

MEMORANDUM

TO: Governor Jack Markell
Members of the General Assembly

FROM: Rita Landgraf, Secretary

DATE: December 16, 2009

**SUBJECT: Delaware Health Fund Advisory Committee
Fiscal Year 2011 Recommendations**

On behalf of the Delaware Health Fund Advisory Committee (HFAC), I am pleased to present you with our Fiscal Year 2011 Health Fund recommendations. As has become customary, the HFAC received more worthwhile funding requests than we had money available this year. As a result, the Committee's final decisions reflect the interests in safeguarding the efforts of existing programs that have been proven effective and maximizing dollars to serve Delawareans.

The HFAC recommended funding the majority of existing programs at their FY10 budget levels. The recommendations were made after reviewing submissions from new applicants and existing programs that requested level funding, increases, and decreases in funding. Throughout HFAC discussions, members recognized the difficult fiscal situation that we face and will likely continue to face in FY11.

To better understand the current fiscal situation's impact on Health Fund recommended programs, Ann Visalli, Director of OMB, provided an overview of the activity occurring within the fund to balance the FY10 operating budget. The activity included using the Health Fund to support programs greater than were recommended or which were not considered as part of the HFAC's FY10 recommendation process. Also, for the first time, funds were taken from the Health Fund's Reserve Account. Some of the programs that received "switch funds" applied for those dollars in their FY11 Health Fund applications.

Based upon the presentation, the HFAC decided not to recommend the continued use of Health Funds as "switch funds." However, the Committee wants to be clear that these switch funded programs are valued programs and expects the "switch funds" from the Health Fund to be reverted back into the General Fund. The switch funded programs include all or part of the following: Cancer Consortium (\$4,430,000); Medicaid Buy-In (\$223,700); Four-year nursing expansion (DSU) (\$250,000); Two-year nursing expansion

(Del. Tech) (\$3,247,300); Delaware Healthy Children Program (\$635,100); Delaware Legal Non-Citizen Program (Medical) (\$1,570,000); Blood Bank Membership Dues for State Employees (\$98,500); and Four-year nursing expansion (\$250,000).

Unfortunately, the decision not to consider “switch funds” did not simplify the decision process. Compounding the already difficult economic reality for the State, the projected FY11 Health Fund revenue is \$4 million lower than what is projected for FY10. This means that even without the “switch funds,” the Committee would need to make cuts to the level of funds allocated in FY10 to avoid recommending expenditure over the amount of revenue expected.

To make these difficult decisions, the HFAC heard presentations from all new applicants, current applicants who did not make presentations last year, and the Cancer Consortium and the Department of Justice. In addition to the initial applications submitted, I as Chair, asked applicants who currently receive funding to submit, information relative to program impact if funding were reduced and to revise the request to reflect the reduction. The HFAC also considered funding requests on a hierarchy that prioritized direct service to people and programs that could prevent unintended and expensive consequences if they were not funded. Unintended consequences were programs that saved or leveraged state dollars, such as those where reductions would have a negative impact on funding streams or on services that allow people to remain active in the community instead of accessing more expensive facility-based care. The HFAC also prioritized the entitlement programs.

The HFAC reluctantly concluded that it could not recommend funding any new programs in FY11. The Committee also decided to eliminate or reduce funding for education and awareness programs such as the Department of Education (a tobacco prevention and cessation education program) and the Delaware Academy of Medicine (public information about health and a medical librarian in each county and supporting licensing fees). The Committee is also recommending that the nursing programs each receive a 10% reduction in their funding from the Health Fund. Non-direct service line items of other program budgets are also being recommended for reductions. Finally, many of the programs that are recommended for level funding have endured several difficult funding cuts in the past few years. The HFAC recognized that further cuts would be damaging to these programs and strongly recommends that level funding be considered.

Only two programs are being recommended to receive additional funds. One is the Money Follows the Person program which anticipates needing an additional \$1,700.00 in FY11. The other is the Department of Justice, which requested an additional \$157,500.00 to cover additional litigation costs associated with an arbitration hearing in 2010. The litigation and arbitration are part of the national Tobacco Class Action that created and funds the Health Fund and the 2010 arbitration will affect Delaware’s revenue stream for years to come. We are recommending the funding from the anticipated revenue in the amount of \$30,064,200.00 with \$3,115,500.00 funding needing to be allocated via the reserve.

As Chair of the HFAC, I would like to commend the members for their dedication and contribution to the Health Fund process:

Senator Patricia Blevins
Senator David McBride
Senator Bethany Hall-Long
Dr. Charles Reinhardt
Ms. Paula Roy

Representative Michael Barbieri
Representative Valerie Longhurst
Mr. Donald Fulton
Mr. James Ford
Dr. Gregory Bahtiarian

We understand that the State will be facing another difficult budget year. HFAC members have spent many hours meeting, listening, and discussing these issues and funding requests. We respectfully request and expect that the HFAC recommendations will be given great weight and deference in the budget process.

Please contact me if you have any questions.

Enclosure

pc: Health Fund Advisory Committee Members
Ann Visalli, Director, OMB
Russell T. Larson, Controller General
Lori Christiansen, Office of the Controller General