

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	145,016	719,745	864,761
February Forecast Adjustment	-12,580	162	-12,418
New Programs To Agency Base	420	0	420
One-Time Appropriations	2,840	-18,340	-15,500
Adjusted Base Funding	135,696	701,567	837,263
Change Items			
Agency Operations Reductions	-6,764	0	-6,764
Grant Redesign	-8,176	-6,000	-14,176
Grant Reductions	-3,932	0	-3,932
Hcaf Grant And Operations Reductions	0	-2,202	-2,202
Mdh-merc Impact Of Dhs Gamc/pmap Changes	0	-16,283	-16,283
Med Educ & Tobacco Endowment Changes	0	-51,331	-51,331
Health Improvement			
Poison Information System	2,300	0	2,300
Health Quality And Access			
Mdh-Merc Impact Of Um Hcaf Reductions	0	-1,520	-1,520
Health Protection			
Newborn Screening System	0	5,772	5,772
Plumbing Plan Review	0	1,718	1,718
Swimming Pool Regulation	0	145	145
Governor's Recommendations	119,124	631,866	750,990
Biennial Change, 2002-03 to 2004-05	-16,252	-30,990	-47,242
Percent Change	-12%	-5%	-6%

Brief Explanation Of Budget Decisions:

The Department's FY 2002-03 funding level is the starting point for building the FY 2004-05 budget. Base adjustments are generally technical items and are discussed below.

Two February Forecast Adjustments reflect changes in Intergovernmental Transfer (IGT) revenue. Original estimates made during the 2001 legislative session based revenue on a 150% Medicare Upper Payment Limit (UPL) for Minnesota's Medicaid program. The UPL has since been reduced to 100%. This results in a decrease in revenues to the following:

- ◆ Community Clinic Grants (-\$7.286 million, GF)
- ◆ Rural Hospital Capital Improvement Grants (-\$5.294 million, GF)

A separate forecast adjustment is made to spending in the Medical Education Endowment, which supports teaching institutions. This increase of \$162,000 is based on new estimates of the fair market value of the endowment fund, as forecast by the Department of Finance.

New programs to the agency base total \$420,000 and are entirely due to the Health Professional Loan Program. This adjustment reflects the bi-annual costs of implementing the loan repayment program. This program was added to the Department's budget with the Laws of 2001.

One-time appropriations result in a net increase in general fund spending of \$2.840 million. The components and a brief explanation are as follow:

- ⇒ Poison Information Center (-\$2.720 million, GF) appropriations were for the FY 2002-03 biennium only.
- ⇒ Family Planning Grants (\$1.380 million, GF) were reduced by \$690,000 in FY 2003 only. This adjustment restores funding to the FY 2004-05 base budget.

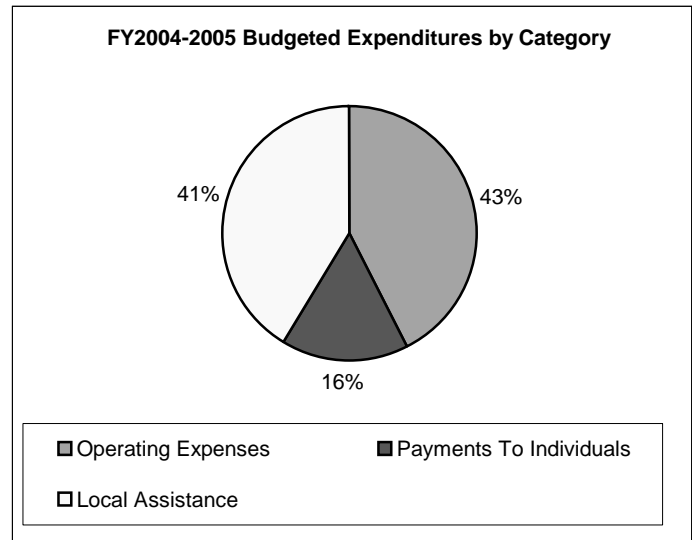
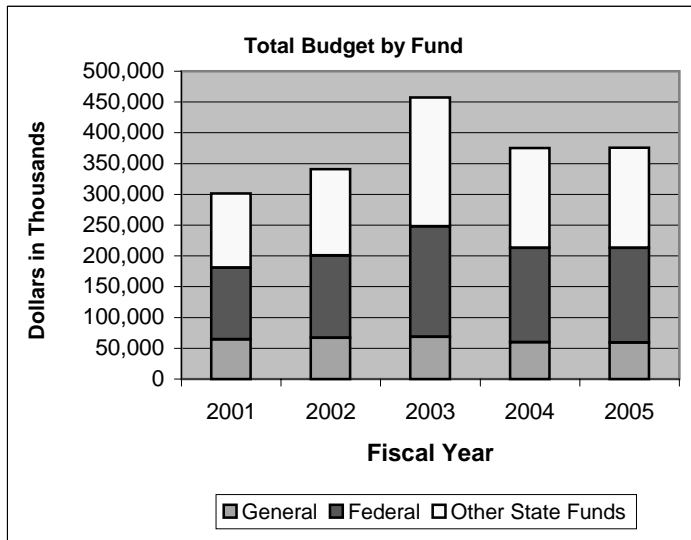
HEALTH DEPT

Budget in Brief

- ⇒ Rural Hospital Capital Improvement Grants (\$4.240 million GF; -\$4.240 million, HCAF) were partially funded from the Health Care Access Fund in FY 2002-03. This adjustment reflects the legislature's intent to originate all funding from the General Fund.
- ⇒ LTC Reimbursement System (-\$60,000, GF) originated in the Laws of 2001 and provided \$60,000/year for three years to implement a new reimbursement system.
- ⇒ Health Care Purchasing Alliances (-\$100,000, HCAF) are grants to local activities and were appropriated only for the FY 2004-05 biennium.
- ⇒ TANF Home Visiting (-\$14.000 million, TANF) originated in the Laws of 2000 at \$7.000 million/year for three years. The FY 2004-05 budget still includes \$4.000 million each year for home visiting added by the Laws of 2001.

The Governor's recommended FY 2004-05 budget is based on a review of all MDH activities and retains those most critical to protecting and improving the health of Minnesotans. Budget reductions occur in both MDH-based activities and grants, and cross all divisions in the Department. Detailed explanations of changes items are described later in this document. Detailed information on the change items "MDH Impact of DHS 5% Ratable Reduction", and "MERC Impact of DHS GAMC/PMAP changes" can be found in the Department of Human Services budget.

FY 2004-05 Revenues (\$000s)			
	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues			
Dedicated Revenues	0	555,595	555,595
Non-dedicated Revenues	0	52,187	52,187
Change Items—Dedicated Revenue			
Health Quality and Access			
Medical Education and Tobacco Endowment changes	0	3,086	3,086
MDH/MERC Impact of DHS GAMC/PMAP changes		(16,283)	(16,283)
MDH/MERC Impact of UM HCAF Reductions	0	(760)	(760)
Change Items—Non-dedicated Revenue			
Health Improvement			
MDH Impact of DHS 5% Ratable Reduction	1,584	0	1,584
Health Protection			
Alcohol and Drug Counselor Regulation	0	461	461
Newborn Screening System	0	5,740	5,740
Swimming Pool Regulation	0	174	174
Occupational Therapist Fee Holiday	0	(440)	(440)
Hearing Instrument Dispenser Regulation	0	(20)	(20)
Plumbing Plan Review	0	1,970	1,970
FY 2004-05 Total Revenues			
Dedicated Revenues	0	541,638	541,638
Non-dedicated Revenues	1,584	60,072	61,656
Biennial Change 2002-03 to 2004-05			
Dedicated Revenues	0	49,537	49,537
Non-dedicated Revenues	1,576	9,851	11,427
Percent Change			
Dedicated Revenues	0%	10.1%	10.1%
Non-dedicated Revenues	>100%	19.6%	22.7%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	64,284	66,915	68,461	59,722	59,402	119,124
Minnesota Resources	117	15	0	0	0	0
State Government Special Revenue	23,118	21,770	31,714	32,880	32,617	65,497
Health Care Access	10,945	10,196	10,133	6,273	6,273	12,546
Federal Tanf	2,866	5,971	26,029	6,000	6,000	12,000
Solid Waste	213	158	242	0	0	0
Open Appropriations						
Medical Education & Research	31,565	48,920	100,270	0	0	0
Tobacco Use Prevention	14,587	19,363	22,248	0	0	0
Statutory Appropriations						
Drinking Water Revolving Fund	0	490	1,038	522	522	1,044
Special Revenue	39,860	39,141	43,361	122,141	123,352	245,493
Federal	113,537	127,991	153,547	147,615	147,619	295,234
Miscellaneous Agency	109	0	0	0	0	0
Gift	152	92	167	26	26	52
Total	301,353	341,022	457,210	375,179	375,811	750,990

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	135,304	134,754	183,990	159,540	159,355	318,895
Capital Outlay & Real Property	281	68	4	4	4	8
Payments To Individuals	57,026	61,139	59,200	60,791	60,391	121,182
Local Assistance	108,380	144,631	213,591	154,619	155,836	310,455
Other Financial Transactions	362	430	425	425	425	850
Transfers	0	0	0	-200	-200	-400
Total	301,353	341,022	457,210	375,179	375,811	750,990

HEALTH DEPT

Fiscal Report

<i>Dollars in Thousands</i>						
Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Health Improvement	166,297	187,355	226,774	173,778	172,898	346,676
Health Quality And Access	59,337	75,848	132,186	108,493	109,752	218,245
Health Protection	54,842	57,651	75,000	70,288	70,547	140,835
Management & Support Services	20,877	20,168	23,250	22,620	22,614	45,234
Total	301,353	341,022	457,210	375,179	375,811	750,990

Revenue by Type and Fund**Non Dedicated**

General	33	5	3	767	817	1,584
State Government Special Revenue	20,757	24,450	25,751	29,782	30,290	60,072
Health Care Access	0	20	0	0	0	0
Subtotal Non Dedicated	20,790	24,475	25,754	30,549	31,107	61,656

Dedicated

Drinking Water Revolving Fund	0	490	1,038	522	522	1,044
General	18	0	0	0	0	0
Special Revenue	33,129	32,779	32,038	117,570	115,380	232,950
Federal	120,639	130,841	155,111	153,619	153,623	307,242
Medical Education & Research	41,382	54,871	84,591	0	0	0
Miscellaneous Agency	126	109	175	175	175	350
Gift	86	32	26	26	26	52
Subtotal Dedicated	195,380	219,122	272,979	271,912	269,726	541,638
Total Revenue	216,170	243,597	298,733	302,461	300,833	603,294

Full-Time Equivalents (FTE)	1,246.2	1,236.8	1,371.8	1,353.2	1,352.8
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HEALTH DEPT

Change Item: AGENCY OPERATIONS REDUCTIONS

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$3,182)	(\$3,582)	(\$3,582)	(\$3,582)
Revenues	0	0	0	0
Other Fund –				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$3,182)	(\$3,582)	(\$3,582)	(\$3,582)

Recommendation

The Governor recommends reducing agency-wide operational expenses by \$3.182 million in FY 2004 and \$3.582 million in FY 2005. This includes a reduction of 20.3 FTEs.

Background

Each Bureau within the department has identified areas to reduce or eliminate administrative operations. Some of these reductions were first identified and implemented in response to the Laws of 2002, Chapter 374, in which the legislature required executive branch state agency operating budgets to be reduced by an aggregate amount of \$58 million. MDH was allocated \$1.738 million, and made these reductions in the General Fund in FYs 2002 and 2003. Additional operational reductions have been identified for the FY 2004-05 biennium.

Agency-wide management and support (\$1.139 million each FY)—Management positions within Environmental Health; Infectious Disease Epidemiology, Prevention and Control; Health Promotion and Chronic Disease; Facility and Provider Compliance; the Executive Office; Human Resources; and District Office Oversight will be eliminated. The funds available to the Commissioner’s Office for contracts will be reduced.

Vital Records System (\$88,000 each FY)—Two positions that support “walk-up” customers seeking birth and death records will be eliminated and those citizens will be directed to the communities or the MDH web site for issuance of these documents.

Vaccine Outbreak Fund (\$197,000 each FY)—Funds used as a “ready” resource to respond to a vaccine-preventable disease outbreak (e.g. measles, hepatitis A, meningitis) and, in the absence of outbreaks, for use in adult populations (e.g. hepatitis B vaccine for high risk adults seen in HIV/STD clinics) will be eliminated.

Food Safety Program (\$313,000 each FY)—One position that supports curriculum development and technical assistance for schools will be eliminated. The development and distribution of consumer education materials will be eliminated. A half position that provides technical support for state and local food safety programs will be eliminated.

Fetal Alcohol Syndrome Program (\$725,000 each FY)—One position and the research component to determine better diagnostic criteria for children will be eliminated. The public awareness campaign and professional educational activities will be significantly reduced. The grant component of this program is included in the grant redesign recommendation.

MCSHN Treatment and Operations (\$720,000 in FY 2004, \$1.12 million in FY 2005)— The Minnesota Children with Special Health Needs (MCSHN) Treatment program has a long history of serving children with special health needs and was one of the first safety net programs, preceding Medicaid by over twenty years. With subsequent Medicaid income eligibility expansions and the advent of other safety net programs, the focus of the treatment program moved from children with physical disabilities to supporting children with chronic illness or children who have significant one-time needs (such as hearing aids).

Increasing medical costs and a growing number of families requesting services have put continuous pressure on finite MCSHN treatment dollars, enabling this program to serve only 3% of the eligible population. In addition, providing direct reimbursement for medical care is more traditionally a service provided by the Department of Human Services.

Elimination of program funding is phased over two biennia since providers can bill up to one year after the date of services.

Relationship to Base Budget

This recommendation represents a 14% reduction in the department's operating budget. Operating reductions identified in the grant redesign recommendation bring the total to 17% of the FY 2004-05 operating base budget.

Key Measures

The activities being reduced in this proposal are administrative in nature—how staff support the activities of one another and the operations of the department. As FTEs are eliminated, but oversight functions remain, the overall output of the remaining staff will be reduced.

Several activities being reduced in this proposal will impact the way in which services are delivered to the public—specifically the “walk-up window” for vital records. The public will be inconvenienced until they become familiar with the new web-based system. (In addition, copies of all vital records may be obtained in each county.)

Several more activities being reduced in this proposal will impact the level of services delivered: less consumer education, less assistance to local units of government or other state agencies, less reimbursement for medical services.

