

MINUTES
JOINT FINANCE-APPROPRIATIONS COMMITTEE

DATE: Monday, January 13, 2025

TIME: 8:00 A.M.

PLACE: Room C310

MEMBERS: Senators Co-Chair Grow, Woodward, Cook, Bjerke, Hart, Carlson, Zuiderveld, Galloway, Ward-Engelking, Wintrow
Representatives Co-Chair Horman, Miller, Furniss, Handy, Petzke, Tanner (14), Manwaring, Mitchell, Price, Galaviz

**ABSENT/
EXCUSED:** None

Co-Chair Horman called the meeting to order at 8:00 a.m.

Ms. Lori Wolff, Administrator, Office of the Governor, Division of Financial Management, gave an overview of the Governor's revised budget and identified four areas needing correction. The total revision amount was approximately \$920K, impacting four key areas: Statewide Cost Allocation Plan (SWCAP) billing, which contributed \$45K; ILDA, in which a new statute introduced last session affected the calculation to ensure the Change in Employee Compensation (CEC) was included, resulting in the largest impact of \$870K; DHW, with an impact of \$5K; and ISU, which had no impact due to the budget organization.

Ms. Frances Lippitt, Analyst, LSO Budget & Policy, explained the need to accept the corrected CEC letter. While drafting the letter, she identified two issues in which the initial version did not accurately reflect the CEC Committee's actions from the previous week. First, the CEC Committee's recommendation funded a \$1.55/hour/FTP salary increase, but the original version included flexibility language not part of the Committee's motion. Second, the letter now clarifies the 4.5% market-based increase for IT and engineering employees is in addition to the \$1.55/hour/FTP salary increase.

In response to a committee question, **Ms. Lippitt** stated the motion passed in CEC Committee was for employees on the IT/engineering salary schedule. This does not necessarily include non-classified IT/engineering employees.

**UNANIMOUS
CONSENT
REQUEST:** **Co-Chair Grow** requested and it was granted by unanimous consent, to accept the technical corrections to the letter from the CEC Committee.

Ms. Alex Williamson, Analyst, LSO Budget & Policy, gave an overview of the Department of Health & Welfare (DHW). DHW is requesting a reorganization of its budgeted divisions. Ms. Williamson described these changes, which involve creating and realigning divisions and programs within those divisions.

In response to a committee question about the reorganization, **Ms. Williamson** explained historically there has been a disconnect between how DHW organizes internally and how JFAC budgets for the Department. DHW has tracked these programs separately for years and could continue to do so. However, it is asking for the Legislature's support in aligning the budgeted programs within the appropriate divisions.

In response to additional committee questions, **Ms. Williamson** clarified these decisions will be grouped as base adjustments during the budget decision process. She confirmed this restructuring is in line with requests from DHW and the Governor's budget proposal, though JFAC has the option to make modifications.

Ms. Williamson reviewed the DHW consolidated fund analysis, five-year expenditures report, and FY 2024 expenditures by expense class.

Ms. Williamson explained between FY 2022 and FY 2023, appropriations increased by \$670M, mainly due to changes in Medicaid funding, including population adjustments, forecast updates, higher hospital reimbursement rates, and provider rate increases. FY 2023 saw the highest levels of appropriations and expenditures in the last five years, with a slight decrease in expenditures reported in FY 2024. She pointed out detailed information can be found in the division-specific materials in the Legislative Budget Book (LBB).

In response to a committee question, **Ms. Williamson** confirmed some expenditures were lower than appropriations, leading to some reversions at the end of the fiscal years. If the original appropriation came from the General Fund, the cash was reverted to the General Fund; unspent dedicated funds remained in their respective accounts. She confirmed the public health emergency contributed significantly to the increase during FY 2021-FY 2023. As the result of the redetermination process and the conclusion of Covid-related funding, expenditures have started to decline.

Director Alex Adams, Department of Health & Welfare, explained the reasoning behind the Department's reorganization. He thanked **Mr. Dean Cameron**, the previous Interim Director, for his recommendations for the reorganization. Dir. Adams explained a major change is the establishment of a new Chief Financial Officer (CFO) position, which will report directly to him. This direct reporting structure will improve budget oversight and enhance fiscal responsibility.

Dir. Adams also stated transitioning from three to four deputy directors will allow him to better manage the complexities of DHW. Dir. Adams stated he has a budget-first mentality and emphasized budgets are laws, not suggestions. He reviewed additional organizational changes and stressed these changes focus on accountability and results.

In response to committee questions, **Dir. Adams** clarified the upcoming budget decisions align with the current practices within the Department. For instance, the Medicaid Division already administers the Extended Employment Services (EES) program due to its specialized knowledge and capabilities.

In response to a committee question, **Dir. Adams** acknowledged the new position of the Office of Health & Human Services Ombudsman is an accountability mechanism for DHW; he anticipates a good working relationship.

Co-Chair Horman put the committee at ease at 8:39 a.m.

Co-Chair Horman resumed the meeting at 8:43 a.m.

