

Delivering Effective and Sustainable Health Services

Responsible Program Management

The South Carolina Department of Health and Human Services (HHS) has been one of the great successes of the Haley Administration. Moving from an inherited deficit in 2011, the agency has significantly improved its recurring financial position, maintained a health program that meets the needs of South Carolina's citizens, and established conservative financial reserves.

The success of HHS, along with Governor Haley's sustained commitment to community mental health services and services for our most vulnerable disabled citizens, demonstrates that states are best positioned to determine the service needs of their citizens. It further underscores that responsible management of these service programs requires the cooperation of the Executive Branch and General Assembly. In order to continue providing sustainable health services to South Carolina's citizens, the FY 2105-16 Executive Budget proposes funding for the state's health agencies that broadly fits into two categories: ensuring program sustainability and meeting our commitments to the most vulnerable.

Ensuring Program Sustainability

First, the Executive Budget proposes to improve the sustainability of health services funding by annualizing \$30 million funded out of agency reserves in FY 2014-15 and \$13 million to replace approximately half of the revenues lost as a result of decreased funding from tobacco sources. The Executive Budget also proposes to reduce expenditures on programs funded only from state reserves as required in proviso 33.22. This is the first of what will be a multi-year commitment ensuring South Carolina's Medicaid program is sustainable both on a recurring basis and in its ability to withstand future fiscal pressures with a reasonable reserve.

The Department of Health and Human Services is not the only focus of sustainable funding in the FY 2015-16 Executive Budget. Governor Haley proposes \$3.4 million for the Department of Mental Health to end its dependency on prior-year Medicaid cost settlements for operating revenue and \$3 million for the Department of Disabilities and Special Needs to provide needed cost-of-living adjustments to local providers and ensure statewide access to disability services.

The Executive Budget further proposes to identify agencies that fund a significant volume of Medicaid-eligible services and transfer the state match into the Department of Health and Human Services. This approach to funding would bring greater central accountability to our health delivery program and would improve the state's compliance with statutory guidelines for managing the Medicaid Program. This year, the Department of Social Services will transfer \$6.6 million and the Continuum of Care for emotionally disturbed children will transfer \$341,036 to the Department of Health and Human Services. Approximately \$170 million of the Department of Disabilities and Special Needs' budget is used to match federal Medicaid funding. Accordingly, the Executive Budget proposes a \$1 line in HHS's appropriation and a proviso that requires the agencies to implement a permanent match transfer plan that does not interrupt DDSN's business operations.

Fiscal Year	Governor Recommended		General Assembly		Difference
2012-13	\$	1,093,753,004	\$	1,093,753,004	\$ -
2013-14	\$	1,169,389,778	\$	1,095,018,631	\$ (74,371,147)
2014-15	\$	1,150,937,195	\$	1,117,643,370	\$ (33,293,825)
2015-16	\$	1,184,736,097	\$	1,139,269,748	\$ (45,466,349)
4.16%					

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The Honorable W. Brian White
Chairman
House Ways and Means Committee
525 Blatt Building
Columbia, South Carolina 29201

Dear Chairman White:

When he submitted the FY 2015-16 budget request for the Department of Health and Human Services last October, then-Director Keck noted that 79% of the recommended increase was to continue funding the existing Medicaid program. For instance, over \$25 million of his request was to offset anticipated reductions in cigarette tax revenues and lower distributions to the Department through the Master Settlement Agreement.

During the past four years, the state's fiscal stewardship has enabled the Department to develop significant reserve balances that are consistent with those maintained by other insurers of comparable size. In fact, the versions of the FY 2015-16 budget passed by both the House and Senate reflect recurring General Fund support for the Department at a level that is only 4.2% higher than in FY 2012-13. This has been accomplished in part by funding certain projects, such as the Medicaid Accountability and Quality Improvement Initiative, through the Department's reserves. This practice has resulted in rising annualizations, totaling approximately \$100 million in the current fiscal year.

Ultimately, the Department's recurring revenues and expenditures will need to be brought back into closer alignment through efforts on both sides of the balance sheet. This is one reason why the Governor proposed \$67 million in increased General Fund support for the Department in the coming fiscal year, an amount that is about three times the increase that the current version of next year's appropriations act would supply.

As you complete work on the FY 2015-16 budget, I wanted to ensure that you had the most current information available on the Department's finances and reaffirm my commitment to taking whatever action is required to assure the continued solvency of our Medicaid program. Please let me know if you have any additional questions.

Sincerely,



Christian L. Soura
Director

