEs. This includes \$1,857,919 in general funds, \$3,091,846 in federal funds and \$2,482,870 in other funds. This is an increase in general funds of \$62,195, \$111,144 in federal funds and \$59,240 in other funds.

Division of Child Protection Services:

The budget totals \$60,630,148 with 242.8 FTEs. This involves \$28,475,220 in general funds, \$30,930,349 in federal funds and \$1,224,579 in other funds.

The FMAP adjustment is a \$761,201 increase in general funds with a like decrease in federal funds. The department is requesting an expansion in subsidized adoptions to serve an additional 64 children involving \$138,553 in general funds and \$183,140 in federal funds and an expansion in Subsidized Guardianship for 28 additional placements involving \$98,325 in general funds, and \$67,742 in federal funds for a total of \$166,067.

Discretionary inflation in this budget is for Tribal contracts, foster care, group care, psychiatric residential facilities and etc. This base adjustment comes in at \$263,933 in general funds, \$298,355 in federal funds, \$6,639 in other funds for a total of \$568,927.

Senator Brown asked what process the department used to determine discretionary inflation. Secretary Malsam-Rysdon said it is the state's discretion to provide an increase rather than a federally mandated increase. They look at growth in costs, and is set at a statewide level involving many factors.

Division of Child Care Services:

The department provides subsidies to assist eligible working families with their child care costs, licensing and registration of child care programs, professional development and training for child care providers. The budget totals \$21,423,483 with 25 FTEs and includes \$4,573,661 in general funds, \$16,110,003 in federal funds and \$739,819 in other funds.

Budget changes include a Child Care Block Grant match increase of \$172,055 in general funds and a like reduction in federal funds. Inflationary increases for Early Childhood Enrichment Programs and Direct Assistance total \$1,033,259 in general funds. Total budget changes include an increase of \$1,227,934 in general funds and a decrease of \$142,559 in federal funds for a total increase of \$1,085,375.

Secretary Malsam-Rysdon spoke to the divisions moved to the Department of Social Services from the Department of Human Services under Governor Daugaard's reorganization of behavioral health services last year.

Human Services Center:

The Center's budget totals \$42,707,149 with 566.0 FTEs involving \$30,661,797 in general funds, \$11,038,705 in federal funds and \$1,006,647 in other funds.

The Center provides for adult and adolescent acute inpatient psychiatric treatment, adult psychiatric inpatient rehabilitation, psychiatric nursing home, adult and adolescent substance abuse treatment and court ordered competency evaluations and restoration. Services are provided for individuals ages 11 to end of life, emergency and involuntary committed individuals, voluntary admissions and individuals not able to be served by other agencies.

Major changes to the budget include a general fund increase of \$260,558 and a like decrease in federal funds for FMAP. The Center is also requesting an increase in other funds of \$403,566 in and 5.5 FTEs for Correctional Health Pharmacy Centralization. Inflationary increases for prescription drugs require \$22,417 in general funds and \$6,444 in federal funds for a total increase of \$28,861. The total budget request is an increase of \$1,238,351 in general funds, \$148,538 in federal funds and \$422,645 in other funds for a total increase of \$1,809,534.

Division of Mental Health:

Secretary Malsam-Rysdon told the Committee changes are coming for the Divisions of Mental Health and Alcohol and Drug Abuse; however at this time the two divisions will be budgeted separately. The Division of Mental Health serves children with serious emotional disturbances

and adults with serious mental illnesses. Services provided include individual, family and group therapy, family psycho-education and support, case management, assessment and evaluation, crisis assessment and intervention and psychiatric services. The department contracts with 11 community health centers across the state.

The budget totals \$29,865,818 with 24.0 FTEs. This includes \$17,115,373 in general funds, \$11,663,842 in federal funds and \$1,086,603 in other funds. Major changes include an increase of \$412,900 in general funds for FMAP with a like decrease in federal funds.

In addition, Secretary Malsam-Rysdon said there are currently 179 children on a serious emotional disturbance waiting list. Consequently the department is requesting an expansion involving an increase of \$153,023 in general funds and \$109,772 in federal funds, for a total of \$262,795. In addition to the expansion for children, 67 adults are on a waiting list for Adult CARE. The department's expansion request involves \$173,058 in general funds and \$17,292 in federal funds for a total increase of \$190,350.

Inflationary increases for Community Mental Health Centers, etc. involves an increase of \$295,628 in general funds, \$159,443 in federal funds and \$5,968 in other funds for a total increase of \$461,039.

