Maryland Department of Health
Fiscal 2019 Budget Overview

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

January 2018

For further information contact: Jordan D. More Phone: (410) 946-5530

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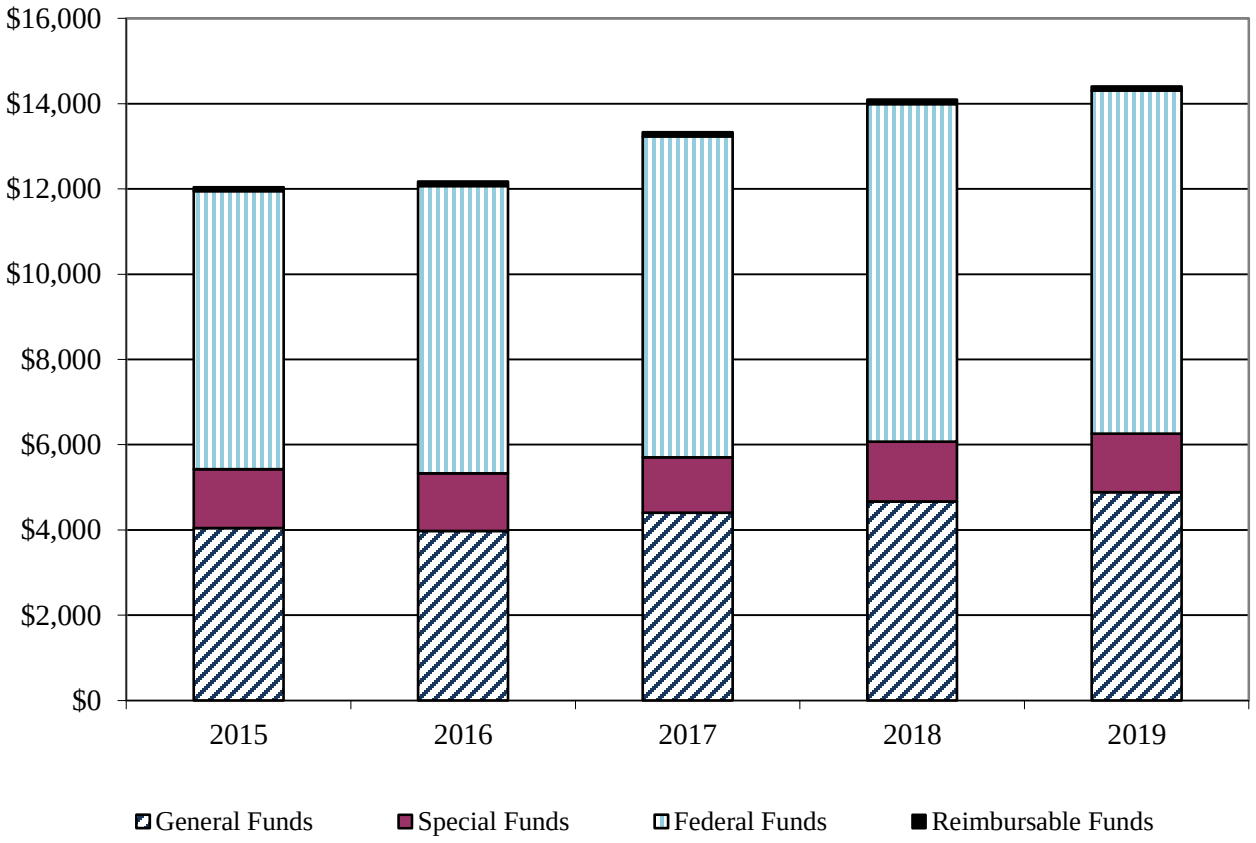
Maryland Department of Health
Fiscal 2019 Budget Overview

Five-year Funding Trends
Fiscal 2015-2019
($ in Millions)



Note: Includes fiscal 2018 deficiencies, fiscal 2019 contingent actions, and fiscal 2018 and 2019 departmentwide adjustments. Fiscal 2018 deficiencies are attributed to the appropriate fiscal year. Fiscal 2015 through 2019 data includes the funding for the Senior Prescription Drug Assistance Program, which was transferred to the Maryland Department of Health in fiscal 2017.

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

Budget Overview
Fiscal 2015-2019
($ in Millions)

	2015	2016	2017	2018	2019	Change 2018-2019
General Funds	**$4,078**	**$3,978**	**$4,391**	**$4,626**	**$4,924**	
Fiscal 2018 Deficiencies			17	49		
Fiscal 2019 Contingent Actions					-44	
Departmentwide Adjustments				-6	6	
Adjusted General Funds	**$4,078**	**$3,978**	**$4,408**	**$4,669**	**$4,886**	**$217**
Special Funds	**$1,380**	**$1,348**	**$1,298**	**$1,410**	**$1,354**	
Fiscal 2018 Deficiencies				-11		
Fiscal 2019 Contingent Actions					18	
Departmentwide Adjustments				-1	0	
Adjusted Special Funds	**$1,380**	**$1,348**	**$1,298**	**$1,399**	**$1,372**	**-$27**
Federal Funds	**$6,523**	**$6,746**	**$7,491**	**$7,877**	**$8,069**	
Fiscal 2018 Deficiencies			34	50		
Fiscal 2019 Contingent Actions					-22	
Departmentwide Adjustments				-$1	$1	
Adjusted Federal Funds	**$6,523**	**$6,746**	**$7,526**	**$7,926**	**$8,047**	**$122**
Reimbursable Funds	**$90**	**$100**	**$95**	**$99**	**$100**	**$1**
Total	**$12,071**	**$12,172**	**$13,327**	**$14,093**	**$14,406**	**$313**
Annual % Change from Prior Year	**12.2%**	**0.8%**	**9.5%**	**5.7%**	**2.2%**	

Note: Includes fiscal 2018 deficiencies, fiscal 2019 contingent actions, and fiscal 2018 and 2019 departmentwide adjustments. Fiscal 2018 deficiencies are attributed to the appropriate fiscal year. Fiscal 2015 through 2019 data includes the funding for the Senior Prescription Drug Assistance Program, which was transferred to the Maryland Department of Health in fiscal 2017. Numbers may not sum to total due to rounding.

