



February 22, 2011

The Honorable Daniel T. Cooper
Chairman, House Ways & Means Committee
525 Blatt Building
Columbia, South Carolina 29201

Dear Chairman Cooper:

Please accept this letter as the Department of Health and Human Services' official budget request for the 2011-2012 fiscal year. I would like to thank subcommittee Chairman Rep. White and your committee's staff for their guidance in this process. My staff and I are available for any follow-up that you determine necessary.

The Department is requesting a state general fund increase of \$435,339,234 over the SFY 2010-2011 state general appropriation of \$724,885,354. Components of this request include:

- Annualization of the SFY 2010-2011 deficit of \$227,786,198;
- Annualization of the \$289,690,358 loss of ARRA FMAP extension funds used in the SFY 2010-2011 budget in place of state general funds;
- \$114,356,522 of additional match necessary to account for 8% provider program growth;
- \$4,411,692 of new IT expenditures necessary to comply with federal law and improve department operations;
- Reductions of \$200,905,536 which include:
 - \$125,000,000 from provider reimbursements or other cost saving measures within the provider lines possible if Proviso (21.15) and Proviso (89.80) are lifted;
 - \$10,895,706 from annualizations of previously announced mid-year reductions;
 - \$991,000 resulting from implementation of prior-authorizations for certain drugs if Proviso (21.20) is lifted;
 - \$7,223,122 procurement related savings;
 - \$36,300,000 one-time savings through cash flow management by permanently changing MCO and MHN payment dates;
 - \$7,190,000 in savings from 12.5% reduction in MCO administrative rates;
 - \$4,790,000 savings resulting from adoption of more aggressive MCO capitation rates;
 - \$6,600,000 as a result of teaching hospitals once again providing matching funds for their supplemental teaching payments;
 - \$115,708 DHHS savings resulting from reductions in rent payments, a 30% reduction in cell phones, office supply reduction and elimination of non-state employee travel;
 - \$1,800,000 in increased fraud and abuse collections.

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It is important to note that the Department will continue to assess the program's projected growth rate over the next several months. While the actuaries' (Milliman) latest and best estimate of program growth for FY2011-2012 is 5.8% – which includes enrollment growth of 38,372 – the Department is not comfortable setting the growth rate this low given the recent fluctuations in unemployment. We believe that as we continue to work with Milliman and gain access to provider encounter data, which only recently became available, these estimates will continue to increase in accuracy.

We did not include additional savings opportunities that could be realized by re-organizing and reducing DHHS staffing and overhead, as well as those that may be obtained through general fund leveraging strategies. We have begun both of these analyses – and although they show promise to reduce costs or increase total funds available in SFY 2011-2012 – we are not in a position to modify the budget request based on these strategies.

Again, my staff and I look forward to continuing to work with you, and are available to answer any questions that you and the committee may have. I may be reached at 803-898-2504.

Sincerely,

A handwritten signature in black ink, appearing to read 'Anthony E. Keck', with a long horizontal flourish extending to the right.

Anthony E. Keck
Director

AK:jp