Statutory Change: Not Applicable

HEALTH DEPT**Change Item: GRANT REDESIGN**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$4,088)	(\$4,088)	(\$4,088)	(\$4,088)
Revenues	0	0	0	0
Other Fund TANF				
Expenditures	(3,000)	(3,000)	(3,000)	(3,000)
Revenues	0	0	0	0
Net Fiscal Impact	(\$7,088)	(\$7,088)	(\$7,088)	(\$7,088)

Recommendation

The Governor recommends the grant administration and allocation process at the Department of Health be redesigned to build on partnerships with local public health, better target local priorities, and focus on results and accountability. 13 categorical grants will be consolidated into a single grant. Total grant funds will be reduced by \$3.338 million in general funds and \$3 million in TANF funds in each fiscal year. In addition, MDH-based activities will be reduced by \$750,000 each fiscal year and 11.5 FTEs will be eliminated.

Background

The department administers a variety of grants whose primary purposes are related to meeting government responsibilities for public health protection and improving the health status of low-income and/or high-risk mothers and children. Consolidating 13 separate but related grants into one formula-based grant program will achieve streamlined administrative activities, reduce redundant and burdensome categorical grant requirements, and minimize the overall impact of funding reductions. The resulting flexibility will allow local public health agencies and tribal governments to direct limited but reduced resources to community-identified priorities and services. Existing statutory requirements of the Community Health Services (CHS) Subsidy and the Maternal and Child Health (MCH) Block Grant will provide the framework for this proposal. Accountability measures will shift from the current administrative requirements to a focus on results.

This proposal, the Local Public Health Grant, is based on the framework established in M.S. 145A [Local Public Health Act] and 145.88 [Maternal and Child Health].

The Community Health Service Subsidy was created in 1976 and distributes funding to Community Health Boards for activities designed to protect and promote the health of the general population. Program categories include disease prevention and control, emergency medical care, environmental health, family health, health promotion and home health care. Currently there are 51 Community Health Boards receiving \$19,112,000 annually. Additional state, federal and local funds support local activities designed to protect the public from infectious disease outbreaks, public health threats from natural occurrences such as flooding or tornados and terrorist incidents. These local activities are aligned with complementary activities at the state level.

The Maternal and Child Health Special Projects grant program was created in 1985 to distribute Minnesota's share of the federal MCH Title V Block Grant. Currently a total of \$7.5 million (approximately \$6.5 million in federal MCH Block Grant funds and \$1 million in state general revenue) is distributed through a formula to Community Health Boards (CHBs). These funds are targeted to improving the health and well being of Minnesota mothers and children. Funds are directed at the highest at-risk populations (particularly low-income and minority populations) in four specified areas: improving pregnancy outcomes, reducing unintended pregnancies, early identification and intervention for children with handicapping conditions/chronic illness, and reducing childhood injury.

The individual grant programs identified for consolidation in this grant are congruent with the priorities and purposes of community health boards as defined in the CHS Act and the MCH Block Grant. Funds will be distributed to Community Health Boards utilizing a single formula. \$2,000,000 of the consolidated grant funds will be allocated directly to Tribal Governments for targeted health purposes.

Relationship to Base Budget

Current funding for the grant programs included in the consolidation proposal are identified below. In addition, \$750,000 annually will be reduced from MDH-based activities and 11.5 FTEs will be eliminated.

Grant Program	General Fund 2004-2005	TANF 2004-2005	Federal 2004-2005	Total FY 2004-2005
CHS Subsidy	\$38,224,000			\$38,224,000
Bioterrorism			\$10,413,000	\$10,413,000
MCH Block Grant	\$2,000,000		\$13,156,000	\$15,156,000
WIC	\$7,380,000			\$7,380,000
Infant Mortality	\$200,000			\$200,000
Lead Safe Housing	\$50,000			\$50,000
Family Home Visiting	\$2,088,000	\$8,000,000		\$10,088,000
Suicide Prevention	\$2,050,000			\$2,050,000
FAS Prevention	\$1,700,000			\$1,700,000
Youth Risk Behavior		\$4,000,000		\$4,000,000
MN ENABL		\$2,000,000		\$2,000,000
EHD – Tribal Grants	\$1,000,000			\$1,000,000
EHD-RHITB	\$500,000			\$500,000
Subtotal	\$55,192,000	\$14,000,000	\$23,569,000	\$92,761,000
Reduction	\$6,676,000	\$6,000,000		\$12,676,000
Local Public Health Grant	\$48,516,000	\$8,000,000	\$23,569,000	\$80,085,000

Key Measures

The department will continue to track federally or state required outcomes to monitor the overall impact on the health and well-being of Minnesotans and develop results oriented accountability measures.

Alternatives Considered

The department reviewed all expenditures when preparing reduction proposals for the FY 2004-05 budget. Alternatives included choosing specific grant funds to reduce. This approach combines grants with related purposes and constituencies into one rather than 13 grants. In the Local Public Health grant, the reductions will be spread proportionately across the Community Health Boards by formula, with funding decisions to be made at the local level based on community priorities. This recommendation reflects our effort to streamline administrative activities, reduce redundant and burdensome categorical grant requirements and increase the focus on program results.

Statutory Change: M.S 145.88; 145A.; 144.9507 Subd. 3; 145.928 Subd 9 and 10; 145A.17; 145.56; 145.9265; 145.9266;

HEALTH DEPT**Change Item: MED. EDUC. & TOBACCO ENDOWMENT CHANGES**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund (100)				
Expenditures	0	0	0	0
Transfer-In	\$4,000			
Special Revenue Fund (200)				
Expenditures - MERC	\$8,660	\$8,616	\$8,573	\$8,530
Expenditures - Tobacco	\$1,700	\$1,700	0	0
Revenues – MERC	\$8,660	\$8,616	\$8,573	\$8,530
Revenues – Tobacco	\$3,400	0	0	0
subtotal	\$1,700	\$1,700	0	0
Medical Education/Tobacco Endowment (561/562)				
Expenditures – Tobacco	(\$24,305)	(\$24,250)	(\$23,303)	(\$24,255)
Expenditures – Tobacco	(\$7,400)			
Expenditures – MERC	(\$8,972)	(\$8,623)	(\$8,425)	(\$8,634)
Revenues	0	0	0	0
subtotal	(\$40,677)	(\$32,873)	(\$31,728)	(\$32,889)
Net Fiscal Impact	(\$34,977)	(\$31,173)	(\$31,728)	(\$32,889)

Recommendation

The Governor recommends dedicating 2.5-cents of the cigarette tax to replace endowment funding for medical education and research costs (MERC). These funds will be deposited in a special revenue account and the existing balance and activity will be transitioned to the special revenue account. These funds will be available for expenditure by the Department of Health.

Further, the Governor recommends eliminating the appropriation from the Tobacco Use Prevention Endowment, transferring \$4 million to the general fund, and transferring the remaining balance to the special revenue fund. This amount is estimated to be \$3.4 million and will be expended on intervention projects. Additional information on the elimination of the tobacco use prevention endowment and the medical education endowment can be found in the state and local finance budget book.

Background

The MERC fund was established to address the increasing financial difficulties of facilities providing graduate medical education in Minnesota. Eligible grantees are 'sponsoring institutions' that are financially or organizationally responsible for one or more accredited training programs operating in Minnesota. Funds are currently distributed to 18 sponsoring institutions, with 80% of the funds being distributed to the Academic Health Center and the Mayo Foundation. Medical Education Endowment appropriations (and corresponding federal match) represented 28% of MERC fund resources in FY2002-03. While appropriations were set at the maximum amount allowed in law (5% of the fair market value of the fund), market volatility makes the value of future appropriations very uncertain.

Tobacco Use Prevention and Local Public Health endowment expenditures target youth tobacco use and youth risk behaviors through statewide activities (including Target Market) and local intervention activities. In anticipation of reduced endowment appropriations resulting from significant stock market volatility, MDH began setting aside funds in fiscal years 2002 and 2003, and set program funding levels that could be maintained between declining endowment appropriations and funds held in reserve. Strategies put in place in the past three years have yielded significant reductions in the use of tobacco products by youth. To continue the successful efforts of a few selected communities, the Governor recommends funding a targeted, two-year Minnesota Youth Tobacco Prevention Program, which would focus on youth ages 12 to 14 and would fund state/local partnership intervention projects in selected areas.

Relationship to Base Budget

Medical Education Endowment appropriations for FY 2004-05 are forecasted to be \$17.6 million. These appropriations will be replaced with a 2.5-cent dedication of the cigarette tax, yielding \$17.276 million for the biennium.

Under current statute, base funding for tobacco prevention and youth risk behavior activities is from the Tobacco Use Prevention and Local Public Health endowment. Forecasted appropriations from this fund are \$24.305 million in FY04 and \$22.550 million in FY05. This funding will be eliminated beginning in fiscal year 2004. Of the remaining balance in the fund, \$4 million will be transferred to the General Fund, and \$3.4 million will be transferred to the Special Revenue Fund for a targeted, two-year tobacco prevention program.

Statutory Change: M.S. 62J.694, M.S. 144.395, M.S. 144.396.

	PAGE
Transmittal Letter	31
Budget in Brief Report	33
Agency Fiscal Page	36
Change Items	
Program Change Items	
Agency Management	
Reduce General Fund Operations By 15%	38
Shift County Payment	39
Increase License Fees	40
Restructure Parental Fees	42
Childrens Services Grants	
Children & Community Services Grant	44
Adoption And Relative Custody Assistance	46
Adolescent Mental Health Crisis Facility	48
Children's Mental Health MA Benefit	49
Children's Mental Health Screening	50
Basic Health Care Grants	
Delay MA Fee For Service - Acute Care	51
Reduce MA/GAMC Hospital Pmt 5%	52
Eliminate MA Hospital Pmt Rebasing	53
Reduce GAMC Medical Education Pmt	54
Reduce MA/GAMC/PDP Pharmacy Reimb	55
Require Authorization For Pharmacy DAW	56
Apply Hard Edits For Pharmacy Claims	57
Increased PDP Rebates	58
Reduce MA/GAMC Managed Care Pmt	59
Reduce Subsidy Of County PMAP	60
Broker MA Non-Emergency Transportation	61
Discontinue MA/GAMC/PDP Weight Loss Products	62
Repeal MA Coverage Of New Autism Service	63
Apply MA/GAMC/MinnesotaCare Co-Pays	64
Comply With Federal Managed Care Regs	66
Repeal One-Month Rolling MA Eligibility	67
Repeal MA/GAMC/MinnesotaCare Delayed	68
Consolidate GAMC And MinnesotaCare	69
Modify MinnesotaCare	71
Rollback MnCare Children Exceptions	73
MnCare Insurance Barrier Exemption	74
Eliminate MA/GAMC For Undocumented	75
S-Chip For Undocumented Pregnant Women	76
Reduce MA Pregnant Women 275% To 200%	77
Reduce MA Children 170% To 150%	78
Repeal MA Income Deductions	79
Limit MA/MnCare Auto Newborn Coverage	80
Modify MA-EPD	81
Adjust PDP Appropriation To Forecast	83
Repeal PDP Expansion 135% To 120%	84
MA Pmt Of Cost-Effective Premiums	85

- CONTENTS (Continued)

	PAGE
Maximize MA Estate Recovery	86
Limit MA Asset Sheltering	87
State Operated Services	
SOS Refinancing Strategy	88
Continuing Care Grants	
Reduce Continuing Care Provider Rates	89
Reduce MR/RC Waiver Growth	91
Manage TBI Waiver Caseload Growth	93
Delay HCBS Service Improvements	94
Eliminate ICF/MR Occupancy Special Rate	96
Eliminate Mandate For DT&H Services	97
County Share On Large ICF/MR	99
Restructure Adult MH Treatment	101
Phase Out MA Day Treatment	103
Eliminate Consumer Support Grant Exceptions	104
Eliminate Some Continuing Care Grants	105
Refinance Group Residential Housing	107
Alternative Care Program Changes	109
Eliminate Automatic NF COLA	111
Reduce MA NF Rates/Capacity	112
Eliminate MA NF Scholarships Program	113
Reduce MA Payment For NF Hold Days	114
Reduce MA Payment For NF Medical Co-Pay	115
Reduce MA First 90-Day NF Payment	116
Nursing Home Surcharge And IGT	117
Economic Support Grants	
MFIP-Welfare Reform	119
Consolidated MFIP Support Services Grant	120
MFIP Education And Training	121
MFIP Budgeting & SSI	122
MFIP Exit Level - 115%	123
MFIP Time Limit Policy	124
MFIP For Legal Non-Citizens	125
MFAP Shortfall	126
Reduce State FSET Grants	127
Emergency Assistance Programs	128
TANF Refinancing	129
Eliminate Access And Visitation Grants	130
Child Support Grant Reduction And Fees	131
 New Change Pages (Governor's Supplemental Budget)	
MinnesotaCare Managed Care Rate Reduction	132a
MinnesotaCare Managed Care Withhold	132b
Delay MFIP Support Services Payment	132c