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

Maryland Department of Health
Fiscal 2018 Deficiencies

Program	Item	General Funds	Total Funds
Fiscal 2018 Deficiencies			
Office of the Secretary	Funding to replace a declining share of indirect cost recoveries.	$1,924,819	$1,924,819
Office of the Secretary	Funding for facility maintenance across the department.	1,719,300	1,719,300
Public Health Administration	Funding to develop an integrated electronic birth, death, and fetal death registration system.	486,661	486,661
Public Health Administration	Funding for the digitization of records at the Vital Statistics Administration.	200,000	200,000
Behavioral Health Administration	Funding to increase capacity in the community to accommodate court-ordered placements for treatment.	1,975,335	1,975,335
Behavioral Health Administration	Funding for fee-for-service residential treatment services.	3,264,681	3,264,681
Behavioral Health Developmental Disabilities	Funding for operations costs associated with increased bed capacity at various institutions.	1,770,511	1,770,511
Behavioral Health Administration	Funding for operational costs at Crownsville Hospital Center.	733,593	739,866
Behavioral Health Administration	Funding for service year 2017 medical provider reimbursements.	17,000,000	51,460,000
Behavioral Health Administration	Funding for service year 2018 medical provider reimbursements.	7,800,000	58,160,000
Medical Care Programs Administration	Funds for medical provider reimbursements and contractual services.	29,500,000	18,850,000
Medical Care Programs Administration	Funding for additional positions to conduct Medicaid eligibility determinations for individuals leaving Department of Public Safety and Correctional Services custody.	33,680	108,424
Fiscal 2018 Deficiencies Total		**$66,408,580**	**$140,659,597**

Source: State Budget

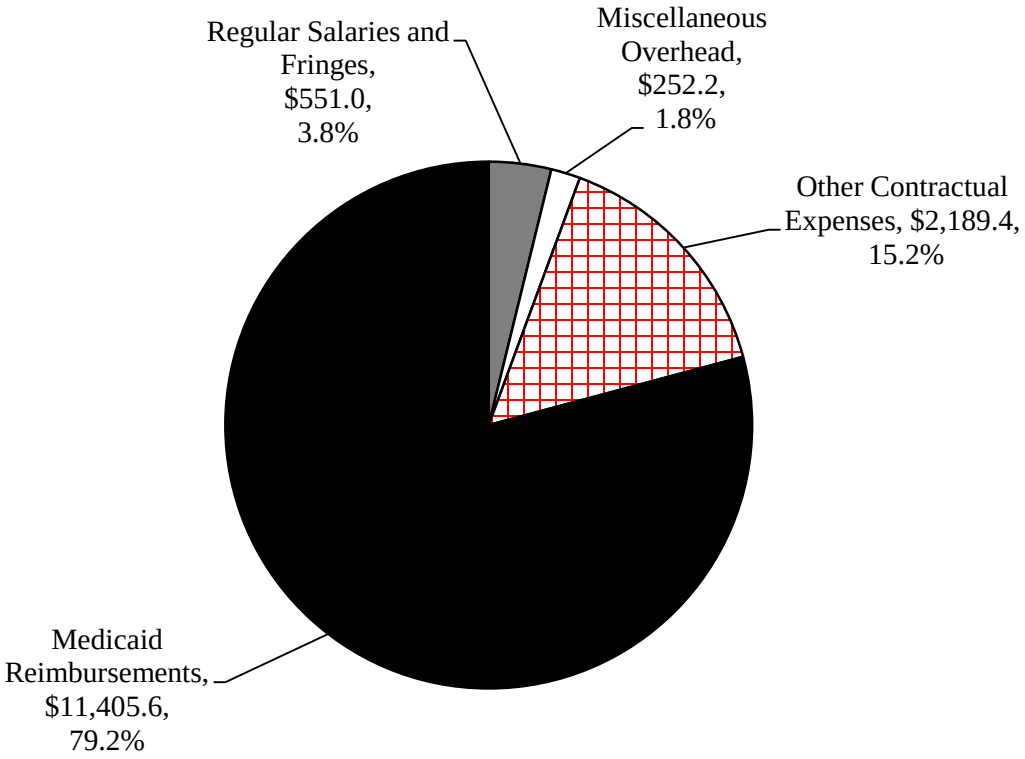
Maryland Department of Health
Fiscal 2019 Contingent Actions and Fiscal 2018 and 2019 Departmentwide Adjustments

Program	Item	General Funds	Total Funds
Fiscal 2019 Contingent Reductions			
Public Health Administration	Level funding the Core Public Health Services formula at the fiscal 2018 level.	-$890,794	-$890,794
Prevention and Health Promotion Administration	Authorizing funding from Cord Blood fund for Maternal and Child Health.	-250,001	0
Prevention and Health Promotion Administration	Authorizing funding from Advance Directives fund for Maternal and Child Health.	-497,000	0
Behavioral Health Administration	Replacing general funds with special funds from the Maryland Community Health Resources Commission.	-2,000,000	0
Behavioral Health Administration	Reducing the mandated provider rate increase from 3.5% to 2.0%.	-7,942,754	-16,313,759
Developmental Disabilities Administration	Reducing the mandated provider rate increase from 3.5% to 1.0%.	-14,638,439	-27,933,872
Medical Care Programs Administration	Replacing general funds with special funds by reducing the Medicaid Deficit Assessment to $25 million instead of $35 million.	-10,000,000	0
Medical Care Programs Administration	Utilizing special funds from the Trauma Physicians Services Fund balance in lieu of general funds.	-8,000,000	0
Health Regulatory Commissions	Reducing the required appropriation for the Maryland Community Health Resources Commission.	0	-3,000,000
Fiscal 2018 Contingent Reductions Total		**-$44,218,988**	**-$48,138,425**
Departmentwide Adjustments			
MDH	Reduction to the amount of the health insurance contribution for fiscal 2018.	-$6,428,546	-$8,148,960
MDH	Fiscal 2019 general salary increase.	6,461,623	7,433,827

MDH: Maryland Department of Health

Source: Maryland Department of Health; Department of Legislative Services

Maryland Department of Health
Functional Breakdown of Spending
Fiscal 2019 Allowance
($ in Millions)



Note: Medicaid reimbursements include Maryland Children's Health Program and Behavioral Health provider reimbursements.

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

Maryland Department of Health
Budget Overview: All Funding Sources
Fiscal 2017-2019
($ in Thousands)