Ms. Williamson reviewed how to access the pertinent documents from the Sharepoint repository. **Co-Chair Horman** reminded the committee all the documents referred to and presented in the JFAC meeting are publicly available on the legislative website.

Ms. Williamson stated after JFAC sets the Health & Human Services maintenance budget, it will set additional enhancement bills. Indirect Support Services will be grouped together with Licensing & Certification and Independent Councils in the DHW Other Programs enhancement budget. She provided an overview of Indirect Support Services, covering the Division's organizational structure and the five-year expenditures chart, FY 2024 expenditures by expense class, and the budget enhancements for FY 2024 and FY 2025.

Ms. Williamson outlined the FY 2026 budget requests for Indirect Support Services. These onetime and ongoing enhancements include funding for replacement items and cloud server capacity and support to upgrade the current MMIS system.

In response to committee questions, **Dir. Adams** discussed the Department's efforts to replace its fleet of vehicles, particularly for child welfare purposes, such as transporting children to visitations, court, and wellness checkups. DHW aims to replace its fleet every seven years, but last year's replacement was limited to just 30 vehicles, which disrupted the schedule. The vehicles being replaced this year have between 105K and 159K miles. Dir. Adams stated child welfare remains the DHW's top priority, and vehicle replacement and facility repairs (such as visitation rooms) are key areas of focus in the budget. He also mentioned the addition of six IT positions to support the Medicaid system upgrade, one of the largest system upgrades in the state, estimated at \$180M.

In response to a committee question, **Dir. Adams** referenced statute to clarify how an agency can use the funds from selling fleet vehicles. When an agency sells vehicles, the proceeds return to the agency and can be used for capital outlay, or the statute permits them to be converted for car rentals. Dir. Adams stated the funds would be converted for capital purposes rather than for operations.

In response to a committee question, **Dir. Adams** stated more than 90% of the DHW agency budget goes to trustee and benefit payments. The difficulty in maintaining the overall budget in line with population growth arises from the fact Medicaid is defined as an entitlement program under both state and federal law. As more people seek services and the cost of those services increases, the budget also increases accordingly. Dir. Adams pointed out these budget requests for Indirect Support Services are onetime requests to replace current assets, not to increase the vehicle fleet. He stated this budget is generally in line with population growth; those things related to eligibility and benefits are set by the germane committees and might not always be within the direct purview of JFAC.

In response to an additional committee question, **Dir. Adams** acknowledged the link between population growth and the need for additional staff. He stated the Child Welfare budget has a request for additional funding to get caseloads to manageable levels and reduce staff turnover.

Ms. Williamson gave an overview of Licensing & Certification. She pointed out this Division will be included in the DHW Other Programs enhancement budget, along with Independent Councils and Indirect Support Services.

Ms. Williamson covered the Division's organizational structure and the five-year expenditures chart. She also reviewed FY 2024 expenditures by expense class, the five-year base snapshot, and budget enhancements for FY 2024 and FY 2025.

Ms. Williamson outlined the FY 2025 supplemental and FY 2026 enhancement requests for an exemption to the statute prohibiting the transfer of personnel costs to any other account category. She explained the Division made a onetime request in FY 2024 to allow it to hire contract nurses to supplement existing personnel. For the FY 2025 supplemental, rather than requesting a specific dollar amount to be transferred from personnel costs to operating expenses, it is requesting an exemption so it can transfer funds as needed. For FY 2026, the Division is requesting a similar exemption.

In response to a committee question, **Dir. Adams** explained DHW is responsible for licensing and inspecting healthcare facilities, including skilled nursing facilities and nursing homes, which must be inspected every 15.9 months. If staffing is insufficient to meet this requirement, the Division relies on contract labor. Currently, the Division has a 19% vacancy rate, which peaked at 80% during the pandemic. As a result, the use of contract labor was at its highest during the pandemic but has since decreased. Staff employees are paid about \$35/hour, while contract employees earn \$90/hour to \$95/hour.

Dir. Adams stated the turnover rate in the Division has improved significantly, decreasing from 21% in 2021 to 7% recently. However, the Division still requires contract support to meet the inspection requirements. The budget request will allow the Division to transfer funds from Personnel Costs (PC) to Operating Expenses (OE), a flexibility granted to all other state agencies. Dir. Adams noted, historically, DHW has had restrictions on such transfers due to the Legislature's trust in the Department, but with this request, Licensing & Certification could better manage its budget without the need for a hearing.

Dir. Adams further stated last year, the agency requested to transfer \$400K, of which about \$300K was used, and the remaining \$100K was reverted. The exact need for the transfer is uncertain, as estimates are made months in advance, but this flexibility would allow the Division to adjust more effectively. Dir. Adams expressed a commitment to rebuilding the trust necessary for future transfers, which other state agencies are already able to make without such requests.

ADJOURN: There being no further business to come before the committee, the meeting adjourned at 9:33 a.m.

Representative Horman
Chair

Alyson Jackson
Secretary