Division of Alcohol & Drug Abuse:

Secretary Malsam-Rysdon said there are 61 accredited prevention/treatment providers in South Dakota and the department has contracts with 35 of those providers. Services are provided for low income adolescents and adults in need of treatment as well as youth and young adults in need of substance abuse prevention.

The budget request totals \$26,276,708 with 53 FTEs. Major changes include \$167,896 in general funds with a like decrease in federal funds for FMAP changes. The division is requesting an expansion in Outpatient Services to serve 820 individuals in outpatient and 334 in detox services. Secretary Malsam-Rysdon told the Committee they can not use a waiting list for these individuals and the services they are seeking. Outpatient expansions involve \$443,635 in general funds and detox expansions involves \$82,498 in general funds. Inflationary increases for Community Substance Abuse Providers involves \$221,918 in general funds and \$65,857 in federal funds for a total of \$287,775.

Representative Wismer asked about the \$1.5 million cut last year in the meth treatment program. Secretary Malsam-Rysdon said the reduction was made with no changes in services.

In response to Representative Bolin's question, Secretary Malsam-Rysdon said the state had been providing alcohol treatment services since the 1970's; and Medicaid goes back to the 1960's. If federal funds were not available, Secretary Malsam-Rysdon said the state would find those individuals in need because of their addiction, getting services from other state agencies.

Senator Heineman asked how many would be served with the proposed expansion. Secretary Malsam-Rysdon said the department served 18,395 adults and children with mental health issues FY11 and agreed to provide the Committee with current numbers in the Alcohol and Drug Abuse program.

Informational Boards:

The following Boards came to the department under the reorganization order:

- Board of Counselor Examiners
- Board of Psychology Examiners
- Board of Social Work Examiners
- Certification Board for Alcohol & Drug Professionals

The proposed budget for the Boards is \$418,741 and 1.3 FTEs.

Representative Bolin asked about sequestering federal funds. Brenda Tidball-Zeltinger said the sequester act itself specifies a dollar amount cut but doesn't say which fund sources. Cuts range from 7.8 to 9.3 percent. The Department of Social Services has \$62.5 million that is susceptible to sequestering which would be a possible cut of \$5.2 million to \$6.5 million.

Betty Oldenkamp, CEO of Lutheran Social Services and lobbyist for South Dakota's Youth Care Providers spoke to the Committee regarding child protection services and juvenile corrections. But, Ms. Oldenkamp reported on the changes done to reset their budgets to adjust to the cuts made last year and thanked the Committee for making their cut 4.5% and not 10%. Ms. Oldenkamp said their rates are based on one-time money. The youth care providers have seen a 38% turnover rate, compared to 29% two years ago. Turnover is expensive when the agencies have to retrain staff, etc. and the agencies must comply with federal regulations regarding staff ratios in order to stay licensed. Ms. Oldenkamp said while the agencies are able to get grants for specific programs, they are not able to get grants for ongoing expenses. Ms. Oldenkamp said her agencies continue to work hard at fundraising from outside contributors.

Representative Dennert asked if South Dakota's rates were lower than other states. Ms. Oldenkamp said while rates do vary and some states pay on the Medicaid rate; the youth still need to go through an eligibility process.

Representative Romkema asked how many youth are served in the different facilities. Ms. Oldenkamp said the capacity in 2006 was 796 but with the closure of a couple of facilities, the number of beds is down to 580. Approximately 1,600 youth were served in 2011. The average stay is difficult to describe because there are 3 categories; however, for those receiving psychiatric care the average stay is 180-200 days. Representative Romkema asked about the youth that are not being served. Ms. Oldenkamp said there are fewer youth due in part to the community programs now available that work to keep the youth in their home communities.

However, it continues to be a challenge to keep the residential beds available and still grow the community programs. Authorizations for mental health care are getting tighter and tighter. Other states are no longer sending youth to South Dakota because they no longer have the necessary funds as well.

Terry Dosch spoke to the Committee on behalf of the South Dakota Council of Mental Health Centers and the South Dakota Council of Substance Abuse Directors. The people served by his agencies are children with serious emotion disorders and adults with mental illness. Services are provided region wide and the agencies rely heavily on state contracts with an estimated 55-80% of their business coming from state contracts. Mr. Dosch said approximately 75% of the total cost goes to the people providing the service. Mr. Dosch said his agencies have experienced 2 years of flat funding and took a 7% cut last year but received one-time money that made the actual cut 4.5%. Mr. Dosch said his agencies are concerned about the one-time nature of the proposed increase.

MOTION: ADJOURN

Moved by: Haverly
Second by: Wink
Action: Prevailed by voice vote.

Barb Bjorneberg
Committee Secretary

Corey Brown, Chair