	Actual 2017	Working 2018	Allowance 2019	$ Change 2018-2019	% Change 2018-2019
Medical Programs/Medicaid	**$9,542,566**	**$9,980,534**	**$10,144,468**	**$163,933**	**1.6%**
Provider Reimbursements	9,190,719	9,544,788	9,719,190	174,402	1.8%
Maryland Children's Health Program	232,877	275,510	258,269	-17,241	-6.3%
Other	118,970	160,236	167,009	$6,773	4.2%
Behavioral Health	**$1,884,273**	**$2,063,393**	**$2,129,691**	**$66,298**	**3.2%**
Program Direction	22,482	24,937	23,441	-$1,496	-6.0%
Community Services	1,565,987	1,739,903	1,807,132	70,716	3.9%
Facilities	295,803	298,553	299,118	1,101	0.2%
Developmental Disabilities	**$1,093,567**	**$1,161,976**	**$1,234,353**	**$72,376**	**6.2%**
Program Direction	8,849	8,719	9,278	559	6.4%
Community Services	1,043,321	1,111,269	1,181,985	70,716	6.4%
Facilities	41,396	41,989	43,090	1,101	2.6%
Public Health Administration	**$141,615**	**$141,948**	**$137,630**	**-$4,318**	**-3.0%**
Targeted Local Health	53,332	53,981	49,481	-4,500	-8.3%
Other	88,282	87,967	88,149	182	0.2%
Prevention and Health Promotion Administration	**$346,686**	**$395,696**	**$397,386**	**$1,690**	**0.4%**
Women, Infants, and Children	106,784	112,581	109,402	-3,179	-2.8%
Cigarette Restitution Fund Tobacco and Cancer	47,632	48,096	47,913	-183	-0.4%
Maryland AIDS Drug Assistance Program	26,751	30,625	38,150	7,524	24.6%
Other	165,520	204,394	201,922	-2,472	-1.2%
Other Budget Areas	**$317,802**	**$357,149**	**$354,634**	**-$2,515**	**-0.7%**
MDH Administration	50,921	49,458	46,420	-3,038	-6.1%
Office of Health Care Quality	20,451	20,313	21,372	1,059	5.2%
Health Occupations Boards	35,248	38,559	37,890	-669	-1.7%
Chronic Disease Hospitals	49,942	47,986	47,024	-962	-2.0%
Health Regulatory Commissions	161,240	200,833	201,928	1,095	0.5%
Departmentwide Actions	**$0**	**-$8,162**	**$7,434**	**$15,596**	
Total Funding	**$13,326,508**	**$14,092,539**	**$14,405,596**	**$313,060**	**2.2%**

MDH: Maryland Department of Health

Note: For the purpose of this chart, fee-for-service community behavioral health expenditures for Medicaid recipients are shown under the Behavioral Health Administration as opposed to Medicaid where they are budgeted. Fiscal 2017 through 2019 funding includes funding for the Senior Prescription Drug Assistance Program, which was transferred to MDH in fiscal 2017. Includes fiscal 2018 deficiencies, fiscal 2019 contingent actions, and fiscal 2018 and 2019 departmentwide adjustments. Fiscal 2018 deficiencies are attributed to the appropriate fiscal year. Numbers may not sum to total due to rounding.

Source: Department of Legislative Services; State Budget

Maryland Department of Health
Budget Overview: General Funds Only
Fiscal 2017-2019
($ in Thousands)

	Actual 2017	Working 2018	Allowance 2019	$ Change 2018-2019	% Change 2018-2019
Medical Programs/Medicaid	**$2,635,843**	**$2,786,121**	**$2,939,127**	**$153,007**	**5.5%**
Provider Reimbursements	2,576,376	2,721,033	2,876,448	$155,415	5.7%
Maryland Children's Health Program	27,671	32,878	30,766	-$2,112	-6.4%
Other	31,796	32,209	31,913	-$296	-0.9%
Behavioral Health	**$928,218**	**$987,756**	**$1,029,934**	**$42,177**	**4.3%**
Program Direction	17,480	18,192	17,919	-$273	-1.5%
Community Services	623,668	680,807	722,067	$41,260	6.1%
Facilities	287,070	288,758	289,948	$1,190	0.4%
Developmental Disabilities	**$600,125**	**$650,329**	**$664,679**	**$14,350**	**2.2%**
Program Direction	4,926	5,120	4,881	-$240	-4.7%
Community Services	544,260	603,339	616,825	$13,486	2.2%
Facilities	50,940	41,870	42,973	$1,103	2.6%
Public Health Administration	**$106,563**	**$106,596**	**$106,589**	**-$7**	**0.0%**
Targeted Local Health	49,488	49,488	49,488	$0	0.0%
Other	57,075	57,108	57,100	-$7	0.0%
Prevention and Health Promotion Administration	**$51,447**	**$65,116**	**$62,508**	**-$2,608**	**-4.0%**
Women, Infants, and Children	65	65	65	$0	0.0%
Cigarette Restitution Fund Tobacco and Cancer	0	0	0	$0	
Maryland AIDS Drug Assistance Program	0	0	0	$0	
Other	51,381	65,051	62,443	-$2,608	-4.0%
Other Budget Areas	**$85,414**	**$79,313**	**$76,907**	**-$2,407**	**-3.0%**
MDH Administration	26,098	21,877	19,804	-$2,072	-9.5%
Office of Health Care Quality	13,367	12,978	13,875	$897	6.9%
Health Occupations Boards	481	495	500	$5	1.0%
Chronic Disease Hospitals	45,468	43,964	42,727	-$1,237	-2.8%
Health Regulatory Commissions	0	0	0	$0	
Departmentwide Actions	**$0**	**-$6,429**	**$6,462**	**$12,890**	
Total Funding	**$4,407,610**	**$4,668,804**	**$4,886,205**	**$217,401**	**4.7%**

MDH: Maryland Department of Health

Note: For the purpose of this chart, fee-for-service community behavioral health expenditures for Medicaid recipients are shown under the Behavioral Health Administration as opposed to Medicaid where they are budgeted. Includes fiscal 2018 deficiencies, fiscal 2019 contingent actions, and fiscal 2018 and 2019 departmentwide adjustments. Fiscal 2018 deficiencies are attributed to the appropriate fiscal year. Numbers may not sum to total due to rounding.

Source: Department of Legislative Services; State Budget

Proposed Budget Changes
Maryland Department of Health
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
2018 Working Appropriation	$4,668,804	$1,399,268	$7,925,778	$98,687	$14,092,536
2019 Governor's Allowance	$4,886,205	$1,371,778	$8,047,434	$100,179	$14,405,596
Amount Change	217,401	-27,490	121,655	1,493	313,060
Percent Change	4.7%	-2.0%	1.5%	1.5%	2.2%

Where It Goes:		
Personnel		**$15,949**
Health insurance reduction bounce back		$7,123
New positions (69 FTEs)		4,591
Salary adjustments		4,651
Overtime		2,348
Workers' compensation		735
Turnover adjustments		-595
Retirement contribution		-758
Social Security contributions		-2,061
Other fringe benefit adjustments		-85
Major Programmatic Changes (Excluding Medicaid)		**$136,818**
Behavioral Health Administration		
Fee-for-Service Community Behavioral Health Services	***$69,908***	
Enrollment and utilization for Medicaid-eligible services		$84,256
Rate adjustment for community providers (2% increase)		17,868
Regulated rate changes		12,761
Cost settlements		4,355
Administrative Service Organization contract		4,322
Psychiatric inpatient spending		3,708
Money Follows the Person		21
Enrollment and utilization for Medicaid State-funded and uninsured services		-1,990
Data match savings		-10,150
Applied Behavioral Health Analysis declines to align budget with expected spending		-19,645
Drug screening savings		-25,598
Community Mental Health Grants and Contracts	***-$3,479***	
Rate increase for core service agencies		$1,120
Decrease in mental health federal grant funds		-4,599

