

HHS COMMITTEE #1
October 27, 2011

MEMORANDUM

October 25, 2011

TO: Health and Human Services Committee

FROM: Linda McMillan, Senior Legislative Analyst 

SUBJECT: **Briefing: Impact of State and Federal Budget Cuts on Expected FY12 Revenues for Health and Human Services**

Uma Ahluwalia, Director of the Montgomery County Department of Health and Human Services, and Brian Wilbon, DHHS Chief Operating Officer, will be present at this session to provide the Committee with an update on the impacts from State and Federal budget reductions. Each year, the Council approves a DHHS budget that is based on the best assumptions available. Because the State in many cases cannot allocate health and human services reductions or increases to Montgomery County before the Council's May action, there are adjustments that occur during the summer and fall that can impact programs. In addition, Federal actions are not fully known for the County's fiscal year and adjustment are also made to Federal funding. Some of the larger adjustments the Committee will hear about include utility assistance and emergency housing assistance for low income households.

As background to this discussion, two items are attached to this memo. The first (©1) is a February 2011 Issue Brief from Advocates for Children and Youth that discusses the higher percentage of Maryland households participating in Federal safety net program than the national average. The second (©2-8), is a March 2011 memo prepared by the Maryland Budget and Tax Policy Institute about service reductions and unmet needs in certain health and community based human services. While the statements about the FY12 budget may no longer be completely accurate based on final budget action, the memo contains information on reductions over the last three years as well as information on unmet needs in the State.

The Recession's Impact on Maryland Families

Data Shows Noticeable Growth in Families Facing Economic Distress

Executive Summary

The "Great Recession" has negatively impacted the overall well-being of Maryland's children. Increased participation in safety-net programs over this time period highlight the vulnerable state of Maryland families and children and illustrates the need to protect them from possible budget cuts to these crucial programs.

Background

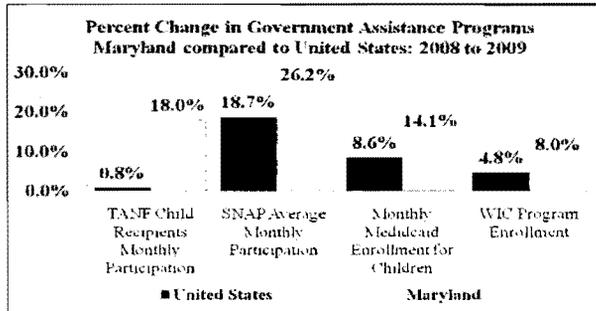
According to a recent study¹, family economic distress in the United States has grown noticeably in 2009 and early 2010 as the effects of the recession linger. Maryland families were no exception to the recession's effects. Data gathered from several sources indicate a significant rise in the enrollment and use of safety-net programs by Maryland families.

Measuring the Impact

From 2007 to 2009, Maryland children living in households with both parents unemployed increased from 1.7 percent to 3.0 percent; which is an increase of 76 percent. Maryland children with at least one parent unemployed during that same time period increased from 3.3 percent to 7.5 percent; an increase of 127 percent over two years².

While the unemployment numbers are slightly below the national average, they help to paint the larger picture of the need for families to utilize government assistance programs.

The attached chart illustrates the increase in participation rates for federal safety net programs: a key indicator for measuring the proportion of families in distress. While all states saw an increase in the number of families accessing safety-net programs, Maryland's increases, as compared to the United States as a whole, are significant.



From 2008 to 2009, families applying for Temporary Assistance for Needy Families (TANF) increased 18 percent, WIC enrollment increased 8 percent, Medicaid Enrollment increased by 14 percent and Supplemental Nutrition Assistance Program (SNAP) increased by an alarming 26 percent. Comparing program participation rates between Maryland and the United States shows a 40 percent greater increase than the nation as a whole. In many cases, these figures may be larger because they only represent families that have applied for these safety-net programs, not the number of families that are eligible or who actually enroll. However, states can and do place limits on program enrollment during times of intense economic stress just as the need for these programs increases.

Discussion

With calls to reduce federal spending and close deficits, safety-net programs are almost sure to see budget cuts. However, with the increases in participation and unemployment in Maryland still above 7 percent³, any cuts to these programs will further impact the economic well-being of already distressed families as well as pushing more families to the brink of economic distress. In this time of fiscal austerity within state and federal budgets, it is imperative that we not forget about the most vulnerable citizens and that we continue to provide for families in need by being creative about ways to fill budget gaps.⁴

¹ O'Hara, William P., Gutierrez, Florencia (2010) *Children, the Recession and the Safety Net: Data from 2009*. Baltimore, MD: The Annie E. Casey Foundation.

² Source: Population Reference Bureau analysis of monthly Current Population Survey files.