HUMAN SERVICES DEPT

Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	6,685,835	10,277,731	16,963,566
Biennial Appropriations	804	0	804
February Forecast Adjustment	-27,777	-14,281	-42,058
Forecast Caseload/Enrollment Changes	423,379	140,598	563,977
Legislatively Mandated Base	133,771	-5,412	128,359
New Programs To Agency Base	0	3,400	3,400
November Forecast Adjustment	575,391	17,126	592,517
One-Time Appropriations	0	-53,080	-53,080
Program/Agency Sunset	0	-43,860	-43,860
Transfers Between Agencies	-564	0	-564
Adjusted Base Funding	7,790,839	10,322,222	18,113,061
Change Items			
Adjust PDP Appropriation To Forecast	-6,019	0	-6,019
Adolescent Mental Health Crisis Facility	-1,283	0	-1,283
Adoption And Relative Custody Assistance	2,177	0	2,177
Alternative Care Program Changes	-25,103	0	-25,103
Apply Hard Edits For Pharmacy Claims	-2,891	0	-2,891
Apply MA/GAMC/Minnesotacare Co-pays	-29,714	-3,983	-33,697
Broker MA Non-Emergency Transportation	-1,769	0	-1,769
Child Support Grant Reduction And Fees	-1,098	0	-1,098
Children's & Community Services Grant	-37,500	0	-37,500
Children's Mental Health MA Benefit	1,948	0	1,948
Children's Mental Health Screening	2,733	0	2,733
Comply With Federal Managed Care Regs	600	0	600
Consolidate GAMC And Minnesotacare	-200,296	-105,920	-306,216
Consolidated MFIP Support Services Grant	0	40,000	40,000
County Share On Large ICF/MR	-16,605	0	-16,605
Delay HCBS Service Improvements	-3,956	0	-3,956
Delay MA Fee For Service - Acute Care	-25,118	0	-25,118
Delay MA Hospital Pmt Rebasing	-3,327	0	-3,327
Delay MFIP Support Service Payment	-14,000	0	-14,000
Discontinue MA/GAMC/PDP Weight Loss Prod	-637	0	-637
Eliminate Access And Visitation Grants	-200	0	-200
Eliminate Automatic NF COLA	-24,642	0	-24,642
Eliminate Consumer Supp Grant Exceptions	-2,478	0	-2,478
Eliminate ICF/MR Occupancy Special Rate	-2,384	0	-2,384
Eliminate MA NF Scholarships Program	-1,843	0	-1,843
Eliminate MA/GAMC For Undocumented	-50,122	0	-50,122
Eliminate Mandate For DT&H Services	-1,593	0	-1,593
Eliminate Some Continuing Care Grants	-25,769	0	-25,769
Emergency Assistance Programs	-4,929	-11,001	-15,930
Increased PDP Rebates	-1,768	0	-1,768
Limit MA Asset Sheltering	-2,942	0	-2,942
Limit MA/MNcare Auto Newborn Coverage	-7,241	-91	-7,332
MA Pmt Of Cost-effective Premiums	-383	0	-383
Manage TBI Waiver Caseload Growth	-4,921	0	-4,921
MFAP Shortfall	159	0	159
MFIP Budgeting & SSI	6	-29,942	-29,936
MFIP Education And Training	0	-7,591	-7,591
MFIP Exit Level - 115%	0	-8,068	-8,068
MFIP For Legal Non-citizens	0	11,248	11,248
MFIP Time Limit Policy	-30	2,143	2,113
MFIP-Welfare Reform	0	-11,745	-11,745
Minnesotacare Managed Care Rate Red	0	-6,189	-6,189
Minnesotacare Managed Care Withhold	0	-20,584	-20,584
Mncare Insurance Barrier Exemption	0	436	436
Modify MA-EPD	-3,901	0	-3,901
Modify Minnesotacare	0	-20,099	-20,099

HUMAN SERVICES DEPT

Budget in Brief

Nursing Home Surcharge And IGT	48,425	0	48,425
Phase Out MA Day Treatment	-2,463	0	-2,463
Reduce Continuing Care Provider Rates	-81,711	0	-81,711
Reduce GAMC Medical Education Pmt	-6,734	0	-6,734
Reduce General Fund Operations By 15%	-12,109	0	-12,109
Reduce MA Children 170% To 150%	-3,060	248	-2,812
Reduce MA First 90-Day NF Payment	-5,141	0	-5,141
Reduce MA NF Rates/Capacity	-35,734	0	-35,734
Reduce MA Payment For NF Hold Days	-864	0	-864
Reduce MA Payment For NFF Medical Co-Pay	-9,033	0	-9,033
Reduce MA Pregnant Women 275% To 200%	-2,121	659	-1,462
Reduce MA/GAMC Hospital Pmt 5%	-26,108	0	-26,108
Reduce MA/GAMC Managed Care Pmt	-17,517	0	-17,517
Reduce MA/GAMC/PDP Pharmacy Reimb	-29,629	0	-29,629
Reduce MR/RC Waiver Growth	-12,938	0	-12,938
Reduce State FSET Grants	-2,642	0	-2,642
Reduce Subsidy Of County PMAP	-3,883	0	-3,883
Refinance Group Residential Housing	-10,795	0	-10,795
Repeal MA Coverage Of New Autism Service	-4,220	0	-4,220
Repeal MA Income Deductions	-1,268	0	-1,268
Repeal One-Month Rolling MA Eligibility	-15,077	0	-15,077
Repeal PDP Expansion 135% To 120%	-6,001	0	-6,001
Require Authorization For Pharmacy DAW	-1,351	0	-1,351
Restructure Adult MH Treatment	-617	0	-617
Rollback Mncare Children Exceptions	0	-3,844	-3,844
S-CHIP For Undocumented Pregnant Women	-4,000	0	-4,000
Shift County Payment	-14,792	0	-14,792
SOS Refinancing Strategy	2,614	0	2,614
TANF Refinancing	-22,199	22,199	0
Governor's Recommendations	7,013,032	10,170,098	17,183,130
Biennial Change, 2002-03 to 2004-05	712,768	970,737	1,683,505
Percent Change	11%	11%	11%

Brief Explanation Of Budget Decisions

Base Funding Levels

Base funding level for this agency starts with 2003 appropriation level and is adjusted for increased expenditures based on obligations in current law. Given the timing of the budget release, this document reflects the impact of the November 2001, February 2002, November 2002, and February 2003 forecast. These adjustments are reflected above as "Forecast Caseload/Enrollment Changes" (November 2001 and February 2002), "November Forecast Adjustment" (November 2002), and "February Forecast Adjustment" (February 2003).

Legislatively mandated base changes further adjust base figures by recognizing legislative tracking of costs for FY 2004-05. Key increases include: the effects of delaying county social service payments; refinancing information systems (i.e., PRISM/SSIS/MAXIS); expansions to prescription drug coverage for the elderly and persons with disabilities; and maintaining service levels in the Alternative Care program.

The \$804,000 biennial appropriation increase represents an adjustment to the State Operated Services account for special equipment. The \$564,000 transfer between agencies reflects money moved to the Department of Corrections for inmate mental health discharge planning and medications.

Finally, several downward adjustments to Federal TANF spending levels for FY 2004-05 were made to account for one-time program appropriations and program sunsets in the economic support area.

Recommendations

The Governor's budget for the Department of Human Services contains savings of \$1.1 billion and represents a change of 12 percent from projected funding levels for the 2004-2005 biennium. Savings are generated by a combination of expenditure reductions (\$930 million) and additional revenues (\$173 million).

Expenditures:

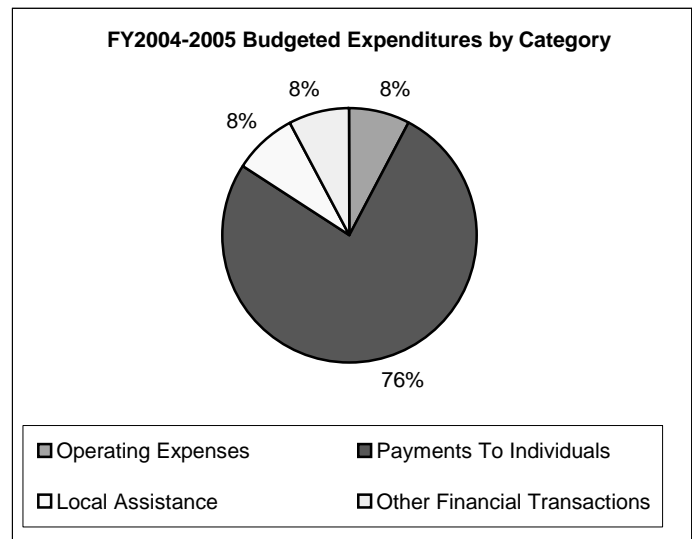
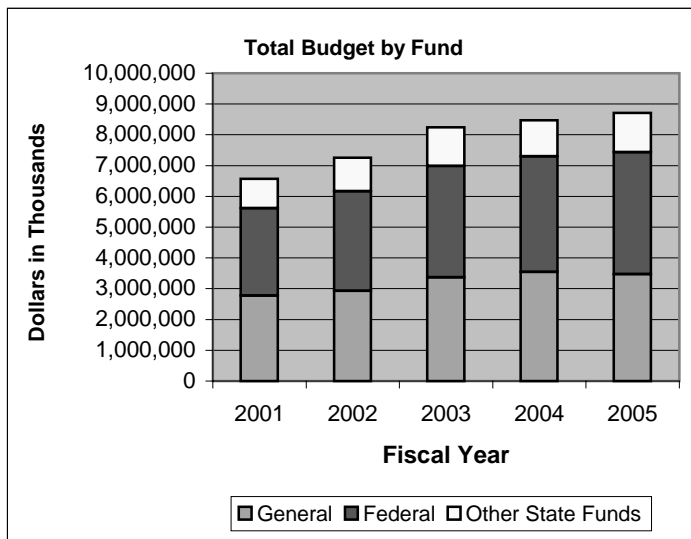
Recommended reductions to the Department of Human Services' budget total \$930 million for the FY2004-05 biennium, across all funds. Of this amount, \$778 million in savings will come from the General Fund, and \$152 million will come from other funds, namely the Health Care Access Fund.

After incorporating these reductions, the Department's General Fund budget will still grow by \$713 million, or by 11%, for the upcoming biennium. Growth in this area of the budget, despite the significant reductions mentioned above, is due primarily to November 2002 and February 2003 forecasted caseload/spending adjustments, as well as other 2002 legislative session changes.

Revenues:

The Governor recommends increasing revenues to the General Fund by \$173 million for the biennium. Several proposals would result in additional revenues, including: increasing state expenditures eligible for federal Medicaid funding; increasing medical provider surcharges and intergovernmental transfers used to match federal Medicaid funding; increasing state-operated services collections; and increasing fees that are charged by the Department for licensing activities.

FY 2004-05 Revenues (\$000s)			
	General Fund	Other Funds	Total
FY 2004-05 Current Law Revenues	595,864	539,743	1,135,607
Change Items			
Restructure Parental Fees	4,150		
Comply with Federal Managed Care Regs	200		
Reduce MA/GAMC Hospital Pmt 5%	2,563		
Repeal MA Coverage of New Autism Service	-79		
Broker MA Non-Emergency Transportation	872		
Maximize MA Estate Recovery	495		
Limit MA Asset Sheltering	75		
Nursing Home Surcharge and IGT	141,071		
Eliminate Some Continuing Care Grants	-1,532		
Restructure Adult MH Treatment	10,316		
Refinance Group Residential Housing	7,500		
Alternative Care Program Changes	50		
SOS Refinancing Strategy	12,119		
Increase License Fees	2,450		
Reduce MA/GAMC Managed Care Pmt	80		
Reduce MA NF Rates/Capacity	-2,237		
Reduce General Fund Operations by 15%	-4,843		
FY 2004-05 Total Revenues	769,114	539,743	1,308,857
Biennial Change 2002-03 to 2004-05	157,202	-184,220	-27,018
Percent Change	25.7%	-25.5%	-2.0%



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	2,601,324	2,906,509	3,316,090	3,478,571	3,405,778	6,884,349
State Government Special Revenue	512	482	534	534	534	1,068
Health Care Access	156,511	209,608	271,422	255,495	323,246	578,741
Federal Tanf	292,205	305,896	351,015	261,349	261,037	522,386
Lottery Cash Flow	1,514	2,164	1,495	1,306	1,306	2,612
Open Appropriations						
Special Revenue	467	418	666	340	340	680
Statutory Appropriations						
General	175,238	23,084	54,581	62,462	66,221	128,683
State Government Special Revenue	1,290	0	0	0	0	0
Health Care Access	23,054	27,700	23,292	28,358	31,853	60,211
Special Revenue	172,427	217,194	262,237	156,514	143,520	300,034
Federal	2,542,785	2,924,666	3,267,077	3,492,018	3,697,516	7,189,534
Miscellaneous Agency	534,423	566,345	604,169	645,645	689,102	1,334,747
Gift	109	32	88	150	61	211
Endowment	153	5	3	0	0	0
Revenue Based State Oper Serv	46,119	50,270	57,733	57,733	57,733	115,466
Mn Neurorehab Hospital Brd	2,724	7,439	15,744	15,744	15,744	31,488
Dhs Chemical Dependency Servs	13,948	15,207	16,460	16,460	16,460	32,920
Total	6,564,803	7,257,019	8,242,606	8,472,679	8,710,451	17,183,130

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	582,192	607,739	699,717	683,430	648,272	1,331,702
Capital Outlay & Real Property	1,179	163	249	249	249	498
Payments To Individuals	4,546,804	5,342,157	6,207,081	6,449,092	6,689,348	13,138,440
Local Assistance	897,616	738,663	732,252	692,937	682,241	1,375,178
Other Financial Transactions	537,012	568,297	603,307	644,870	688,240	1,333,110
Transfers	0	0	0	2,101	2,101	4,202
Total	6,564,803	7,257,019	8,242,606	8,472,679	8,710,451	17,183,130

HUMAN SERVICES DEPT

Fiscal Report

<i>Dollars in Thousands</i>						
Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec		Biennium 2004-05
				FY2004	FY2005	
Agency Management	41,609	45,735	58,333	61,249	46,872	108,121
Revenue & Pass Through	930,781	942,950	996,495	996,093	1,040,906	2,036,999
Childrens Services Grants	132,942	146,350	156,214	198,428	188,503	386,931
Childrens Services Management	11,084	11,549	14,912	14,901	14,649	29,550
Basic Health Care Grants	2,197,355	2,512,662	3,116,248	3,422,323	3,638,694	7,061,017
Health Care Management	52,216	55,883	80,798	79,133	66,568	145,701
State Operated Services	288,975	287,276	312,460	295,806	287,484	583,290
Continuing Care Grants	2,291,679	2,578,647	2,829,265	2,777,896	2,802,385	5,580,281
Continuing Care Management	31,962	38,810	45,919	45,198	44,074	89,272
Economic Support Grants	513,005	566,281	547,526	497,435	495,870	993,305
Economic Support Management	73,195	70,876	84,436	84,217	84,446	168,663
Total	6,564,803	7,257,019	8,242,606	8,472,679	8,710,451	17,183,130

Revenue by Type and Fund

Non Dedicated						
General	202,104	285,835	326,077	378,659	390,455	769,114
Health Care Access	2,298	4,548	3,175	2,549	2,549	5,098
Special Revenue	3	2	1	1	1	2
Cambridge Deposit Fund	58,119	0	0	0	0	0
Federal Tanf	300,488	321,847	394,256	267,482	267,161	534,643
Miscellaneous Agency	0	134	0	0	0	0
Subtotal Non Dedicated	563,012	612,366	723,509	648,691	660,166	1,308,857
Dedicated						
General	174,363	24,910	24,389	28,771	28,205	56,976
State Government Special Revenue	1,049	0	0	0	0	0
Health Care Access	22,838	27,724	23,292	28,358	31,853	60,211
Special Revenue	95,376	126,608	148,722	143,205	135,671	278,876
Federal	2,543,601	2,931,512	3,272,402	3,492,629	3,698,290	7,190,919
Miscellaneous Agency	532,917	566,828	603,996	645,566	689,023	1,334,589
Gift	107	45	75	51	47	98
Endowment	11	3	3	2	2	4
Revenue Based State Oper Serv	48,902	52,067	60,188	60,188	60,188	120,376
Mn Neurorehab Hospital Brd	4,398	11,082	16,269	16,264	16,264	32,528
Dhs Chemical Dependency Servs	12,362	15,671	18,177	18,177	18,177	36,354
Subtotal Dedicated	3,435,924	3,756,450	4,167,513	4,433,211	4,677,720	9,110,931
Total Revenue	3,998,936	4,368,816	4,891,022	5,081,902	5,337,886	10,419,788

Full-Time Equivalents (FTE)	6,099.3	6,171.3	6,076.3	6,074.1	6,012.1
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HUMAN SERVICES DEPT**Program: BASIC HEALTH CARE GRANTS****Change Item: DELAY MA HOSPITAL PMT REBASING**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	(\$3,327)	(\$14,827)	(\$12,158)
Revenues	0	0	0	0
Net Fiscal Impact	0	(\$3,327)	(\$14,827)	(\$12,158)

Recommendation

The governor recommends that biennial rebasing of Medical Assistance (MA) inpatient hospital payment rates to more current cost data be delayed.