Where It Goes:

Substance Use Disorder Services	***-$2,361***	
Rate increase for uninsured		$2,841
Problem Gambling fund		-923
Fee-for-service and uninsured enhancements		-947
Federal fund grant changes		-3,332
Institutions	***-$740***	
Crownsville deficiency		-$740
Program Direction	***$2,194***	
Opioid Crisis Fund		$3,200
Prescription Drug Monitoring Program (federal funds)		-1,006
Developmental Disabilities Administration	***$71,249***	
Community Services		
Annualization of fiscal 2018 expansion and fiscal 2019 expansion		$41,358
Rate increase for providers		11,221
Targeted case management		9,354
Community/family support capped waiver		7,400
Long-term services and support system training		2,400
Support intensity scale assessments and health screening tool		-484
Executive Direction	***$674***	
Management and technical support for transition to new financial management system		$674
Prevention and Health Promotion Administration	***-$597***	
Maryland AIDS Drug Assistance Program		$7,508
Childhood Lead Poisoning Prevention and Environmental Case Management		3,000
Ryan White Part A		1,800
Emerging Infections Program		906
State Immunization Registry		-541
Epidemiology and laboratory capacity		-554
HIV Screening and Medical Care Collaboration		-640
Community-based programs to test and cure Hepatitis C		-731
University of Maryland Capital Region Medical Center Operating Grant		-1,000
Immigrant health		-1,008
Immunization		-1,087
Emerging Infections Program		-1,275
Home Visiting Programs		-1,396
HIV Health Services		-2,727
WIC electronic benefit transfer implementation		-2,852

Where It Goes:		
Public Health Administration	***$1,007***	
Laboratory epidemiology capacity		$1,007
MDH Administration	***-$2,145***	
Facility maintenance projects		$1,935
Statewide personnel system allocation		-528
Local health department contractual health insurance		-601
Major information technology projects		-1,026
Indirect cost recovery back out		-1,925
Office of Health Care Quality	***$454***	
Contractual employee support		$454
Regulatory Commissions	***$655***	
HSCRC Model Contract expansion		$1,155
Shock Trauma Grant		-500
Medicaid/Medical Care Programs Administration		**$163,933**
Provider rate increases		$156,137
Pharmacy rebates		89,352
Enrollment and utilization		38,718
Medicare A & B premium assistance		20,983
Community First Choice (enrollment, utilization and administration)		20,090
Major information technology development projects (federal funds)		6,203
Medicare Part D Clawback payments		4,620
Lead remediation initiatives		4,167
New waiver programs under most recent waiver renewal		3,400
Health Home payments		3,270
Pharmacy management contracts (expanded point-of-service contract)		2,098
Waiver administrative contracts		1,788
Graduate medical education payments		-1,241
Federally qualified health centers supplemental payments		-2,098
Nursing home cost settlements		-2,733
Senior Prescription Drug Assistance Program (special funds)		-3,087
School-based health services (reimbursable funds)		-3,327
Estimated hepatitis C drug expenditures		-4,103
Health information technology payments (federal funds)		-6,100
Program recoveries (special funds)		-6,720
Miscellaneous adjustments		-11,268
Balancing incentive payments		-12,938
Money Follows the Person		-14,113

Where It Goes:	
Maryland Children's Health Program	-17,241
Various cost containment actions	-102,400
Other	478
Other	**-$3,641**

FTE full–time equivalent
HSCRC: Health Services Cost Review Commission
MDH: Maryland Department of Health
WIC: Women, Infants, and Children

Note: For the purpose of this chart, fee-for-service community behavioral health expenditures for Medicaid recipients are shown under the Behavioral Health Administration as opposed to Medicaid where they are budgeted. Fiscal 2017 through 2019 funding includes funding for the Senior Prescription Drug Assistance Program, which was transferred to MDH in fiscal 2017. Includes fiscal 2018 deficiencies, fiscal 2019 contingent actions, and fiscal 2018 and 2019 departmentwide adjustments. Fiscal 2018 deficiencies are attributed to the appropriate fiscal year. Numbers may not sum to total due to rounding.

Source: Department of Legislative Services; State Budget

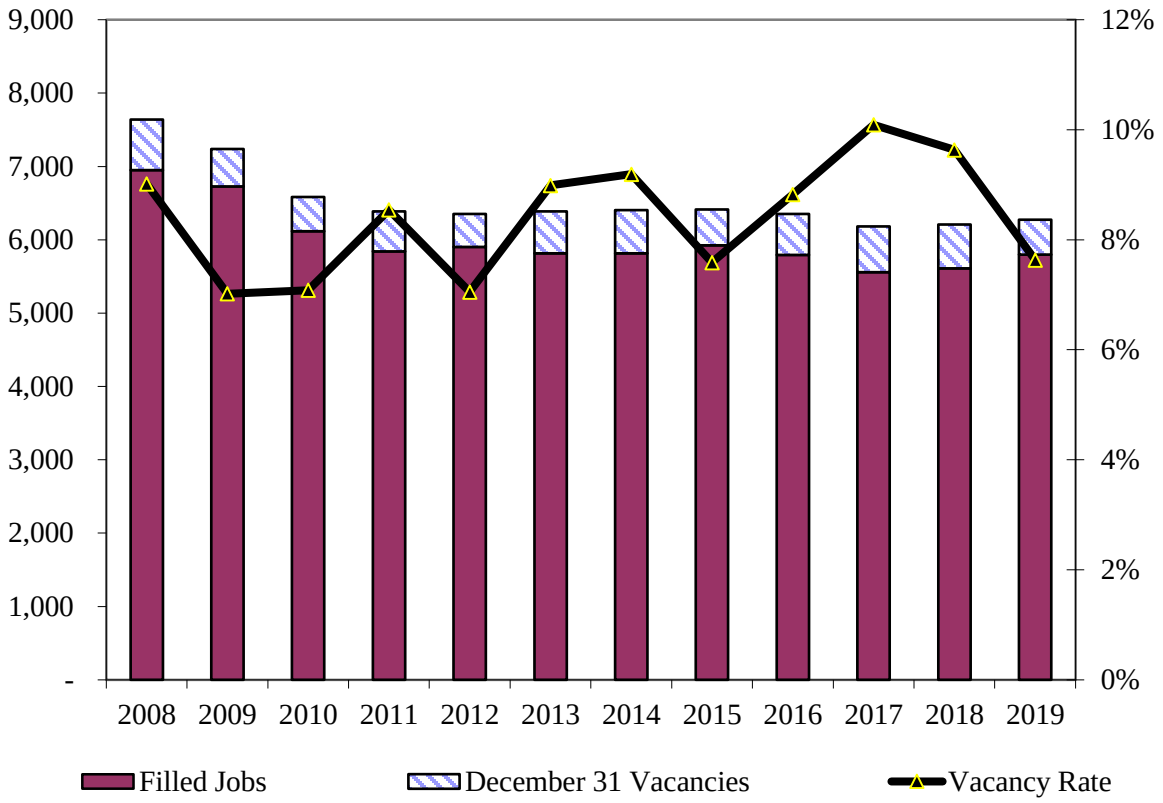
Maryland Department of Health
Regular Employees
Fiscal 2017-2019