³ Source: Department of Labor Statistics; Dec. 2010 unemployment figure

⁴ Advocates for Children and Youth, *Budget Choices and Challenges* (Jan. 2011)





TO: Vincent DeMarco, President, Maryland Citizens' Health Initiative
FROM: Neil Bergsman, Director, Maryland Budget and Tax Policy institute
RE: The Lorraine Sheehan Health and Community Services Act of 2011 –
Opportunities to Restore Cuts to Health-Related Services
DATE: March 1, 2011

The Maryland Citizens' Health Initiative has asked the Maryland Budget and Tax Policy Institute to provide an accounting of service reductions and unmet needs in state budget categories that would be affected by HB 121/SB 168, the Lorraine Sheehan Health and Community Services Act of 2011.

As you know, HB 121/SB 168 would increase state excise taxes on alcoholic beverages and dedicate the increased revenues to six purposes:

- Community-based services for individuals with developmental disabilities and their families,
- Community-based services for prevention of, treatment for and recovery from drug and alcohol addictions,
- Community-based services for prevention of and treatment for mental illnesses
- Tobacco-use treatment and cessation programs,
- Medical Assistance services, and
- Training services to upgrade the qualifications of healthcare personnel.

Even though the Governor and General Assembly have been sensitive to the needs for health-related community services, each of these functions has been adversely affected by the effects of the national economic recession and state budget actions. Health-related community services in Maryland suffer under-funding in three ways:

1. Reductions in the 2012 proposed budgets.
2. Reductions in funding and service levels during the period of state revenue shortfalls beginning in fiscal year 2008.

3. Pre-existing levels of un-met needs, in many cases exacerbated by the effects of the national economic recession.

These pieces add up literally to hundreds of millions of dollars in reductions to date and unmet commitments. However, the funding provided by the proposed increase in alcohol taxes would move Maryland towards its healthcare goals.

The Maryland Budget and Tax Policy Institute has compiled this information from the administration's budget documents, Department of Legislative Services' analyses and reports, information collected by the Health Reform Coordinating Council, and personal reports from representatives of service providers and advocacy groups.

Developmental Disability Services

1. FY 2012 Budget

The Developmental Disability Administration (DDA) budget includes a fund shift that reduces State general funds for services by \$6 million and projects a \$12 million increase in federal funding. The problem is that the method used for the fund swap results in significant funding loss for Day and Supported Employment programs for people with developmental disabilities across Maryland.

The proposed fiscal year 2012 budget cuts \$19 million by proposing a new rate structure that would discontinue payment for days when people with disabilities miss a day of attendance in residential, day or supported employment services. The new structure would raise rates to providers, but *not enough* to compensate for the loss of payment for absence days for most providers.

When people with disabilities miss a day of attendance in a residential, day or employment program (absence days), providers are compensated for a portion of those days. Reasons for "absence days" include illness, hospitalization, inclement weather, and doctor's appointments. Even when one individual is absent, providers must remain open, pay staff and other operating costs. The proposed policy would defund the majority of absence days.

The majority of providers stand to lose funding under the proposed system. This loss in several instances is estimated at nearly a half million dollars per agency.

Additionally, the proposed budget would change how developmental disability service providers are paid. It would move to a retrospective payment system – community providers would be paid only after they had provided services (and incurred their expenses). The Department of Legislative Services reports savings to the state at about \$500,000. This change is very likely to leave financially-strapped providers at risk of financial failure, which would jeopardize the services people receive.

The Department of Legislative Services has identified two areas in which developmental disability services are underfunded in the fiscal year 2012 budget. Although the budget provides \$10 million to fund services for youth with developmental disabilities transitioning from the public schools to adult status, that is \$4 million less than the estimated amount required to serve the 673 individuals affected. Also, the budget provides \$1 million for court-ordered community placements. This amount is \$3 million to \$4 million below the amounts actually expended in fiscal 2010 and the trend to date on fiscal 2011.

2. Cuts in previous budgets

- FY 2010 cost containment actions reduced developmental disability community services budgets by \$30 million, including reductions to provider rates and elimination of referral and coordination services.
- FY 2009 cost containment actions reduced provider rates by \$4.2 million.
- FY 2008 cost containment measures reduced community services by \$1.8 million by limiting the number of days when a client is absent that the provider will be reimbursed.

3. Unmet needs

Lastly, there are over 5,300 people on the DDA Waiting List who need services. Over 1,100 of them have been determined to be in crisis, or soon to be in crisis, but they will continue to wait for desperately needed assistance. An additional 3,000 individuals will require services in the foreseeable future. Their names have now been placed on a "registry."

Of additional concern, over 4,100 people were removed from the waiting list because they were unreachable after having waited for many years. These individuals may not have responded to initial efforts to contact them, but they remain eligible for services and may still be in the state and still in need of services either now or in the future.