Background

Current law requires the department to rebase each hospital's MA rates forward every two years based on the costs of each hospital. Essentially, this process incorporates hospital-specific inflation into the payment rates. Hospital rates were last rebased in 2003 which resulted in average rate increases of 5.7% under the MA program. No other provider has their own individual inflation automatically built into their rates.

This proposal delays the rebasing increase in 2005 to hospital rates. To rebase rates could result in large increases for some hospitals at a time when other providers of medical services haven't had an increase in many years.

In addition to individual cost-based rates, more than 30% of the hospitals are paid a disproportionate share add-on that ranges up to 54% of their base rate. Ninety-one hospitals are classified as small and rural for purposes of a payment add-on to their rates of either 15% or 20%.

A separate proposal would reduce hospital rates by 5%. It should be noted that this would result in less of a reduction in the 2003-2005 rates than the 2003 rebasing increased rates.

Relationship to Base Budget

After the delay of rebasing, hospitals will still be paid based on more current costs than other providers of medical services.

Statutory Change: M.S. 256.969, subd. 2b.

HUMAN SERVICES DEPT

Program: BASIC HEALTH CARE GRANTS

Change Item: COMPLY WITH FEDERAL MANAGED CARE REGS

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	\$350	\$250	\$250	\$250
Revenues	100	100	100	100
Net Fiscal Impact	\$250	\$150	\$150	\$150

Recommendation

The governor recommends an increase in the General Fund budget to address administrative changes necessary to comply with federal Medicaid managed care requirements.

Background

New federal Medicaid managed care regulations require that the state's Medical Assistance (MA) managed care programs (Prepaid MA Program, Minnesota Senior Health Options, and Minnesota Disability Health Options) make changes. Changes which require additional funding and are part of this request include funding needed for actuarial contracts, to assure CMS that rates and payments are actuarially sound. Changes that are required but will be absorbed by the department include

- ◆ additional clerical staff and funding for changes to appeal database needed to ensure tracking and timely decisions for state fair hearings;
- ◆ changes to enrollment system to meet federal requirements, including re-enrollments, and collecting and transmitting to the health plan the race, ethnicity, and language spoken of each individual;
- ◆ additional professional staff needed to
 - ⇒ oversee managed care credentialing process;
 - ⇒ manage implementation and performance measurement of clinical practice guidelines;
 - ⇒ develop health care education and managed care performance materials for clients;
 - ⇒ develop mechanisms for conveying language, ethnicity, and other data (e.g., special needs information) to health plans; and
 - ⇒ monitor development and provision of culturally competent care; assess and monitor health care access standards, including ongoing monitoring of health plan networks and timely access to services; and
- ◆ increases for printing and mailing additional materials to enrollees and potential enrollees.

Relationship to Base Budget

This proposal is crucial to the Medical Assistance (MA) program in that compliance with these federal regulations will assure that DHS continues to earn federal financial participation (FFP) for all of its MA services.

Statutory Change: Not Applicable.

HUMAN SERVICES DEPT**Program: BASIC HEALTH CARE GRANTS****Change Item: CONSOLIDATE GAMC & MINNESOTACARE**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$41,440)	(\$158,856)	(\$304,337)	(\$326,296)
Revenues	0	0	0	0
Health Care Access Fund				
Expenditures	(68,802)	(37,118)	62,576	59,298
Revenues	0	0	0	0
Net Fiscal Impact	(\$110,242)	(\$195,974)	(\$241,761)	(\$266,998)

Recommendation

The governor recommends that health care coverage for adults without children on General Assistance Medical Care (GAMC) and MinnesotaCare be consolidated and eligibility be reduced to those with incomes below 75% of the federal poverty guidelines (FPG), with a full-cost premium MinnesotaCare option for people with incomes between 75% and 175% FPG. The governor recommends that the Health Care Access Fund resources and liabilities be transferred to the General Fund at the close of FY 2005.

Background

GAMC currently serves the following citizens and legal non-citizens who meet all other eligibility criteria

- ◆ people automatically eligible for GAMC as recipients of General Assistance or Group Residential Housing;
- ◆ people ages 21-64 who do are not living with children under age 18, including some living in Institutions for Mental Diseases (IMDs);
- ◆ people who are ineligible for federally funded Medical Assistance (MA) solely because they are residing in an IMD;
- ◆ undocumented and non-immigrant people who are under age 18, meet the disability criteria of the Social Security Administration, or are age 65 and over; and
- ◆ people receiving services through a center for victims of torture who are otherwise ineligible for GAMC.

Emergency GAMC provides emergency care and services for the following groups who meet all other eligibility criteria

- ◆ undocumented and nonimmigrant adults ages 21-64 not otherwise eligible for GAMC;
- ◆ nonresidents of Minnesota suffering acute trauma from an accident in Minnesota; and
- ◆ people mandatorially referred to MinnesotaCare from GAMC who were denied or lost MinnesotaCare coverage for nonpayment of premiums.

Current law allows people on GAMC with incomes greater than 75% of FPG to spend down to achieve eligibility. Assets are limited to \$1,000 per household.

MinnesotaCare currently enrolls citizen and lawfully residing non-citizen adults at incomes no greater than 175% of FPG who do not have children under age 21 living with them and do not have access to other insurance coverage. The asset limit is \$15,000 for one person and \$30,000 for a household of two or more. Under certain conditions, enrollees whose income exceeds 175% of FPG remain enrolled with the payment of a premium under the sliding fee scale until income reaches 275% of FPG, at which point they must pay a full-cost premium.

MinnesotaCare eligibility is currently established for a one-year period during which increases in household income do not impact eligibility or premium amount. MA and GAMC enrollees are currently subject to eligibility reviews at six-month intervals.

Effective 7-1-03: Emergency General Assistance Medical Care (EGAMC) would be eliminated.

Effective 10-1-03:

⇒ GAMC would end for all adults without children with gross incomes exceeding 75% of FPG.

HUMAN SERVICES DEPT

Program: BASIC HEALTH CARE GRANTS

Change Item: CONSOLIDATE GAMC & MINNESOTACARE

- ⇒ Adults without children on MinnesotaCare with income over 75% FPG up to 175% FPG would be enrolled only with the payment of full-cost premiums.
- ⇒ GAMC would no longer provide retroactive coverage, currently allowed back to the first day of the month before the month of application; rather eligibility would begin with the date of application.
- ⇒ The MinnesotaCare asset limits (\$15,000/\$30,000) would be applied to GAMC.
- ⇒ MA-eligible people residing in IMDs would be transferred to the state-funded MA program.
- ⇒ People receiving services in a center for victims of torture would be transferred to the state-funded MA program, which currently serves immigrants whose status precludes eligibility for federally-funded MA.

Effective 2-1-04: All adults without children would be ineligible for Minnesota Care if they have access to any employer-subsidized health insurance, regardless of the employer's contribution level.

Effective 10-1-04:

The GAMC program would be eliminated. Adult enrollees without children who meet all other MinnesotaCare eligibility requirements would be transferred to MinnesotaCare, which would be modified as follows:

- ⇒ Eligibility reviews would occur every six months. The policy would be phased in over the course of one year starting with households that have annual reviews due for 10-1-04. Households would be scheduled for a review six months after their annual renewal. Failure to return the form would result in the entire household being closed.
- ⇒ Adults without children with incomes no greater than 75% FPG would not have premiums or a 4-month waiting period during which they must be uninsured.
- ⇒ For adults without children with incomes no greater than 75% FPG, eliminate the \$10,000 cap on coverage for inpatient hospitalization benefits and the 10% inpatient copayment.
- ⇒ Adults without children with incomes no greater than 75% FPG would not be required to have a permanent address.
- ⇒ The period required to gain Minnesota residency would be reduced for adults without children with incomes no greater than 75% FPG from 180 days to 30 days. People with medical emergencies and migrant farm workers who earned at least \$1,000 in Minnesota in the past 12 months are exempt from the 30-day requirement.

Enrollees may choose to receive services from the county agency or MinnesotaCare Operations.

Relationship to Base Budget

This proposal would achieve savings by the consolidation of the two programs and by limiting coverage to the neediest segment of this population. This proposal affects only groups who are currently 100% state funded. It shifts costs for GAMC adults without children from the General Fund to the Health Care Access Fund beginning 10-1-04. The groups transferred to state-funded MA will continue to be funded through the General Fund. In FY 2006, revenues and expenditures of the HCAF would be found in the General Fund.

Six-month eligibility reviews will result in savings due to the termination of households in which income increases over standards and termination of households that fail to return the review forms. Phasing in of this component means that full savings will not be realized until the entire caseload has had six-month reviews, 18 months from the date this is implemented. There would generally be a significant increase in the staff time needed to complete reviews beginning six months after implementation because workers will be reviewing cases due for annual reviews as well as the first round of six-month reviews. Postage and printing costs to issue reviews will also increase. Due to the future availability of HealthMatch, the department is not requesting additional administrative funding for staff at this time. This change will affect both the MAXIS and MMIS systems and will require lead-time to implement. Managed care rates for these groups will need to be renegotiated.

Statutory Change: M.S. 256B, M.S. 256D, M.S. 256G, and M.S. 256L.

HUMAN SERVICES DEPT**Program: BASIC HEALTH CARE GRANTS****Change Item: MODIFY MINNESOTACARE**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
Health Care Access Fund				
Expenditures	(\$3,637)	(\$16,462)	(\$25,642)	(\$34,691)
Revenues	0	0	0	0
Net Fiscal Impact	(\$3,637)	(\$16,462)	(\$25,642)	(\$34,691)

Recommendation

The governor recommends an increase to premium contributions by parents and pregnant MinnesotaCare enrollees and further modification to MinnesotaCare policy to simplify the administration of the program and align it with Medical Assistance (MA) and General Assistance Medical Care (GAMC).

Background

To enroll in MinnesotaCare, children, parents and pregnant women must have incomes at or below 275% of the federal poverty guidelines (FPG). Premiums are paid on a sliding scale with full cost premiums beginning when family income reaches or exceeds 275% FPG.

If family income exceeds 275% FPG at the time of annual review, the income is compared to the cost of the premium amount for a policy with a \$500 deductible available through the Minnesota Comprehensive Health Association (MCHA). If 10% of the gross annual income is less than what the household's MCHA premium would be, eligibility continues. If 10% of the gross annual income is equal to or greater than the MCHA premium, the household is notified that their eligibility will end in 18 months.

Currently, parents with children under age 21 can obtain MinnesotaCare coverage for their other children ages 21 through 24 who are living with them, are full-time students, and are financially dependent upon them. The children meeting these requirements are considered dependent siblings and are eligible if their families' income is equal to or less than 275% of poverty. Twenty-one to twenty-four year olds who do not meet the dependent sibling criteria may be eligible only as adults without children whose income must be equal to or less than 175% FPG. Children eligible as dependent siblings receive the same benefits as adults without children. There is no federal financial participation for dependent siblings.

MinnesotaCare eligibility is currently established for a one-year period during which increases in household income do not impact eligibility or premium amount. Medical Assistance and General Assistance Medical Care enrollees are currently subject to eligibility reviews at six-month intervals.

Effective 2-1-04:

- ⇒ Parents and pregnant women would be charged a full cost premium if income exceeds 200% FPG and eligibility would end for parents when family income exceeds 275% FPG.
- ⇒ The dependent sibling eligibility basis for MinnesotaCare would be eliminated. All applicants and enrollees over 21 would have to meet the income standard for adults without children, but their parents' income would not be counted toward that limit. The income standard for adults without children is assumed to be 75% FPG based on the proposal described in the budget page "Consolidate GAMC and MinnesotaCare." Some parents would lose parental status if the only child in the household had been eligible as a dependent sibling. These parents would also be treated as adults without children and would be subject to the 75% FPG standard.
- ⇒ The MCHA exemption would no longer apply to adults. It would continue to apply to children with family income over 275% FPG. If 10% of the child's family gross annual income were less than the MCHA premium amount, the children would remain eligible with a full-cost premium. If the amount were equal to or greater than the MCHA premium, the household would be notified that the child's eligibility would end in 12 months rather than 18.
- ⇒ All parents would be ineligible for MinnesotaCare if they had access to any employer-subsidized health insurance, regardless of the employer's contribution level.

Effective 10-1-04:

⇒ All MinnesotaCare households would become subject to review every six months to determine eligibility, premium amount, and benefit set. The policy would be phased in over the course of one year starting with households that have annual reviews due for 10-1-04. Households would be scheduled for a review six months after their annual renewal. Failure to return the form would result in the entire household being closed.