	Actual 2017	Working 2018	Allowance 2019	Change 2017-2018	% Change 2017-2018	Change 2018-2019	% Change 2018-2019
MDH Administration	**331.0**	**325.0**	**325.0**	**-6.0**	**-1.8%**	**0.0**	**0.0%**
Office of Health Care Quality	**188.7**	**191.7**	**200.7**	**3.0**	**1.6%**	**9.0**	**4.7%**
Health Occupations Boards	**276.6**	**271.6**	**271.6**	**-5.0**	**-1.8%**	**0.0**	**0.0%**
Public Health Administration	**395.0**	**388.0**	**391.0**	**-7.0**	**-1.8%**	**3.0**	**0.8%**
Prevention and Health Promotion Administration	**416.8**	**401.8**	**401.8**	**-15.0**	**-3.6%**	**0.0**	**0.0%**
Chronic Hospitals	**460.2**	**437.2**	**437.2**	**-23.0**	**-5.0%**	**0.0**	**0.0%**
Behavioral Health Administration	**2,810.7**	**2,857.9**	**2,891.9**	**47.3**	**1.7%**	**34.0**	**1.2%**
Administration	177.9	168.4	169.4	**-9.5**	**-5.3%**	**1.0**	**0.6%**
Institutions	2,632.8	2,689.5	2,722.5	**56.8**	**2.2%**	**33.0**	**1.2%**
Developmental Disabilities Administration	**598.5**	**649.3**	**649.3**	**50.8**	**8.5%**	**0.0**	**0.0%**
Administration	157.0	152.0	152.0	**-5.0**	**-3.2%**	**0.0**	**0.0%**
Institutions	441.5	497.3	497.3	**55.8**	**12.6%**	**0.0**	**0.0%**
Medical Care Programs Administration	**608.5**	**588.5**	**603.5**	**-20.0**	**-3.3%**	**15.0**	**2.5%**
Health Regulatory Commissions	**100.9**	**95.9**	**103.9**	**-5.0**	**-5.0%**	**8.0**	**8.3%**
Total Regular Positions	**6,186.9**	**6,206.9**	**6,275.9**	**20.0**	**0.3%**	**69.0**	**1.1%**

MDH: Maryland Department of Health

Source: State Budget

Maryland Department of Health
Regular Employee Filled Jobs and Vacancy Rates
Fiscal 2008-2019



Note: Fiscal 2019 vacancy rate is based on budgeted turnover.

Source: Maryland Department of Health; Department of Legislative Services

Maryland Department of Health
Regular Employees – Vacancy Rates
December 31, 2017

	FTE Vacancies	FTE Positions	Vacancy Rate
MDH Administration	28.00	325.00	8.62%
Office of Health Care Quality	9.00	191.70	4.69%
Health Occupations Boards	24.50	271.60	9.02%
Public Health Administration	36.00	388.00	9.28%
Prevention and Health Promotion Administration	46.00	401.80	11.45%
Chronic Hospitals	34.00	437.20	7.78%
Behavioral Health Administration	322.50	2857.90	11.28%
Developmental Disabilities Administration	46.00	649.25	7.09%
Medical Care Programs Administration	39.00	588.50	6.63%
Health Regulatory Commissions	13.00	95.90	13.56%
Total Regular Positions	**598.00**	**6206.85**	**9.63%**

FTE: full-time equivalent
MDH: Maryland Department of Health

Source: Department of Budget and Management

Maryland Department of Health
Contractual Employees
Fiscal 2017-2019

	Actual 2017	Working 2018	Allowance 2019	Change 2017-2018	% Change 2017-2018	Change 2018-2019	% Change 2018-2019
MDH Administration	**5.62**	**8.31**	**9.45**	**2.69**	**47.9%**	**1.14**	**13.7%**
Office of Health Care Quality	**3.66**	**12.00**	**15.00**	**8.34**	**227.9%**	**3.00**	**25.0%**
Health Occupations Boards	**29.78**	**49.71**	**40.54**	**19.93**	**66.9%**	**-9.17**	**-18.4%**
Public Health Administration	**20.09**	**20.34**	**24.30**	**0.25**	**1.2%**	**3.96**	**19.5%**
Prevention and Health Promotion Administration	**6.83**	**7.70**	**28.14**	**0.87**	**12.7%**	**20.44**	**265.5%**
Chronic Hospitals	**20.76**	**18.36**	**20.02**	**-2.40**	**-11.6%**	**1.66**	**9.0%**
Behavioral Health Administration	**169.34**	**186.92**	**183.17**	**17.58**	**10.4%**	**-3.75**	**-2.0%**
Administration	1.57	9.23	3.11	**7.66**	**487.9%**	**-6.12**	**-66.3%**
Institutions	167.77	177.69	180.06	**9.92**	**5.9%**	**2.37**	**1.3%**
Developmental Disabilities Administration	**20.07**	**24.87**	**26.17**	**4.80**	**23.9%**	**1.30**	**5.2%**
Administration	8.25	10.00	12.00	**1.75**	**21.2%**	**2.00**	**20.0%**
Institutions	11.82	14.87	14.17	**3.05**	**25.8%**	**-0.70**	**-4.7%**
Medical Care Programs Administration	**100.72**	**114.35**	**104.84**	**13.63**	**13.5%**	**-9.51**	**-8.3%**
Health Regulatory Commissions	**1.00**	**1.00**	**0.00**	**0.00**	**0.0%**	**-1.00**	**-100.0%**
Total Contractual Positions	**377.87**	**443.56**	**451.63**	**65.69**	**17.4%**	**8.07**	**1.8%**

MDH: Maryland Department of Health

Source: Department of Budget and Management

Maryland Department of Health
Budget Overview: Selected Caseload Measures
Fiscal 2015-2019