Finally, the majority of individuals who currently receive a DDA-funded service are enrolled in the Medicaid waiver program. As such, they are entitled to all Waiver services they are determined to need. As their needs change or increase, they may require additional services, which DDA is obligated to provide. This will require additional state funding to be made available.

The fiscal year 2012 budget provides little relief. The only funding dedicated to the DDA Waiting List is through a special fund, the Waiting List Equity Fund. This will reach 40 of the 5300 people. This has been the case for the past nine years, with the exception of FY 2007.

Addiction Services

1. FY 2012 Budget

The fiscal year 2012 budget for treatment funding is \$5.9 million under 2009 actual expenditures.

2. Cuts in previous budgets

- FY 2010 cost containment measures cut \$5 million, principally from grants to local governments for prevention and treatment services.
- Fiscal 2009 cost containment actions by the BPW reduced ADAA's appropriation by just over \$1.1 million including a reduction to community provider rate increases, hiring delays, and other operating expense reductions. In addition, funding was shifted from categorical grants to the Primary Adult Care (PAC) program to leverage more federal funding. However, this shift means fewer services available for clients who do not qualify for PAC. Programs serving communities where uninsured people have incomes just above the federal poverty level have had their

resources significantly decreased as over \$9 million in funding from ADAA has been shifted to Medicaid to serve those who are eligible for PAC.

- Fiscal 2008 cost containment actions included a \$750,000 cut from proposed expansion of buprenorphine programs.

3. Unmet needs

The unmet addiction treatment need across Maryland is tremendous. In Baltimore City, estimates are that over 42,000 people need treatment and do not receive it. Partly, this is due to unavailable services. Funding constraints have meant that the continuum of needed services becomes more inadequate across the state. Other people with addictions are in need of treatment slots throughout the state. Funding constraints have meant that services become more inadequate.

As an example, since fiscal year 2009, Baltimore Substance Abuse Systems, Inc. (BSAS) has experienced a significant decrease in the level of state and city funding allocated for the prevention and treatment of substance use disorders in Baltimore City.

	FY 2009	FY 2010	FY 2011	% Funding Decrease FY 2009 - FY 2011
State Funding	\$52,065,688	\$50,531,151	\$46,083,219	-11.5%
Baltimore City Funding	\$2,272,856	\$2,052,543	\$1,442,501	-36.5%

In particular, the loss of state block grant dollars over the last two years has had a significant negative impact on Baltimore City's treatment system resulting in:

- **Layoffs of nearly 50 staff** across the BSAS-funded provider network on Baltimore City
- **An 8% reduction in the total number of BSAS-funded treatment slots** intended for the uninsured and underinsured across Baltimore City. This reduction equates to treatment services for approximately 1,000 individuals.
- **Decrease in the number of residential treatment slots**, which are extensively utilized by individuals referred through the criminal justice system. Approximately 30% of BSAS' block grant funding supports residential treatment services, which are not covered by Medicaid.
- **Perpetuation of the addiction treatment gap.** With decreased availability of state and city funded treatment services, in particular those that are non-Medicaid reimbursable, the treatment gap will continue to grow.

The Department of Legislative Services notes that the state is frequently found in contempt of court because treatment slots are not available to comply with judges' orders in a remotely timely manner.

Mental Health

1. FY 2012 Budget

The proposed fiscal year 2012 budget for the Mental Hygiene Administration (MHA) reduces rates for front-line public-sector community mental health services by 2.5% (most other community health providers received a 1% cut). This is partially offset by a 1.13% increase in reimbursement rates for community services in compliance with legislation passed last session, SB633/HB1034, to require an annual inflationary adjustment in rates for community mental health and developmental disabilities providers. So, the net rate cut = 1.37%. The 2.5% cut also applies to grants. The net effect is a reduction to community mental health services of \$9.5 million.

There's an additional cut of \$0.5 million to local Core Service Agencies which also represents lost community service dollars.

The budget does not cover \$52 million in liabilities from services provided in prior years and "rolled forward" into fiscal year 2012 due to funding shortfall.

2. Cuts in previous budgets

The proposed rate cut for fiscal year 2012 comes on top of a long history of underfunding. Community mental health programs have received inflationary adjustments in only 3 of the past 16 years. The public mental health system took five rounds of mid-year cuts during FY09 and FY10 totaling more than \$56 million. More than a third of those cuts came from community services.

3. Unmet needs

The public mental health system is projected to serve 139,000 children and adults in fiscal year 2012, compared with 99,000 in fiscal year 2008. This 40% explosion in demand has been fueled by the poor economy.

Medical Assistance

1. FY 2012 Budget

Medical Assistance is the largest item in the state budget and also accounts for nearly all of the year-to-year increase in the proposed budget. Paradoxically, however, the budget plan still incorporates damaging cut-backs to Medical Assistance services. The increases in the Medical Assistance budget reflect the end of increased federal matching funds and continued growth in caseloads and medical costs.

