



North Carolina Department of Health and Human Services

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Beverly Faves Perdue, Governor

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Lanier M. Cansler, Secretary

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Dear [REDACTED]:

As we end the 2009 year, and prepare for the continued challenges of 2010, I thought it might be helpful to provide you with an update on our efforts to accomplish many of DHHS' budget reductions required by the General Assembly.

Without a doubt, the effort to achieve the required budgetary savings is among the most difficult efforts I have ever attempted. Every decision we make at DHHS impacts a provider or consumer in some way. We are not taking these decisions lightly, nor are we making these decisions without input from providers, advocates, and consumers. But it remains a fact that we simply cannot take almost \$1.5 billion dollars out of the State's health care programs, especially in a time that the Medicaid program and demand for services are growing rapidly, and expect no changes in what we do, how we pay, or how we manage. Every decision reduces provider revenues. Every decision changes the way a consumer accesses services. Our focus has to be on doing everything we can to maintain quality in the services we deliver, maintain access to those services that are critical to the health of our state's citizens in need of these services, and maintain the highest level of program integrity to ensure the services delivered are clinically appropriate.

As you may know, approximately 85% of the DHHS budget relates to health care with about 60% related to Medicaid, 15% to mental health, developmental disabilities, and substance abuse services, and the remainder to public health and other health activities. The reduction in state appropriations set forth in the budget passed last year resulting in required reductions in total spending of almost \$1.5 billion in the health care arena creates an unprecedented challenge for the Department. Accomplishing this reduction without inflicting severe damage on the State's health care delivery system is needless to say, extremely important.

Meeting the budget reductions challenge has been complicated by a number of factors, most outside the control of DHHS. Most of our budget reduction limitations fall within the Medicaid program where substantial reductions are required to comply with budget mandates.



- The State is experiencing a significant growth in the Medicaid program as a result of the economy and unemployment. We now project that enrollment in the State's Medicaid program will grow by 18,000 more consumers than estimated when the budget was under development. In addition, we are experiencing a growth in the average consumption of services by Medicaid consumers of over 4%, where the budget considered consumption growth of only 1/4%. This enrollment growth and consumption of services is projected to require an additional \$85 million in state funds in excess of the current appropriations.
- Many of the budget reduction efforts in Medicaid generally require changes in our state Medicaid plan for which we must submit State Plan Amendments (SPAs) to the federal Center for Medicare and Medicaid Services (CMS) and gain their approval prior to implementation. While we have submitted numerous amendments, to date we have only received approval for rate adjustment amendments from CMS. This does not indicate that approval is not forthcoming, but the normal process can take months. Lack of approval from CMS has caused a delay in implementing over \$90 million in required reductions in state appropriations by the General Assembly effective September or October 2009.
- DHHS is limited as to its abilities to control the Medicaid budget. The federal government will not allow any changes in enrollment eligibility, thus eliminating any ability to control enrollment. As for DHHS' ability to eliminate categories of services, this decision is not with DHHS' authority. While the General Assembly has the authority to determine what, if any, optional Medicaid services will be covered and has so determined in the State's budget, some services are considered mandatory by the federal government and must be covered.
- A significant amount of the budgetary savings required by the State's budget is placed upon Community Care of North Carolina (CCNC), a network of primary care physicians that work with DHHS and its Medicaid consumers. While CCNC has been very successful in its management of the Medicaid population consisting of women and children, the management of the aged and disabled population is significantly more complex and CCNC does not yet have all of the necessary infrastructure to accomplish the budgetary goals for the current year. We are working with CCNC to help them achieve these budgetary goals.

Accordingly, the Department has a limited number of tools available to accomplish the required budget reductions. DHHS can only modify how or by whom the services are delivered, and to some extent, the quantity of services that may be delivered, and we have limited ability to adjust rates. We are concerned that additional rate reductions may affect access to critical services for Medicaid consumers. In addition, the Department must also do everything it can to minimize fraud, waste, and abuse within the Medicaid system and must take new actions to help ensure program integrity.

So what are some of the efforts being implemented to gain control of the Medicaid budget and move toward accomplishing the required budgetary reductions?

- We have reduced provider rates to accomplish the budget reduction as instructed by the General Assembly. These rates were adjusted in a way to help protect primary care providers. We are vigilantly monitoring access to services and will do everything we can to avoid reductions in critical areas of health care access such as OB/GYN services.