	Actual 2015	Actual 2016	Actual 2017	Working 2018	Allowance 2019	Change 2018-2019	% Change 2018-2019
Medical Programs/Medicaid							
Medicaid Enrollees	917,946	850,692	895,546	921,310	950,890	29,580	3.2%
Maryland Children's Health Program	122,955	134,932	144,293	151,302	150,208	-1,094	-0.7%
ACA Medicaid Expansion	220,189	238,834	290,714	311,652	330,082	18,430	5.9%
Total	**1,261,090**	**1,224,458**	**1,330,553**	**1,384,264**	**1,431,180**	**46,916**	**3.4%**
Developmental Disabilities Administration[1]							
Residential Services	6,209	6,260	6,367	6,425	6,495	70	1.1%
Day Services	14,133	13,827	13,807	14,273	13,977	-296	-2.1%
Support Services	8,306	7,823	7,499	8,908	8,908	0	0.0%
Total Services	28,648	27,910	27,673	29,606	29,380	-226	-0.8%
Resource Coordination	24,314	25,670	22,421	23,366	23,366	0	0.0%
Number of Individuals Served	25,315	23,380	23,942	24,419	24,896	477	2.0%
Average Daily Census at Institutions[2]	137	128	133	122	122	0	0.0%
Behavioral Health Administration							
Average Daily Populations at State-run Psychiatric Hospitals:							
Hospitals excluding RICAs and Assisted Living	978	964	957	967	986	19	2.0%
RICAs	66	66	60	62	62	0	0.0%
Assisted Living	52	53	44	58	58	0	0.0%
Total	**1,096**	**1,083**	**1,061**	**1,087**	**1,106**	**19**	**1.7%**
Number of Individuals Treated in the PBHS	n/a	243,690	260,213	263,185	268,059	4,874	1.9%
Individuals Treated by the PBHS for Mental Health Condition	n/a	192,809	200,959	206,306	212,090	5,784	2.8%
Individuals Treated by the PBHS for Substance Related Disorders	n/a	90,731	103,115	103,433	104,340	907	0.9%
Individuals in the PBHS Dually Diagnosed	n/a	77,749	85,657	86,301	86,496	195	0.2%

ACA: Affordable Care Act
PBHS: Public Behavioral Health System
RICA: Regional Institutions for Children and Adolescents

[1] Residential services include community residential services and individual family care. Day services include activities during normal working hours such as day habilitation services, supported employment, and summer programs. Support services include individual and family support, Community Supported Living Arrangements, and self-directed services.
[2] The Developmental Disabilities Administration data includes secure evaluation and therapeutic treatment center units.

Source: Maryland Department of Health; Department of Legislative Services

Issues

1. Cigarette Restitution Fund: Ongoing Litigation Has Significant Impact on Fiscal 2019 Budget

Background

The Cigarette Restitution Fund (CRF) was established by Chapters 172 and 173 of 1999 and is supported by payments made under the Master Settlement Agreement (MSA). Through the MSA, the settling manufacturers pay the litigating parties – 46 states (Florida, Minnesota, Mississippi, and Texas had previously settled litigation), five territories, and the District of Columbia – substantial annual payments in perpetuity as well as conform to a number of restrictions on marketing to youth and the general public. The distribution of MSA funds among the states is determined by formula, with Maryland receiving 2.26% of MSA monies, which are adjusted for inflation, volume, and prior settlements.

The use of the CRF is restricted by statute. Activities funded through the CRF in fiscal 2019 include the Tobacco Use Prevention and Cessation Program; the Cancer Prevention, Education, Screening, and Treatment Program; substance abuse treatment and prevention; the Breast and Cervical Cancer Program; Medicaid; tobacco production alternatives; legal activities; and nonpublic school support.

The Nonparticipating Manufacturer Adjustment

One of the conditions of the MSA was that the states take steps toward creating a more "level playing field" between participating manufacturers (PM) to the MSA (and thus subject to annual payments and other restrictions) and nonparticipating manufacturers (NPM) to the agreement. This condition is enforced through another adjustment to the states' annual payments, the NPM adjustment. The PMs have long contended that the NPMs have avoided or exploited loopholes in state laws that give them a competitive advantage in the pricing of their products. If certain conditions are met, the MSA provides a downward adjustment to the contribution made by PMs based on their MSA-defined market share loss multiplied by three. This adjustment is known as an NPM adjustment. The agreement also allows PMs to pursue this adjustment on an annual basis.

Under the MSA, PMs have to show three things in order to prevail and reduce their MSA payments:

- a demonstrable loss of market share of over approximately 2%;
- that the MSA was a significant factor contributing to that loss of market share; and
- a state was not diligently enforcing its qualifying statute.

The qualifying statute is intended to create a more level playing field with regard to the price between the PMs and the NPMs. Originally included in the MSA as a model statute, Maryland's qualifying statute was enacted in 1999 (Chapter 169), with subsequent revisions in the 2001 and 2004 sessions.

Litigation regarding the NPM adjustment started in 2005, beginning with the NPM adjustment for sales year 2003. Arbitration regarding the "diligent enforcement" issue for 2003 commenced in July 2010. Maryland was 1 of 15 states that did not settle with the PMs during the arbitration process and was 1 of 6 states that were found to not have diligently enforced its qualifying statute. Among the findings made by the arbitration panel were that Maryland lacked dedicated and trained personnel to conduct enforcement efforts and that the Comptroller's office, in particular, failed to meaningfully participate in enforcement efforts.

Based on the arbitration panel's finding, Maryland not only forfeited $16 million that the PMs placed in escrow for the 2003 sales year, but under the MSA arbitration framework, also saw its fiscal 2014 payment reduced by $67 million based on the arbitration panel's assessment that those states which settled before arbitration could not be found as non-diligent. Thus, Maryland was found to be among a small handful of states that would have to cover the entire cost of the 2003 NPM settlement payment. In October 2015, the Maryland Court of Special Appeals determined that the arbitration panel erred in calculating Maryland's 2003 NPM adjustment liability, which resulted in $53.2 million in relief within the fiscal 2016 budget. The decision was appealed to the Maryland Court of Appeals by the PMs, but their appeal was denied by the Court of Appeals in February 2016, and further denied by the U.S. Supreme Court in October 2016, bringing an end to the litigation concerning sales year 2003.

Beyond the 2003 Sales Year

The NPM adjustment is in dispute for future years. Thus, unless it is settled or Maryland's diligence is not contested, there will be future arbitrations assessing Maryland's enforcement for future years. It is worth noting that although the arbitration ruling found that Maryland was not diligent in enforcing its qualifying statute in the 2003 sales year, the ruling also notes that the State did take actions to position it "well for diligent enforcement in 2004." Data regarding the extent of noncompliant packs of cigarettes, NPM escrowing, and enforcement efforts support this comment not only for the 2004 sales year but also subsequent years.