Relationship to Base Budget

Six-month eligibility reviews will increase revenue slightly by increasing MinnesotaCare premiums at an earlier date following an increase in family income. There would also be savings due to the termination of households earlier where income increases over standards and termination of households that fail to return the review forms. Phasing in of this component means that full savings will not be realized until the entire caseload has had six-month reviews, 18 months from the date this is implemented. There would generally be a significant increase in the staff time needed to complete reviews beginning six months after implementation because workers will be reviewing cases due for annual reviews as well as the first round of six month reviews. Postage and printing costs to issue reviews will also increase. Due to the future availability of HealthMatch, the department is not requesting additional administrative funding for staff at this time.

This proposal will require federal approval of an amendment to the MinnesotaCare waiver, which is anticipated to be received by the proposed effective dates.

Key Measures

- ◆ Percent of Minnesotans who have health insurance

More information on key measures is available on the Web:
<http://www.departmentresults.state.mn.us/hs/index.html>.

Statutory Change: M.S. 256L.

HUMAN SERVICES DEPT**Program: BASIC HEALTH CARE GRANTS****Change Item: S-CHIP FOR UNDOCUMENTED PREGNANT WOMEN**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$4,000)	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$4,000)	0	0	0

Recommendation

The governor recommends that federal State-Children's Health Insurance Program (S-CHIP) funding be claimed for prenatal services for undocumented women.

Background

Recent instructions from the federal government informed states that they could claim federal S-CHIP match for prenatal services for undocumented women. Minnesota will claim \$4 million in additional S-CHIP funds to pay for services provided to undocumented pregnant women during FY 2003.

Relationship to Base Budget

This is a one-time claim for S-CHIP dollars for undocumented pregnant women. It will have no impact on future budgets.

Statutory Change: Not applicable.

HUMAN SERVICES DEPT**Program: BASIC HEALTH CARE GRANTS****Change Item: REDUCE MA PREGNANT WOMEN 275% TO 200%**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$202)	(\$1,919)	(\$3,043)	(\$3,435)
Revenues	0	0	0	0
Health Care Access Fund				
Expenditures	61	598	964	1,088
Revenues	0	0	0	0
Net Fiscal Impact	(\$141)	(\$1,321)	(\$2,079)	(\$2,347)

Recommendation

The governor recommends limiting eligibility for pregnant women on Medical Assistance (MA) by reducing eligibility from 275% of the federal poverty guidelines (FPG) to 200% FPG.

Background

To become eligible for MA, countable income must be at or below established income limits. Currently, for pregnant women, the income standard is 275% FPG.

Effective 2-1-04, this proposal would lower the income standard for pregnant women applying for MA to 200% FPG. Current enrollees would retain eligibility through the end of their 60-day post-partum period. Some of the pregnant women who would now be ineligible for MA may be able to move to MinnesotaCare if their gross household income is at or below 275% FPG, they are uninsured, and they do not have access to employer subsidized insurance. These women would have to pay full cost for MinnesotaCare.

Relationship to Base Budget

There will be modest program savings as a result of this proposal.

Key Measures

- ◆ Percent of Minnesotans who have health insurance

More information on key measures is available on the Web:

<http://www.departmentresults.state.mn.us/hs/index.html>.

Statutory Change: M.S. 256B.

HUMAN SERVICES DEPT**Program: BASIC HEALTH CARE GRANTS****Change Item: MODIFY MA-EPD**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$1,475)	(\$2,426)	(\$2,426)	(\$2,426)
Revenues	0	0	0	0
Net Fiscal Impact	(\$1,475)	(\$2,426)	(\$2,426)	(\$2,426)

Recommendation

The governor recommends that the Medical Assistance for Employed Persons with Disabilities (MA-EPD) option be modified and contributions from enrollees be increased.

Background

People with disabilities have identified the loss of Medical Assistance (MA) coverage as one of the major obstacles that they face as they seek to become employed. Private sector health insurance generally does not cover personal care services and other long-term supports needed by people with disabilities and Medicare does not cover long-term supports or prescription drugs.

In 1999, the Minnesota Legislature adopted MA-EPD - an optional Medicaid eligibility group - as a work incentive for people with disabilities who are employed. This group is allowed a higher income and asset limit than standard MA to encourage disabled individuals to move toward self-sufficiency through employment. Enrollees are required to pay a premium based on a calculation that was approved in the last legislative session.

Proposed changes to the program are designed to support MA-EPD as a work incentive that will lead to greater self-sufficiency. Currently, enrollees are required to pay a premium based on the individual's gross income, family size, and a sliding scale that begins with 1% of income at 100% of poverty and increases to 7.5% of income at or above 300% of poverty. People must enroll in Medicare (Part A and B) as a condition of eligibility for MA-EPD. Medicare premiums are reimbursed either through the Qualified Medicare Beneficiary (QMB) program, Service Limited Medicare Beneficiary program (SLMB), or, if the enrollee is not eligible for QMB or SLMB, Medicare premiums are paid using 100% state dollars. MA-EPD applicants and enrollees are allowed to enroll if they are receiving any type of earnings. Loss of earnings results in disenrollment the month following a report of job loss (except if employment is interrupted due to medical reasons).

Effective 11-1-03, this proposal would:

- ⇒ Require all enrollees to pay an additional obligation (beyond the premium) of 5% of unearned income. This amount would be billed with the premium.
- ⇒ Create an additional charge to the current premium structure to offset state expenditures in reimbursing Medicare Part B premium payments. The Medicare sliding scale payment offset charge would be targeted only to those enrollees with income that exceeds the SLMB income limit of 120% (\$906 per month for individual, \$1,214 per month for a family of two).

Effective 1-1-04, this proposal would:

- ⇒ Require an individual to have earned income above the \$65 disregard level in order to qualify for MA-EPD. This disregard is currently applied to earned income of disabled individuals in regular MA. All current MA-EPD enrollees who do not meet this new eligibility requirement will be given a grace period of up to the next six-month review date, but not less than four months to meet the requirement.
- ⇒ Require for MA-EPD eligibility that earned income have withholding of Medicare, Social Security, and applicable state and federal income taxes. This will require documentation of earned income tax withholding. This will disqualify employees of an employer who has been granted an exemption from payment of taxes by the Internal Revenue Service due to the non-work effort associated and will disqualify casually employed individuals. All current enrollees who do not meet this new eligibility requirement will be given a grace period of up to the next six-month review date, but not less than four months to meet the requirement.

- ⇒ Allow an enrollee up to four months without earnings to obtain new employment following job loss unrelated to work performance. Individuals would be able to request a four-month extension from the first day of the month after the job loss. All other eligibility requirements must be met and the enrollee must pay all calculated premium costs for continued eligibility. The addition of a “safety net” for MA-EPD enrollees who lose their job through no fault of their own is an important strategy to achieve the long-term goal of self-sufficiency for disabled individuals.
- ⇒ Create a minimum (base) premium for MA-EPD enrollees of \$35 per month. The current premium structure would remain in place, and if through the current calculation the minimum premium was not met, the minimum premium of \$35 per month would be charged. The establishment of a minimum premium payment reflects a similar approach to private health care coverage. A minimum premium payment assumes that all enrollees are responsible for a share of their health care costs, not unlike workers who have private health insurance. The minimum payment would become effective for all new enrollees at the time of enrollment. For current enrollees the minimum premium would become effective at the next six-month review date.

Relationship to Base Budget

These proposals offset MA program expenditures either by increasing the MA-EPD premium charges or increasing MA spenddowns, without sacrificing the incentive to work inherent in assuring health coverage to disabled individuals.

Key Measures

- ◆ Minnesotans between the ages of 21 and 64 with a disability who are working and Minnesotans enrolled in MA-EPD

More information on key measures is available on the Web:
<http://www.departmentresults.state.mn.us/hs/index.html>.

Statutory Change: M.S. 256B.057, subd. 9.

HUMAN SERVICES DEPT**Program: BASIC HEALTH CARE GRANTS****Change Item: MA PMT OF COST-EFFECTIVE PREMIUMS**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$133)	(\$250)	(\$300)	(\$300)
Revenues	0	0	0	0
Net Fiscal Impact	(\$133)	(\$250)	(\$300)	(\$300)

Recommendation

The governor recommends reductions in the General Fund budget in FY 2004 and FY 2005 by exempting clients with cost effective health insurance from enrollment in managed care.

Background

This proposal would provide payment for health insurance premiums for Medical Assistance (MA) clients if their private health plan is determined to be cost effective. These clients would be exempt from enrollment in managed care. Cost sharing amounts and medical care not covered by the private health plan benefit package will be covered under fee-for-service if it is provided in the MA benefit set.

Relationship to Base Budget

Expanded review of private health insurance plans available to a person through employment will need to be conducted in order to determine if those plans are more cost effective than payment of a monthly managed care capitation.

Statutory Change: M.S. 256B.69.

HUMAN SERVICES DEPT

Program: CONTINUING CARE GRANTS

Change Item: ALTERNATIVE CARE PROGRAM CHANGES

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$10,740)	(\$14,363)	(\$14,369)	(\$14,258)
Revenues	0	50	151	252
Net Fiscal Impact	(\$10,740)	(\$14,413)	(\$14,520)	(\$14,510)

Recommendation

The governor recommends changing Alternative Care (AC) eligibility, restructuring the premium payment criteria, and delaying changes in rates that were planned as part of a common service menu. This proposal also provides funding to meet projected increases in caseload in the next biennium.

Background

This proposal

- ◆ eliminates AC eligibility for some persons who are eligible for the Elderly Waiver (EW);
- ◆ increases revenues through premium collections and thereby decrease projected AC expenditures to help address the projected budget shortfall;
- ◆ implements estate recovery in the AC program (and liens against real property) similar to the current practice for Medical Assistance recovery;
- ◆ delays implementation of a common service menu between AC, home care, and other home and community-based waivers until 7-1-05;
- ◆ funds projected AC case load growth in the 2004-05 biennium; and
- ◆ makes technical changes to the AC statute and to several cross-referenced statutes.

Changes to Eligibility. To receive community-based services, persons with incomes below 120% of federal poverty guidelines (FPG) and assets of \$3,000 or less will be required to receive their long-term care services through EW and pay a waiver obligation (personal contribution toward the cost of their long-term care). This change will eliminate the option for some people to choose the program from which they receive services (AC or EW). Because EW is a program in which the federal government pays a share of the cost, it is more affordable for the state to use EW to pay for services for this group of people.

Changes to Premiums. For people who remain eligible for AC, criteria for premium payments will be simplified and restructured to increase personal contributions.

- ⇒ Currently, AC recipients whose income is greater than 150% of FPG or whose assets are greater than \$10,000 are assessed a monthly premium based on the costs of their services. This group will continue to pay a 25% premium toward their cost of care.
- ⇒ Persons with incomes below 150% of FPG and whose assets are \$10,000 or less will be required to pay a 10% premium.

The method for calculating premiums will be simplified. Premiums will be a flat 10% or 25% of the total cost of services. The total cost of services upon which premiums are based will no longer exclude case management. However, policy changes will be implemented giving recipients greater choice in how they receive case management services.

These changes will increase the number of people who must pay premiums. Some people will want to evaluate their own financial situations to decide whether it is more affordable to stay on AC or to spend their assets to qualify for EW.

Persons using the new "consumer-directed" option would not make premium payments, but instead receive a service package that is implemented at a discount.

Estate Recovery. Currently, counties seek recovery of the cost of care from the estates of persons who received MA services. This proposal would implement the same recovery from estates of those who received AC-funded

services. This proposal will create fairness among available public programs, encouraging clients to choose a program based primarily on their medical and community-based needs instead of estate considerations.

Some persons who are making decisions about estate planning may choose to become MA eligible at the onset of need, instead of retaining some of their resources to qualify for the AC program. Those persons who choose to move directly to the MA program will incur MA basic benefit costs vs. participating in supplementary programs and retaining some financial responsibility for their own primary care needs. Others who primarily consider estate planning when making decisions about health and community care may choose not to participate in either MA/EW or AC and to go without services.

Delay of the Common Service Menu. Changes were to be implemented in the AC program effective 1-1-03 that would create a common service menu and rate structure between AC, MA Home Care, and home and community-based waivers. This proposal delays implementation of the common service menu until 7-1-05.

Full Funding for Case Load Growth. This proposal includes full funding to meet the anticipated demand for AC services during FY 2004-05.

Effect of Changes on People in Licensed and Congregate Service Settings. Settings, such as assisted living, are a rapidly growing service option. They are also generally the most expensive type of service. There is a concern that future use of assisted living and other congregate settings may grow faster than use of in-home services as people who could be served in their own homes opt to move to congregate service settings. This proposal will slow the growth in use of licensed and congregate settings, such as assisted living, through the proposed changes in the premium schedule.

Relationship to Base Budget

Changes to the AC program result in net expenditure savings of 14% by FY 2005. During FY 2004, there is a phase-in period that coincides with an individual's regular annual reassessment.

The proposed changes will marginally extend the existing duties of state and county personnel. Additionally, minor changes to MMIS, MAXIS, and the revenue tracking systems will be needed.

Key Measures

- ◆ Public spending and the number of people in community-based long-term care versus institutional care.
- ◆ Consumers directing their own publicly funded home and community-based services

More information on key measures is available on the Web:
<http://www.departmentresults.state.mn.us/hs/index.html>.

Statutory Change: M.S. 256B.0913; M.S. 256B.0915; M.S. 524.3-805; M.S. 256B.15; M.S. 514.990-514.994.

HUMAN SERVICES DEPT**Program: CONTINUING CARE GRANTS****Change Item: REDUCE MA NF RATES/CAPACITY**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$16,961)	(\$18,773)	(\$18,254)	(\$17,839)
Revenues	(724)	(1,513)	(1,941)	(1,973)
Net Fiscal Impact	(\$16,237)	(\$17,260)	(\$16,313)	(\$15,866)

Recommendation

The governor recommends giving nursing facilities (NFs) a choice of either reducing the rates in effect on 6-30-03 by 4% or removing some of their licensed beds from service.

Background

The rate reduction associated with this proposal would be 4% of a facility's total payment rate effective 7-1-03.

As an alternative to the rate reduction, NFs would be permitted to delicense beds, retaining 85% of the number that were occupied on 1-1-03. In order to meet the savings achieved by a 4% rate reduction, nursing facilities would need to delicense their vacant beds as of 1-1-03, plus 15% of their remaining beds. Nursing facilities would be required to phase in the bed delicensure and criteria would be developed for granting a limited number of extensions.

The purpose of this proposal is to address the projected budget deficit. The rate or capacity reduction may result in financial problems for certain nursing facilities and access or quality of care issues for residents.