Most providers will receive a 1% rate cut, totaling more than \$17 million. There is also \$15 million in "unspecified" cost containment. Medical Assistance provider rate reductions are troublesome not only because of the hardships they may cause the medical providers, but because as Medical Assistance rates become less and less competitive, more and more providers will stop serving Medical Assistance patients, and Medical Assistance beneficiaries will effectively lose their access to care.

Most prominently, the budget relies on over \$200 million in additional provider assessments (principally on hospitals and nursing homes) to fund Medical Assistance. To the extent that providers are not able to recoup these fees through rate increases, they will need to reduce their expenditures in order to cover costs. This could well affect staffing and other elements of care. (Of course, to the extent the

assessment is passed through in the form of rates, it ultimately increases the cost of insurance statewide).

2. Cuts in previous budgets

Medicaid eligibility and covered services have been largely held constant during the recession. In large part, this complied with requirements of the federal American Recovery and Reinvestment Act and the Affordable Care Act. However, provider rates have not been protected, and have faced freezes and reductions throughout the state's revenue shortfall. Other reductions to the Medical Assistance budget reflected "fund switches" which have meant that on-going expenses for Medical Assistance services are being funded with temporary sources of income. Although the proposed budget for Medical Assistance increases considerably on a year-to-year basis, much of the apparent increase is a consequence of these temporary sources being exhausted.

The fiscal year 2010 Medical Assistance budget was reduced over \$300 million. The bulk of these cuts represented fund swaps with federal Recovery Act dollars and hospital assessments. The cuts also included rate cuts for managed care organizations, nursing homes, community providers and other service providers.

In fiscal year 2009, the Medical Assistance program received \$93 million in cost containment reductions, including provider rate reductions and limits on lengths of hospital stays.

3. Unmet needs

Maryland's landmark 2007 Medicaid expansion legislation called for providing Medical Assistance coverage to adults under 116% of the federal poverty level (i.e., under about \$12,600 for a single individual in 2011). The first stage of this initiative took effect in 2008, providing coverage for low-income parents. Over 70,000 are now enrolled as a result. However, as the recession caused precipitous drops in state revenue, the second phase, for childless adults – was never implemented. Overall, more than 700,000 Marylanders remain without health coverage.

During the summer of 2007, a Dental Action Committee appointed by the Governor developed an action plan to address Maryland's dental crisis, exposed by the tragic death of Deamonte Driver. Low Medical Assistance reimbursement rates were identified as a large part of the problem. The fiscal year 2009 budget provided \$14 million as the first of three installments towards increasing Maryland's rates to the regional median. No further funding has been available for the second and third phases.

Community health "safety-net" providers have been particularly hard-hit by the effects of the weak economy compounded by cuts in Medical Assistance funding.

Even level funding leaves community health centers worried about how to keep up with the demand for healthcare services. For example, Chase Brexton, which operates primary health centers in four jurisdictions, treated 21% more patients in just the last 12 months. The largest segment of these new patients is uninsured. They also see a lot of individuals covered by Medicaid. The 6/10 of 1% increase in their Medicaid rate is clearly not sufficient to keep up with rising costs.

Tobacco Prevention and Cessation

1. FY 2012 Budget

Tobacco use prevention and cessation programs are essentially level-funded with 2011.

2. Cuts in previous budgets

Tobacco prevention and cessation program funding has declined from \$17 million in fiscal year 2008 to only \$3.6 million in fiscal year 2011. That is a 75% reduction.

3. Unmet needs

The Centers for Disease Control estimate nearly 7,000 cigarette-related death occur each year in Maryland. In 2007, Maryland's spending on tobacco prevention reached only 32% of the levels recommended by the CDC. The tobacco prevention and cessation budget has been cuts by 75% since that time.

Health Workforce Development

The Health Care Reform Coordinating Commission noted that "...while more people will have health insurance when federal reform is fully implemented, their coverage will be meaningful only if they have access to health care providers able to meet their needs. Health care workforce shortages exist nationally and in Maryland. These shortfalls will soon be exacerbated by the increased demand for services resulting from the ACA's coverage expansion, coupled with the rise in health services made necessary by an aging population."

Maryland must invest to increase and improve our healthcare workforce at all levels.

Conclusion

The examples in this report show that each of the areas to which HB 121/SB 168, the Lorraine Sheehan Health and Community Services Act of 2011 dedicates funds has faced significant cutbacks since the start of the recent national economic recession. Even before the recession, there were substantial unmet needs. The recession not only caused state revenues to decline, it caused service needs to explode. For these reasons, community based health services now need the resources HB 121/SB 168 would provide more than ever.