Those states that did settle with the PMs realized a one-time cash windfall with the release of funds from disputed payments escrow accounts for sales years 2003 through 2012. However, under the terms of the settlement, the PMs were given credit for future payments from those states (*i.e.*, reducing the payments to those states), and those states had to enact new legislation and will be held to an enhanced standard in NPM adjustment disputes beginning in 2015.

The PMs have sought a multistate arbitration related to sales year 2004 for Maryland and those other states that did not settle the 2003 sales year litigation. The arbitration regarding Maryland's diligent enforcement during sales year 2004 is expected to happen in October, 2018. The expected settlement date for this arbitration at this point is unclear. In order for the decision to have an effect upon fiscal 2019 revenues, a decision would have to be reached prior to the payment date of April 15, 2019. However, it is also possible that the State could once again lose the decision, resulting not only in the loss of

$16 million held in escrow, but a further decline in revenues, which would be based upon how many other states were also found to have not diligently enforced their statutes.

Further, for each disputed year since 2004 with some exceptions, an amount has been withheld and deposited into a disputed payments account. If the State were to be found to have diligently enforced the statute in subsequent years, a potential total between $175 and $200 million could be realized in revenue from the disputed payments account.

Fiscal 2017-2019 CRF Programmatic Support

Exhibit 1 provides CRF revenue and expenditure detail for fiscal 2017 to 2019. CRF revenues have declined over the three years shown in Exhibit 1. One major reason for the three-year decline is that the strategic contribution payments ended in fiscal 2017. The other reasons for declining revenues include assumptions that cigarette consumption continues to decline nationwide, which is what the MSA payment is based upon. The decline is partially offset in fiscal 2019 by an assumption of $16 million in revenues from the arbitration of sales year 2004 in time for the fiscal 2019 payment. However, this is based upon the assumption that the State not only wins the sales year 2004 arbitration case, but does so in time for the payment date within 2019.

In addition, after discussions with the Office of the Attorney General (OAG), the Department of Legislative Services (DLS) believes that the revenue estimates provided by the Administration are optimistic. In particular, DLS has estimated revenues to be $4.7 million less in fiscal 2018, and $7.3 million less in fiscal 2019, for a total of $12 million less in total revenue over the two-year period.

Exhibit 1
Cigarette Restitution Fund Budget
Fiscal 2017-2019
($ in Millions)

	2017 Actual	2018 Working	2019 Allowance
Beginning Fund Balance	$27.4	$9.6	$0.8
Settlement Payments	138.4	159.8	160.8
NPM and other shortfalls in payments [1]	-17.7	-17.4	-17.4
Awards from disputed account	0.0	0.0	0.0
Other Adjustments [2]	31.8	5.3	5.3
Tobacco Laws Enforcement Arbitration	0.0	0.0	16.0
Subtotal	***$179.9***	***$157.3***	***$165.5***
Prior Year Recoveries	3.0	2.0	1.8
Total Available Revenue	**$182.9**	**$159.3**	**$167.3**

	2017 Actual	2018 Working	2019 Allowance
Health			
Tobacco	9.4	9.7	9.7
Cancer	25.0	25.1	25.0
Substance Abuse	21.5	21.5	21.5
Medicaid	86.2	69.8	78.4
Breast and Cervical Cancer	13.2	13.2	13.2
Subtotal	***$155.3***	***$139.3***	***$147.8***
Other			
Aid to Nonpublic School	11.0	11.8	15.1
Crop Conversion	5.8	5.8	1.9
Attorney General	1.2	1.5	0.9
Subtotal	***$18.0***	***$19.1***	***$18.0***
Total Expenses	**$173.2**	**$158.4**	**$165.8**
Ending Fund Balance	**$9.6**	**$0.8**	**$1.5**

NPM: nonparticipating manufacturer

[1] The NPM adjustment represents the bulk of this total adjustment.
[2] Other adjustments include the strategic contribution payments and the National Arbitration Panel Award.

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

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

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The only change to the CRF appropriation for fiscal 2018 from the legislative appropriation is within the Medicaid program. This action is a negative deficiency appropriation of $10.7 million for the Medicaid budget. This action brings total spending on Medicaid from CRF to $69.8 million, which is a decrease of $16.4 million from fiscal 2017. Further, it should be noted that in the September 6, 2017 Board of Public Works cost containment action, it was noted that $5.0 million in CRF funding was to be used in lieu of general funds. However, while the general funds were removed, the additional CRF dollars have not been added to the budget.

Overall, expenditures in fiscal 2019 increase by approximately $7.4 million compared to fiscal 2018. Most of the expenditures are relatively flat compared to fiscal 2018, with few exceptions. The largest increase is in higher payments for Medicaid, which increase by $8.6 million. There is also an increase of $3.3 million for the Broadening Options and Opportunities for Students Today, or the BOOST program. These increases are offset by decreases of $3.9 million from the Crop Conversion program due to the end of bond repayments as well as $0.6 million from OAG due to declining litigation costs.

2. Medicaid Is the Main Driver of Spending in the Five-year Forecast

Exhibit 2 details expected growth in total general fund revenues and expenditures between fiscal 2019 and 2023. As shown in the following exhibit:

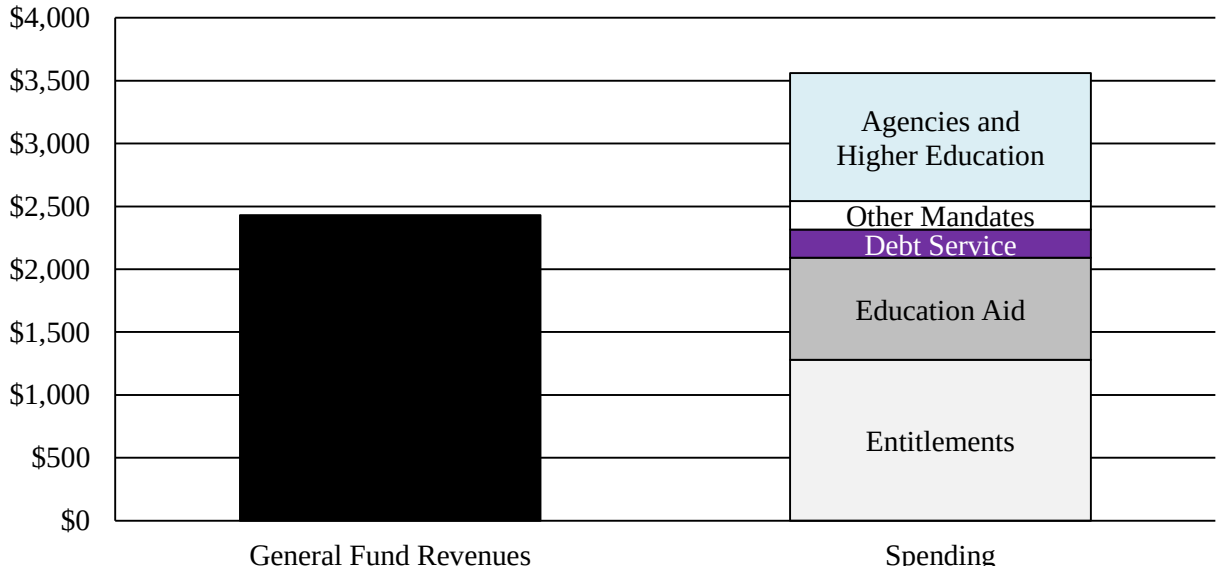
- the gap between revenues and expenditures, which has become the norm since the Great Recession, reflects revenue growth of just over 3.0% with expenditure growth of just under 5.0%;