It is projected that, rather than accept a rate or occupancy reduction, several NFs may choose to close. This proposal includes Alternative Care and Elderly Waiver costs associated with the diversion of residents from NFs that close, as well as receivership costs.

Relationship to Base Budget

The financial impact of this proposal to nursing facilities represents 4% of the state share of the nursing facility budget.

Statutory Change: M.S. 256B.431

HUMAN SERVICES DEPT

Program: ECONOMIC SUPPORT GRANTS

Change Item: MFIP-WELFARE REFORM

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
TANF Fund				
Expenditures	(\$2,990)	(\$8,755)	(\$9,852)	(\$9,569)
Revenues	0	0	0	0
Net Fiscal Impact	(\$2,990)	(\$8,755)	(\$9,852)	(\$9,569)

Recommendation

The governor recommends reforms to strengthen the Minnesota Family Investment Program (MFIP) with a work-first focus and program improvements that reinforce personal responsibility.

Background

Proposals include:

Work-first Focus

- ◆ **Work-first.** When families first apply for assistance, they will meet with a job counselor and develop an intensive employment plan for four months before going onto MFIP. This is based on a successful pilot in Dakota County.
- ◆ **Work plans for all.** All participants will have an employment plan to build skills and stay connected to job opportunities. Currently, 12% of MFIP participants are exempt from having an employment plan (such as disabled parents, caregivers or those with a disabled child, or caregivers over 60).
- ◆ **Education.** MFIP participants who choose to attend school will be required to work 25 hours a week while receiving cash assistance. This requirement is similar to situations faced by working families pursuing an education.
- ◆ **Emphasis on employment.** Unsubsidized employment will be the first goal for all MFIP parents.

Program Improvements

- ◆ **Case close for noncompliance** (100% sanctions). Those who do not meet MFIP requirements within six months will lose cash assistance. This ensures that people make serious efforts to become self-sufficient and supports MFIP families who are doing their best to get back to work.
- ◆ **Sanction policy for noncompliance with child support.** Those who do not cooperate with child support enforcement efforts will be sanctioned at the same rate (30%) as those who do not meet other MFIP requirements, instead of the current rate of 25%.
- ◆ **Eligibility documentation.** The requirements for the information or documents needed to qualify for assistance will be tightened.
- ◆ **Family cap.** An MFIP family's grant will not increase if a parent has another child while the family is on assistance.

Key Measures

- ⇒ MFIP Self-Support Index (percent of adults working 30+ hours or off MFIP cash assistance three years later)
 - ◆ By race/ethnicity
 - ◆ MFIP work participation rate

Statutory Change: M.S. 256J.

HUMAN SERVICES DEPT**Program: ECONOMIC SUPPORT GRANTS****Change Item: MFIP TIME LIMIT POLICY**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	0	(\$30)	(\$36)	(\$41)
Revenues	0	0	0	0
TANF Fund				
Expenditures	0	2,143	2,623	3,113
Revenues	0	0	0	0
Net Fiscal Impact	0	\$2,113	\$2,587	\$3,072

Recommendation

The governor recommends improving the Minnesota Family Investment Program (MFIP) 60-month time limit extension policy.

Background

The proposal

- ◆ repeals the sunset of the employed participant extension category;
- ◆ clarifies/refines extension policy related to two-parent families; and
- ◆ clarifies/refines extension sanction policies.

Extensions to the MFIP 60-month time limit were established by the 2001 legislature. In late 2001, an emergency rule was promulgated to clarify ambiguous language. In addition, two categories of extension were added in 2002. In July 2002, the first major group of participants reached the time limit. A number of policy issues have been identified in the process of implementing the extension policy for this first group of participants. This proposal addresses those issues.

Relationship to Base Budget

Based on department data, in an average month about 55% of the cases with at least 60 eligible months (approximately 2,400 cases in FY 2003) qualify for a hardship extension. Of these, about 12% qualify for a working extension.

Based on department data, the refinement of the extension policy related to two-parent families is expected to impact less than 10 cases in an average month.

Key Measures

- ◆ MFIP (welfare-to-work) Self-Support Index

More information on key measures is available on the Web:

<http://www.departmentresults.state.mn.us/hs/index.html>.

Statutory Change: M.S. 256J.

HUMAN SERVICES DEPT**Program: ECONOMIC SUPPORT GRANTS****Change Item: REDUCE STATE FSET GRANTS**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$1,321)	(\$1,321)	(\$1,321)	(\$1,321)
Revenues	0	0	0	0
Net Fiscal Impact	(\$1,321)	(\$1,321)	(\$1,321)	(\$1,321)

Recommendation

The governor recommends reduced state grant funding for Food Support Employment and Training (FSET).

Background

FSET provides employment and training services to help people prepare for work and become employed. Minnesota is required by federal law to operate an FSET program. Services to clients are funded with a 100% federal grant and state funds with federal matching funds. Reimbursement of necessary client expenses is required and must be paid with state funds.

This proposal will reduce the state financial participation in the FSET program. Able-bodied adults without dependents are eligible for three months of Food Support benefits and can "earn" additional months by participating in FSET or by working more than 80 hours/month. This proposal will reduce the number of Food Support recipients served by FSET by about 72% to approximately 2,000.

Relationship to Base Budget

State base funding for FSET is \$1,347,000 per year. This proposal will reduce the state appropriation by \$1,321,000 per year and use \$1,200,000 in annual FSET federal funds to serve as many able-bodied adults without dependents as is possible. A \$1,321,000 reduction in the General Fund results in a corresponding loss of up to \$1,321,000 in federal matching funds.

Statutory Change: Not applicable.

HUMAN SERVICES DEPT

Program: ECONOMIC SUPPORT GRANTS

Change Item: TANF REFINANCING

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$12,927)	(\$9,272)	0	0
Revenues	0	0	\$10,724	\$10,827
TANF Fund				
Expenditures	\$12,927	\$9,272	\$10,724	\$10,827
Revenues	0	0	0	0
Net Fiscal Impact	0	0	0	0

Recommendation

The governor recommends the refinancing of General Fund spending with TANF funds that have been made available through TANF program cuts to the Minnesota Family Investment Program (MFIP).

Background

This proposal decreases the General Fund budgets of MFIP in FY 2004 and of the Children and Community Services Grant in FY 2005 to assist in balancing the state's General Fund budget. This proposal includes corresponding increase in the Temporary Assistance to Needy Families (TANF) spending in FY 2004 and FY 2005 in the MFIP program and Children and Community Services Grant program, respectively.

The refinancing of the MFIP cash assistance program in FY 2004 is made possible by the presence of state spending in excess of the minimum necessary to meet federal maintenance of effort (MOE) requirements. The refinancing of the Children and Community Services Grant in FY 2005 will be accomplished through a transfer of TANF to the social services block grant (SSBG) to substitute for General Fund spending. This type of refinancing was last done in the 1999 session of the legislature when such a transfer provided savings from the Community Social Services Act (CSSA) block grant to counties. Under another governor's recommendation, the CSSA funds will be combined with other funds to create the Children and Community Services Grant program.

The proposal for the FY 2006-07 biennium is to authorize additional refinancing in FY 2006 and FY 2007 and provide that the commissioner designate which programs will provide the General Fund savings as part of the FY 2006-07 budget, subject to approval by the legislature.

There are two reasons for not designating the out-year refinancing targets in the FY 2004-05 budget.

- ⇒ First, significant changes are being proposed in the governor's budget or may be proposed by the legislature that will affect programs that are potential refinancing targets.
- ⇒ Second, amendments to the TANF program being discussed by Congress as part of TANF reauthorization would increase the state's capacity to refinance by increasing the TANF available for SSBG transfer or making it easier to spend TANF funds on child care, as well as open up other refinance options.

Program recipients, providers, and counties will not be affected by this change in financing.

Relationship to Base Budget

This proposal would create an ongoing General Fund savings relative to the base budget and ongoing TANF commitments.

Statutory Change: Not Applicable.

HUMAN SERVICES DEPT

Change Item: MINNESOTACARE MANAGED CARE RATE REDUCTION

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
Health Care Access Fund				
Expenditures	(\$2,244)	(\$3,945)	(\$4,484)	(\$5,000)
Revenues	0	0	0	0
Net Fiscal Impact	(\$2,244)	(\$3,945)	(\$4,484)	(\$5,000)

Recommendation

The governor recommends a decrease in the Health Care Access Fund budget by reducing the rates paid to managed care organizations for MinnesotaCare effective October 1, 2003.

Background

This proposal reduces payments to managed care organizations for MinnesotaCare by approximately 1% beginning in October 2003. This amount equates to the savings health plans can gain due to changes proposed by DHS in its budget. This includes making payment changes to providers that are consistent with the 5% reduction in hospital payments in the DHS proposal, reducing overall plan administrative costs allocated to public programs, and operational efficiencies gained due to the GAMC/MinnesotaCare consolidation.

New federal regulations require that the rates paid to Minnesota health plans for Medical Assistance and MinnesotaCare be actuarially sound. Mandated rate changes must be based on operating changes that can be implemented by plans. Changes to rates must be reviewed and certified by an actuary and must be approved by the federal Center for Medicare and Medicaid Strategies (CMS) in order to maintain federal financial participation. Additional actuarial costs will be incurred to make these changes.

Relationship to Base Budget

This proposal reduces payments to managed care organizations for MinnesotaCare by approximately 1% beginning in October 2003.

Reductions in managed care have been taken over the last two years. MinnesotaCare rates were increased for the 2003 contract year 1.8% on average. In addition, there are significant changes to health plan cash flow that benefit the state. June payments have been delayed one month each year since 2002. The 2003 contracts also withhold 0.5% of MinnesotaCare payments for one year for performance incentives.

In addition, there is a proposal to reduce PMAP payments to managed care organizations by approximately 1% beginning in October 2003 and an additional 1% beginning in January 2004. Medical Assistance rates were increased for the 2003 contract year only 4.6% on average. The June payments for PMAP have been delayed one month each year since 2002 and the 2003 contracts withhold 5% of payments for one year for performance incentives.

Key Measures

⇒ The number of health plan choices for PMAP and MinnesotaCare enrollees does not significantly decrease.

Statutory Change: Not Applicable.

HUMAN SERVICES DEPT**Change Item: MINNESOTACARE MANAGED CARE WITHHOLD**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$4,823)	(\$15,761)	(\$6,771)	(\$3,968)
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	(\$4,823)	(\$15,761)	(\$6,771)	(\$3,968)

Recommendation

The governor recommends increasing the amount of dollars withheld from managed care plans for performance incentives to five percent.

Background

This proposal reduces cash flow to managed care organizations by increasing the amount withheld for performance incentives for MinnesotaCare from 0.5% to 5.0%, an increase of approximately 4.5% beginning in January 2004. This results in savings for the state.

Managed care organizations are able to earn back up to the full amount of the withhold, less any ratable reduction, provided that they meet applicable performance standards. Year 2003 contracts already contain performance standards.

Relationship to Base Budget

This proposal reduces payments to managed care organizations for MinnesotaCare services by an additional 4.5% beginning in January 2004. Repayment of the withhold would not take place before July 2005.

Key Measures

⇒ Number of health plan choices for PMAP and MinnesotaCare enrollees does not significantly decrease.

Alternatives Considered

Maintaining the current 0.5% performance withhold.

Statutory Change: M.S. 256L.

HUMAN SERVICES DEPT**Change Item: DELAY MFIP SUPPORT SERVICES PAYMENT**

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	(\$14,000)	0	\$6,000	\$6,000
Revenues	0	0	\$6,000	\$6,000
Net Fiscal Impact	(\$14,000)	0	0	0

Recommendation

The governor recommends delaying a payment to counties within the initial 18-month allocation period for the proposed MFIP Support Services Grant.

Background

The proposed MFIP Support Services Grant to counties will be based on a calendar year allocation. In order to move to this calendar year basis, the first allocation will be for 18 months. This proposal will delay \$8 million of the General Fund payment that would have been made in the July-September quarter of calendar year 2003 to the same quarter in calendar year 2004. This delay would continue each subsequent year. The proposal also refinances \$6 million of TANF funds in FY 2004 and each subsequent year in order to allow for a cash-flow shift totaling \$14 million. The amount allocated and paid to counties in this initial 18-month period and in subsequent calendar years will not change from the amounts that would have been available absent this payment shift.

The refinancing of the \$6 million is required because there is not expected to be any TANF surplus available to make the shirred payments with TANF in the July-September quarter of calendar year 2003. The refinancing will be done in the same manner as the larger TANF refinancing on page 236 of the governor's proposed budget.

DISABILITY COUNCIL

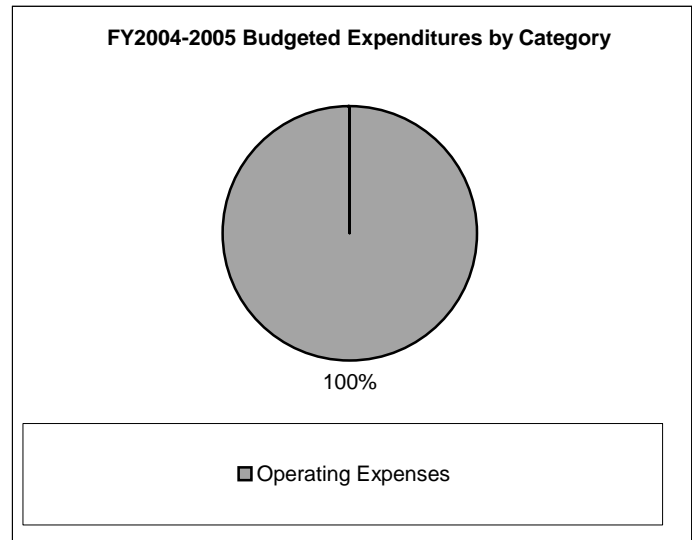
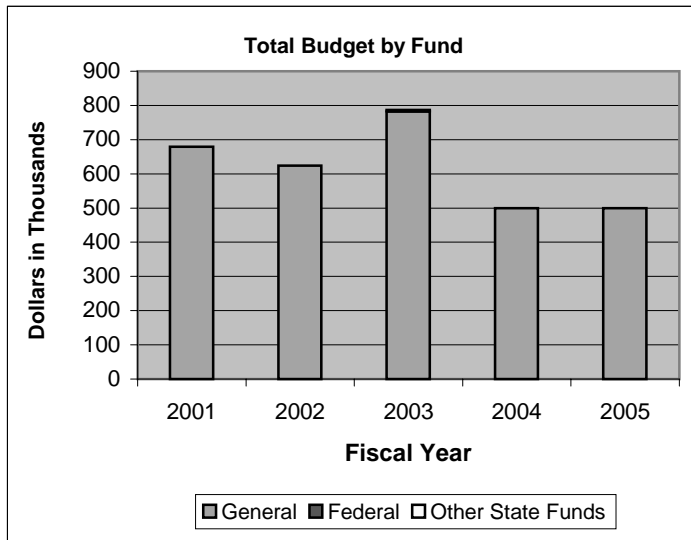
Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	1,428	0	1,428
Program/Agency Sunset	-1,428	0	-1,428
Adjusted Base Funding	0	0	0
Change Items			
Funding For Disability Council	1,000	0	1,000
Governor's Recommendations	1,000	0	1,000
Biennial Change, 2002-03 to 2004-05	-406	-5	-411
Percent Change	-29%	-100%	-29%

Brief Explanation Of Budget Decisions:

The Disability Council has language to sunset on June 30, 2003. The allocated funding will extend the sunset to June 30, 2005 and allow the Council to continue at a reduced level.



