



Legislative Fiscal Bureau

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May 6, 2014

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Corrections: Section 13.10 Request for Transfer of Funding Between Appropriation for Health Care Costs -- Agenda Item XII

REQUEST

On April 14, 2014, the Department of Corrections submitted a s. 13.10 request to transfer \$6,632,600 GPR to its general program operations appropriation [s. 20.410(1)(a)], including \$2,667,200 GPR from its services for drunk driving offenders appropriation [s. 20.410(1)(bd)] and \$3,965,400 GPR from its fuel and utilities appropriation [s. 20.410(1)(e)] for increased health care expenditures in 2013-14.

ANALYSIS

Variable Health Funding and Shortfall

The Department of Corrections' Bureau of Health Services administers health care for its 20 adult institutions, 16 adult correctional centers, and the two juvenile schools. Funding for the Bureau of Health Services includes pharmaceutical costs, third party administrator costs, and contracting costs with the University Hospital and Clinics, the UW Medical Foundation, Waupun Memorial Hospital, and other community hospitals. For the 2013-15 biennium, funding for variable health costs is \$57,775,100 GPR in 2013-14 and \$54,577,700 GPR in 2014-15.

The Department's request identifies three areas that have led to increased health care costs in 2013-14, including: (a) delayed Medicaid payments to reimburse for allowable inmate inpatient hospitalizations; (b) increased vacancies in permanent health care positions, requiring more utilization of contract positions and limited-term-employees; and (c) increased costs for pharmaceuticals.

Medicaid Funding. While inmates are not generally eligible for the Medicaid program, the

2013-15 biennial budget act expanded coverage to non-elderly childless adults with incomes up to 100% of the federal poverty level, beginning on January 1, 2014, which would apply to inmates who receive inpatient hospitalization treatment outside correctional institutions. As a result, funding for Corrections was reduced by \$5,543,200 GPR in 2013-14 and \$11,436,400 GPR in 2014-15 in anticipated savings as a result of the eligibility expansion.

The expansion, however, was delayed under special session legislation, 2013 Act 116, by three months until April 1, 2014. During deliberations on the special session legislation, Corrections raised concerns about the effect of the delay on its health care budget. Additionally, the Department has seen an increase in the costs for inpatient hospitalization during the 2013-14 fiscal year. Comparing the inpatient care cost per hospitalization in 2013 with 2014 to date, costs increased in 2014 by 15.1%.

Position Vacancies. In addition to the delayed Medicaid payments for inpatient hospitalization, the Department indicates an increase in permanent position vacancies, especially nursing positions, resulting in an increased use of contract nurses and limited-term employees nurses:

"The Department has found that it remains difficult to recruit or maintain permanent employees in health care positions due to a variety of factors which include, but are not limited to the following:

- A statewide shortage of trained personnel;
- Market pressures that raise salaries in rural areas; and
- Driving distance to prisons from urban areas."

Pharmaceutical Costs. Lastly, the costs for pharmaceuticals have increased in the past year. The Department generally purchases pharmaceutical drugs and supplies through a national purchasing consortium, the Minnesota Multi-State Contracting Alliance for Pharmacy. The Department compared costs for its top utilized medications in the first half of 2013-14 with the same time period of 2012-13: for the top fifteen utilized medications, costs increased by 28.2%, and for the top fifty utilized medications, costs increased by 24.1%.

Other Appropriation Surpluses

As a result of the increased costs described above, Corrections projects a shortfall for variable health costs of \$6,632,600 GPR. To address this shortfall, the Department requests the transfer of funding from its services for drunk driving offenders appropriation (\$2,667,200 GPR) and its energy costs appropriation (\$3,965,400 GPR).

The services for drunk driving offenders appropriation was created under 2009 Act 100 to support community probation supervision and enhanced community treatment for individuals convicted of a second or third offense related to driving while intoxicated. In the 2013-15 budget (Act 20), funding was reduced by \$2.8 million in 2013-14 and \$2.7 million in 2014-15, and as a result, the appropriation is budgeted at \$6,319,500 GPR in 2013-14 and \$6,416,100 in 2014-15. For 2013-14, Act 20 estimated a population for the program of 2,105 offenders. As of April 1, 2014, the Department has spent approximately 38.6% of its budget (\$2,440,800 GPR). While the

supervised population has been growing, it is still below the budgeted population. As of March, 2014, there were a total of 1,871 cases involving second and third offenses related to drunk driving. Corrections indicates the following:

"Due to the restrictive nature of these funds and the difference in actual versus projected population, the Department estimates the appropriation will be underspent. Since these funds cannot be spent, the Department would like to use the funds for inmate healthcare needs. Sufficient funding will be retained in this appropriation to service those offenders who are eligible to receive this treatment in FY14."

In addition, the Department identified surplus funds in its fuel and utilities appropriation of \$3,965,400 GPR. Funding for fuel and utilities was reduced under Act 20 by \$2.3 million in 2013-14 and \$1.3 million in 2014-15. As of April 1, 2014, the appropriation has expended approximately 64.6% of its budgeted funding (\$20,037,700 GPR out of a budgeted \$31,038,300 GPR). Deducting the requested transfer of \$3,965,400, the Department anticipates expending \$27,072,900 GPR in 2013-14 for fuel and utilities costs.

Given, the increases in correctional healthcare expenditures for 2013-14, and the Department's ability to address those increases internally with transfers of funding between its appropriation, the Committee may wish to approve the request.

ALTERNATIVES

1. Approve the Department's request to transfer \$6,632,600 GPR to its general program operations appropriation [s. 20.410(1)(a)], including \$2,667,200 GPR from its services for drunk driving offenders appropriation [s. 20.410(1)(bd)] and \$3,965,400 GPR from its fuel and utilities appropriation [s. 20.410(1)(e)] for increased health care expenditures in 2013-14.

2. Deny the request.

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