- the main driver of expenditure growth is entitlements, which are slated to grow by $1.3 billion in general funds between fiscal 2019 and 2023, 36.0% of the total expenditure growth in that period;

- of the entitlement growth, almost all of it is in Medicaid (98.4%); and

- interestingly, the pressure Medicaid will impose on the General Fund is likely to be even greater in fiscal 2020 and 2021 as the enhanced federal match for the Affordable Care Act (ACA) expansion population and Maryland Children's Health Program is reduced.

Exhibit 2
Revenue and Expenditure Growth
Fiscal 2019-2023
($ in Millions)



Source: Maryland Budget Highlights, Fiscal 2019

In recent years, the main strategy to reduce Medicaid expenditure growth has been to limit rate increases. For the most part, discretionary rate increases have been held at levels below that as set in regulation. Managed care organization (MCO) rates have generally been set, initially at least, at the bottom of the actuarial rate range. The fiscal 2019 budget is no different in that regard, with most discretionary rates set at 1% and the MCO rates marginally above the bottom of the actuarial range. There is also a proposed reduction, to 2%, in the mandated rates for behavioral health providers.

On only one occasion in the past four years has there been an attempt to reduce Medicaid eligibility, namely the proposal in the fiscal 2016 budget to reduce coverage to pregnant women over 185% of the federal poverty level. Ultimately, this proposal was not implemented.

The current Administration has also proposed several specific cost containment measures in the past four years, principally in the fiscal 2016 budget. However, most of these involved relatively minor administrative changes or replacing general funds with special funds. Several cost containment proposals are made as part of the fiscal 2019 budget. The most significant cost containment proposal is a data-matching initiative that is estimated to save $107.4 million ($38.4 million in general funds and $69.0 million in federal funds). This initiative involves searching data bases to ensure that enrollees in Maryland Medicaid are actually eligible. The two parts to the initiative are as follows:

- Using the federal Public Assistance Reporting Information System to ensure that enrollees are not claiming benefits in multiple states. This system has been available for many years, and Maryland is already a participant.

- Utilizing the Maryland Automated Benefits Systems to verify enrollee income data with Maryland sources to improve eligibility redetermination. This is also something that Maryland has been reportedly doing for some years.

Together the Administration believes that these initiatives will result in a 0.5% reduction in enrollment in each of the traditional Medicaid and ACA expansion populations between fiscal 2018 and 2019, reducing enrollment by an estimated 4,500 for the traditional Medicaid population and 1,500 for the ACA expansion population.

The Administration has also been planning to implement a new policy on Medicaid mailings that are returned as undeliverable. Specifically, adding functionality to the Maryland Health Care Connection to automate the disenrollment process for Medicaid enrollees whose mail is returned because of an invalid mailing address. Exceptions would be allowed, for example for newborns and those enrollees who list "no home address" on their applications. However, at the time of writing, this initiative had been temporarily postponed.

While rate reductions and the kinds of cost containment used by the Administration in the past four years have generated general fund savings, none have fundamentally changed the delivery of services through Medicaid. To that end, efforts have been more limited. Maryland has, for example, taken advantage of enhanced federal funding available under the ACA to rebalance care for the elderly and disabled toward community-based and away from institutional services, although it might be argued that this was a direction that the State was already pursuing. Similarly, the State has again taken

advantage of enhanced federal funding available through the ACA to establish health homes for individuals with certain chronic health conditions. However, this initiative remains small in scale.

The department has certainly been looking, or has been asked to look, at more fundamental service delivery changes, including the following.

- Implementing a Duals Accountable Care Organization (ACO) to improve management of the care of individuals who are dually eligible for Medicaid and Medicare. The State's efforts were somewhat derailed in 2017 by the announcement by the Centers for Medicare and Medicaid Services (CMS) to implement its own ACO model. However, there was virtually no interest in the CMS effort, and Medicaid recently awarded a contract to continue investigating its own model.

- Examining the department's behavioral health integration strategy as part of the terms and conditions for the State's recent HealthChoice waiver renewal since the Maryland Department of Health is required to commit to an improved approach by January 1, 2018, with the goal of implementation by January 1, 2019. The department was asked to submit a report to the budget committees by January 1, 2018, on what it was proposing to CMS. At the time of writing, nothing has been submitted to CMS, and the report to the budget committees has yet to be delivered.

- Improving the current managed care program. The fiscal 2018 budget included funding for a review of the current rate-setting process and potential innovations from other states that could be beneficial within the State's current managed care framework. Originally, it was hoped to have this review available for the 2018 session. However, because of the time taken to procure outside entities to undertake the report, the department requested, and the budget chairs agreed to, a due date of June 1, 2018.

However, in looking at the past few years, the most significant change in the delivery of health care to the Medicaid population has probably been a movement away from innovative service delivery, specifically the carve-out of substance use disorder funding from the MCOs to be part of the larger fee-for-service behavioral health system.

The area where the State in general has been most active in terms of health care service delivery reform is through Maryland's all-payer model. Although the initial all-payer model contract had certain global aims (limiting all-payer hospital revenue growth and certain quality improvements in the area of potential preventable complications), the focus was clearly on Medicare through such performance metrics as Medicare savings in hospital expenditures, Medicare Total Cost of Care per beneficiary savings, and readmissions reductions for Medicare recipients. While the progression plan does reference initiatives, specifically for the dual-eligible population, there is no specific initiative aimed at the Medicaid-only population. Presumably, Medicaid will hope to benefit by strategies targeting all-payer hospital revenues and quality improvements.

Given that approximately 35% of all of Medicaid's expenditure are for rate-regulated services, it is in the State's direct fiscal interest to use the levers of the regulatory system to encourage innovation

that would generate specific savings to the Medicaid program and quality improvement for the Medicaid population. Not including Medicaid-specific targets in the proposed progression plan seems to be an opportunity missed.

Given the fact that Medicaid is projected to be the largest area of general fund expenditure growth in the next five years, the Secretary should comment on why Medicaid-specific cost saving and quality improvement metrics have not been proposed in the all-payer model progression plan.