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	679	624	782	500	500	1,000
Statutory Appropriations						
Gift	0	0	5	0	0	0
Total	679	624	787	500	500	1,000
Expenditures by Category						
Operating Expenses	679	624	787	500	500	1,000
Total	679	624	787	500	500	1,000
Expenditures by Program						
Cncl On Disability	679	624	787	500	500	1,000
Total	679	624	787	500	500	1,000
Full-Time Equivalents (FTE)	9.1	9.2	9.2	4.0	4.0	

DISABILITY COUNCIL

Change Item: FUNDING FOR DISABILITY COUNCIL

Preliminary Proposal

Fiscal Impact (\$000s)	FY 2004	FY 2005	FY 2006	FY 2007
General Fund				
Expenditures	500	500	500	500
Revenues	0	0	0	0
Other Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact	500	500	500	500

Recommendation

The Governor recommends funding the Disability Council \$500,000 each year of the biennium.

Background

The Disability Council will sunset on June 30, 2003 per Minnesota Statute 256.482, subdivision 8. This change will extend the sunset to June 30, 2005, and allow the council to continue operations at a reduced level.

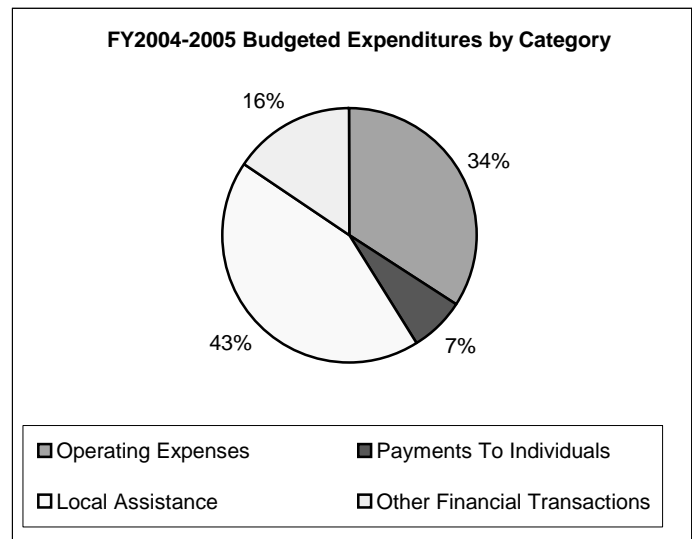
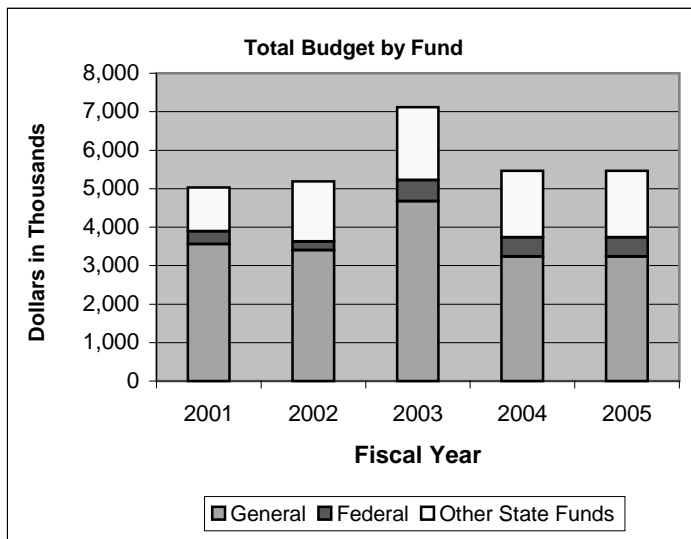
Relationship to Base Budget

Overall, this recommendation reflects a 30% reduction from the FY 2003 funding level.

Alternatives Considered

None.

Statutory Change: M.S. 256.482, subdivision 8.

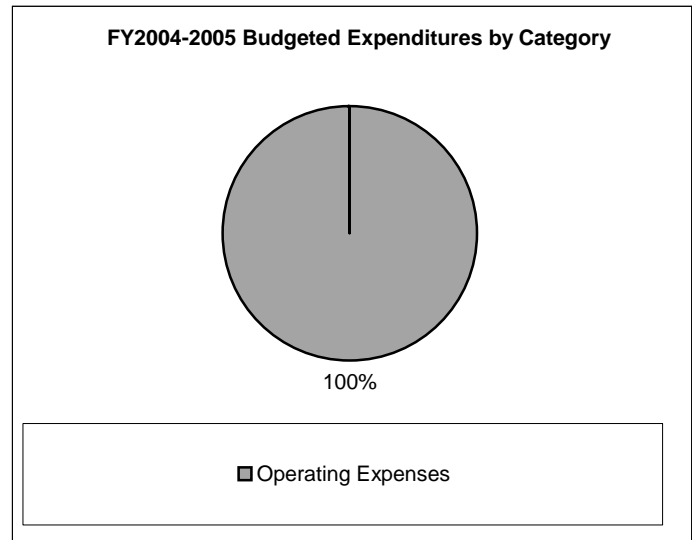
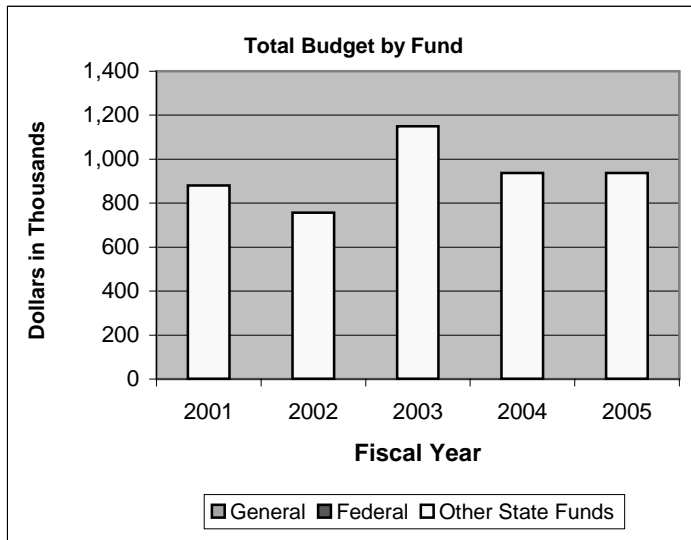


<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
General	2,530	2,407	3,538	2,304	2,304	4,608
State Government Special Revenue	0	432	629	546	546	1,092
Open Appropriations						
General	1,033	995	1,133	930	930	1,860
State Government Special Revenue	0	17	8	8	8	16
Statutory Appropriations						
Special Revenue	1,142	1,116	1,248	1,172	1,172	2,344
Federal	330	224	550	501	501	1,002
Gift	0	0	13	2	2	4
Total	5,035	5,191	7,119	5,463	5,463	10,926
Expenditures by Category						
Operating Expenses	1,494	1,781	2,371	1,867	1,867	3,734
Payments To Individuals	343	292	478	385	385	770
Local Assistance	2,253	2,186	3,237	2,364	2,364	4,728
Other Financial Transactions	945	932	1,033	847	847	1,694
Total	5,035	5,191	7,119	5,463	5,463	10,926
Expenditures by Program						
Emergency Medical Services Bd	5,035	5,191	7,119	5,463	5,463	10,926
Total	5,035	5,191	7,119	5,463	5,463	10,926

EMERGENCY MEDICAL SVCS REG BD

Fiscal Report

<i>Dollars in Thousands</i>	Actual	Actual	Preliminary	Governor's Rec		Biennium
Revenue by Type and Fund	FY2001	FY2002	FY2003	FY2004	FY2005	2004-05
Non Dedicated						
General	0	77	237	237	237	474
State Government Special Revenue	0	4	10	10	10	20
Cambridge Deposit Fund	55	0	0	0	0	0
Subtotal Non Dedicated	55	81	247	247	247	494
Dedicated						
General	23	12	30	30	30	60
Special Revenue	0	0	2	2	2	4
Federal	322	223	544	501	501	1,002
Gift	0	1	2	2	2	4
Subtotal Dedicated	345	236	578	535	535	1,070
Total Revenue	400	317	825	782	782	1,564
Full-Time Equivalents (FTE)	13.6	19.5	24.6	24.6	24.6	



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
State Government Special Revenue	859	744	1,060	858	858	1,716
Health Care Access	0	0	75	64	64	128
Open Appropriations						
State Government Special Revenue	22	13	15	15	15	30
Total	881	757	1,150	937	937	1,874

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	881	757	1,150	937	937	1,874
Total	881	757	1,150	937	937	1,874

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Dentistry, Board Of	881	757	1,150	937	937	1,874
Total	881	757	1,150	937	937	1,874

Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Non Dedicated						
State Government Special Revenue	1,119	1,111	1,094	1,134	1,162	2,296
Subtotal Non Dedicated	1,119	1,111	1,094	1,134	1,162	2,296
Total Revenue	1,119	1,111	1,094	1,134	1,162	2,296

Full-Time Equivalents (FTE)	8.6	8.8	10.4	10.4	10.4
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MEDICAL PRACTICE BOARD

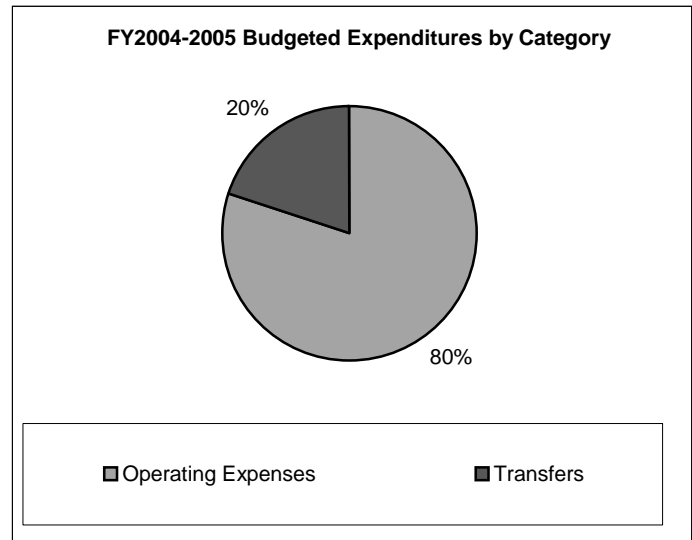
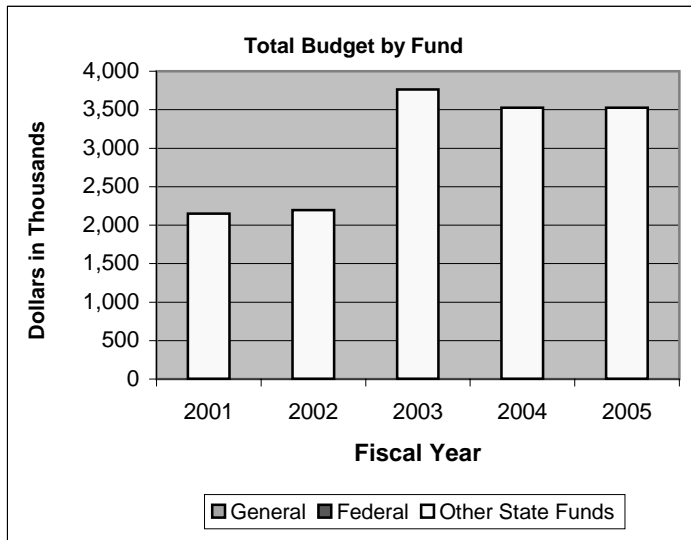
Budget in Brief

FY 2004-05 Expenditures (\$000s)

	General Fund	Other Funds	Total
2003 Funding Level	0	6,864	6,864
Legislatively Mandated Base	0	0	0
Transfers Between Agencies	0	188	188
Adjusted Base Funding	0	7,052	7,052
Governor's Recommendations	0	7,052	7,052
Biennial Change, 2002-03 to 2004-05	0	1,093	1,093
Percent Change	n.m	18%	18%

Brief Explanation Of Budget Decisions:

The Medical Practice Board is a fee-based organization that provides licensure and regulation services. Appropriations are made from the State Government Special Revenue (SGSR) fund and funding will continue at the FY 2003 level for both FY 2004 and FY 2005.



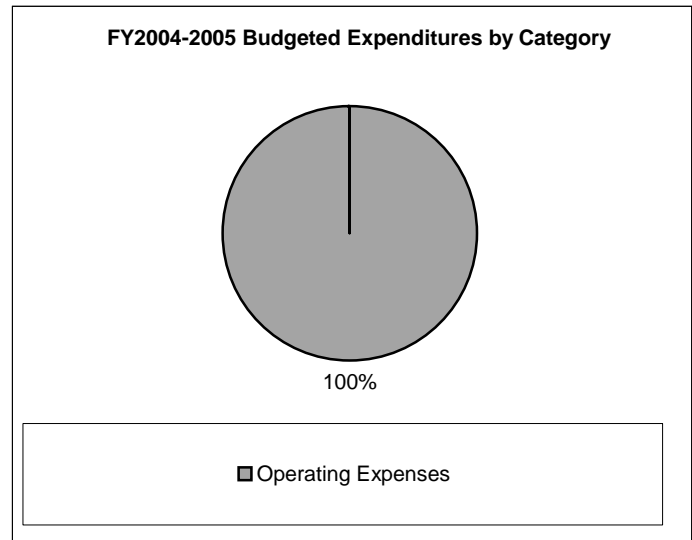
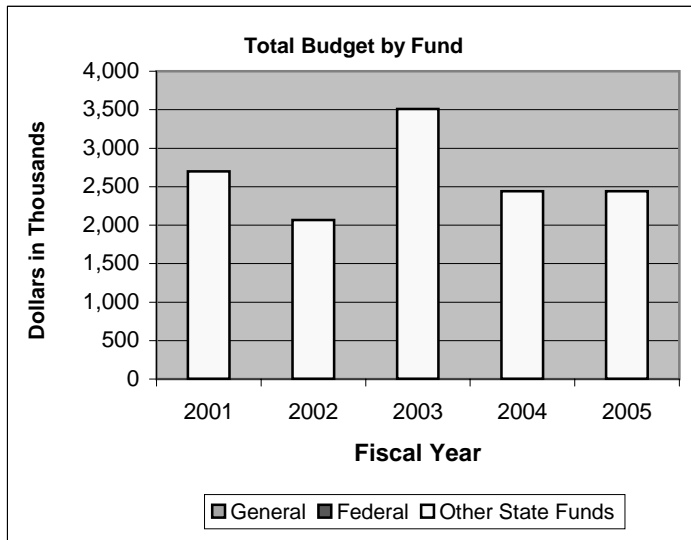
<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
State Government Special Revenue	2,071	2,174	3,734	3,498	3,498	6,996
Open Appropriations						
State Government Special Revenue	29	11	27	27	27	54
Statutory Appropriations						
Special Revenue	51	12	1	1	1	2
Total	2,151	2,197	3,762	3,526	3,526	7,052

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	2,151	2,197	3,762	2,792	2,851	5,643
Transfers	0	0	0	734	675	1,409
Total	2,151	2,197	3,762	3,526	3,526	7,052

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Medical Practice, Board Of	2,151	2,197	3,762	3,526	3,526	7,052
Total	2,151	2,197	3,762	3,526	3,526	7,052

Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Non Dedicated						
State Government Special Revenue	3,801	4,112	4,046	4,132	4,199	8,331
Subtotal Non Dedicated	3,801	4,112	4,046	4,132	4,199	8,331
Dedicated						
Special Revenue	63	0	1	1	1	2
Subtotal Dedicated	63	0	1	1	1	2
Total Revenue	3,864	4,112	4,047	4,133	4,200	8,333

Full-Time Equivalents (FTE)	22.2	22.6	27.0	27.0	27.0
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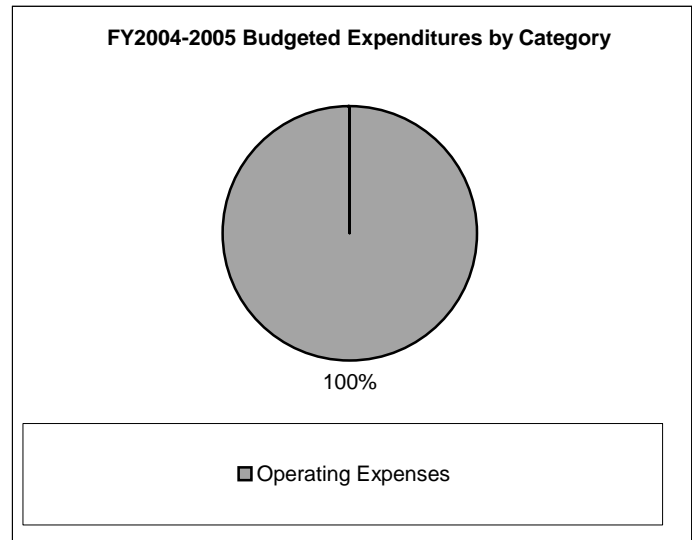
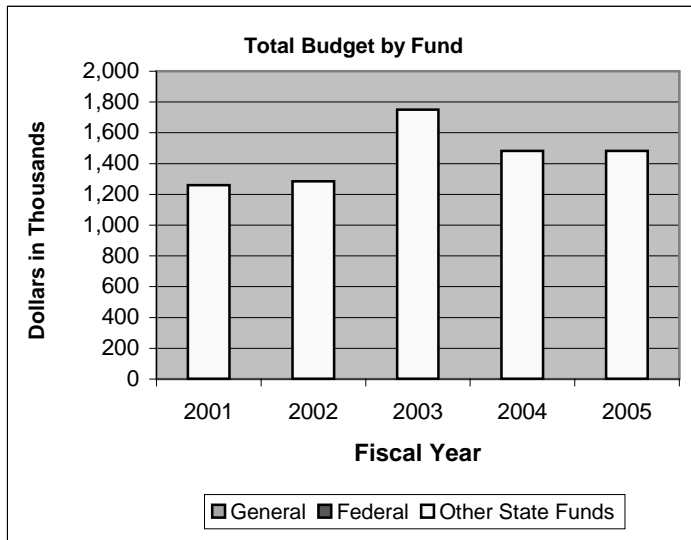
<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
State Government Special Revenue	2,639	1,993	2,777	2,405	2,405	4,810
Open Appropriations						
State Government Special Revenue	60	25	34	34	34	68
Statutory Appropriations						
Special Revenue	0	50	700	0	0	0
Total	2,699	2,068	3,511	2,439	2,439	4,878

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	2,699	2,068	3,511	2,439	2,439	4,878
Total	2,699	2,068	3,511	2,439	2,439	4,878

Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Nursing, Board Of	2,699	2,068	3,511	2,439	2,439	4,878
Total	2,699	2,068	3,511	2,439	2,439	4,878

Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Non Dedicated						
State Government Special Revenue	4,111	4,285	3,721	4,081	4,081	8,162
Subtotal Non Dedicated	4,111	4,285	3,721	4,081	4,081	8,162
Total Revenue	4,111	4,285	3,721	4,081	4,081	8,162

Full-Time Equivalents (FTE)	32.9	27.6	36.7	36.7	36.7
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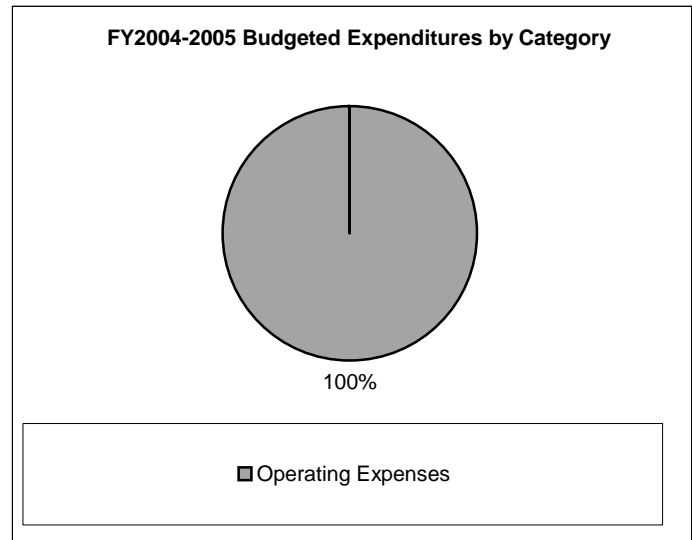
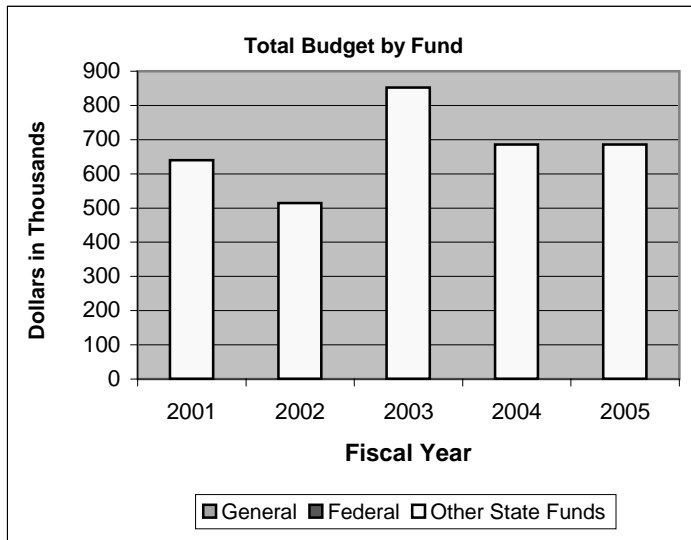
<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
State Government Special Revenue	1,188	1,233	1,598	1,386	1,386	2,772
Open Appropriations						
State Government Special Revenue	29	10	23	23	23	46
Statutory Appropriations						
Special Revenue	42	42	129	73	73	146
Total	1,259	1,285	1,750	1,482	1,482	2,964

Expenditures by Category	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Operating Expenses	1,259	1,285	1,750	1,482	1,482	2,964
Total	1,259	1,285	1,750	1,482	1,482	2,964

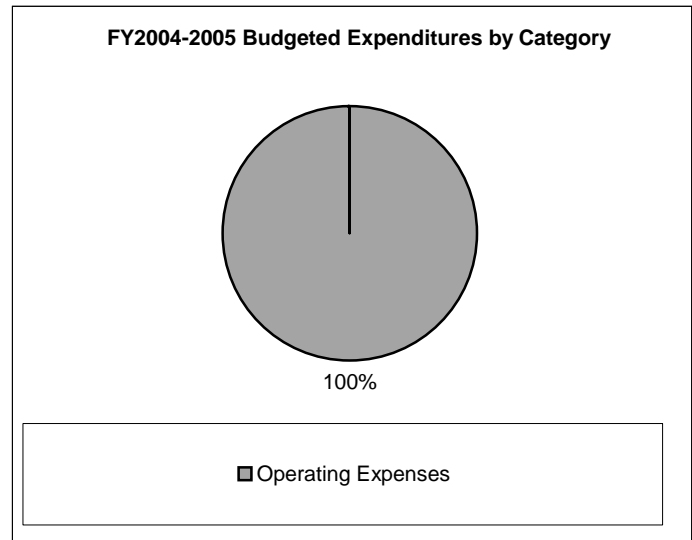
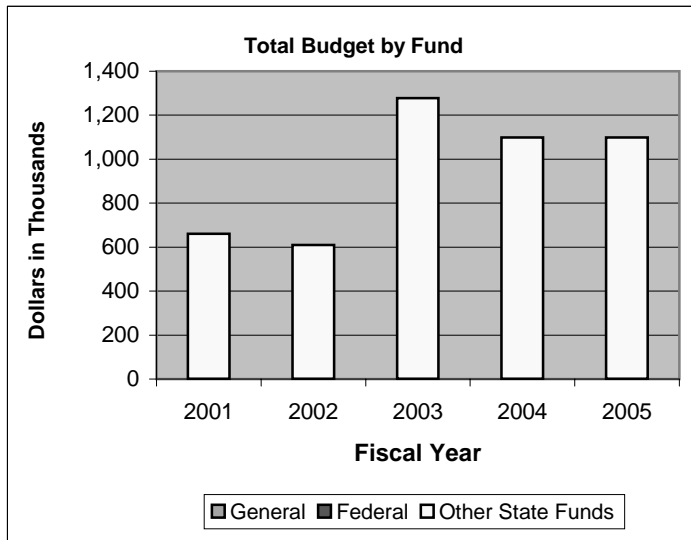
Expenditures by Program	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Pharmacy, Board Of	1,259	1,285	1,750	1,482	1,482	2,964
Total	1,259	1,285	1,750	1,482	1,482	2,964

Revenue by Type and Fund	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Non Dedicated						
State Government Special Revenue	1,188	1,254	1,254	1,266	1,308	2,574
Subtotal Non Dedicated	1,188	1,254	1,254	1,266	1,308	2,574
Dedicated						
Special Revenue	55	71	73	73	73	146
Subtotal Dedicated	55	71	73	73	73	146
Total Revenue	1,243	1,325	1,327	1,339	1,381	2,720

Full-Time Equivalents (FTE)	14.5	14.6	17.5	17.5	17.5
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<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
State Government Special Revenue	580	503	846	680	680	1,360
Open Appropriations						
State Government Special Revenue	20	12	6	6	6	12
Statutory Appropriations						
Special Revenue	40	0	0	0	0	0
Total	640	515	852	686	686	1,372
Expenditures by Category						
Operating Expenses	640	515	852	686	686	1,372
Total	640	515	852	686	686	1,372
Expenditures by Program						
Psychology, Board Of	640	515	852	686	686	1,372
Total	640	515	852	686	686	1,372
Revenue by Type and Fund						
Non Dedicated						
State Government Special Revenue	1,066	1,139	1,136	1,100	1,027	2,127
Subtotal Non Dedicated	1,066	1,139	1,136	1,100	1,027	2,127
Dedicated						
Special Revenue	28	0	0	0	0	0
Subtotal Dedicated	28	0	0	0	0	0
Total Revenue	1,094	1,139	1,136	1,100	1,027	2,127
Full-Time Equivalents (FTE)	7.5	7.0	9.0	9.0	9.0	



<i>Dollars in Thousands</i>	Actual FY2001	Actual FY2002	Preliminary FY2003	Governor's Rec FY2004	Governor's Rec FY2005	Biennium 2004-05
Expenditures by Fund						
Direct Appropriations						
State Government Special Revenue	623	591	1,249	1,073	1,073	2,146
Open Appropriations						
State Government Special Revenue	27	10	12	12	12	24
Statutory Appropriations						
Special Revenue	11	9	17	14	14	28
Total	661	610	1,278	1,099	1,099	2,198
Expenditures by Category						
Operating Expenses	661	610	1,278	1,099	1,099	2,198
Total	661	610	1,278	1,099	1,099	2,198
Expenditures by Program						
Social Work, Board Of	661	610	1,278	1,099	1,099	2,198
Total	661	610	1,278	1,099	1,099	2,198
Revenue by Type and Fund						
Non Dedicated						
State Government Special Revenue	1,167	1,159	1,177	1,179	1,181	2,360
Subtotal Non Dedicated	1,167	1,159	1,177	1,179	1,181	2,360
Dedicated						
Special Revenue	11	10	14	14	14	28
Subtotal Dedicated	11	10	14	14	14	28
Total Revenue	1,178	1,169	1,191	1,193	1,195	2,388
Full-Time Equivalents (FTE)	9.3	9.0	12.9	12.9	12.9	