



## Legislative Fiscal Bureau

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June 13, 2016

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Corrections: Section 13.10 Request for Transfer of Funding Between Appropriations  
-- Agenda Item I

On June 3, 2016, the Department of Corrections submitted a s. 13.10 request for the transfer of \$5,420,000 GPR to the Department's general program operations appropriation [s. 20.410(1)(a)] from the following appropriations: (a) services for drunk driving offenders appropriation (\$3,050,000 GPR); (b) fuel and utilities appropriation (\$1,700,000 GPR); and (c) prison contract beds appropriation (\$670,000 GPR).

### ANALYSIS

The Department requests the transfer of funds between appropriations in 2015-16 to address an anticipated shortfall in its general programs appropriation as a result of increased variable health costs. The Department was budgeted \$64,541,600 GPR in 2015-16 for variable inmate health costs, but is projected to spend \$73,519,300 GPR in the fiscal year. Corrections has been able to reallocate \$3,557,700 GPR from other supplies and services within its appropriation. Under the request, an additional \$5,420,000 would be transferred from other appropriations for higher than projected health costs.

### Variable Health Funding Shortfall

Under the 2015-17 biennial budget, funding for variable inmate health included estimated savings associated with Medicaid coverage for hospital costs, which began in April, 2014. As indicated in request, health care costs have continued to increase as a result of: (a) hospital's increased use of "observation status," not covered by Medicaid; (b) increased prescription drug costs; and (c) contract nursing costs.

*Hospital Observation Status.* Medicaid covers costs associated with hospitalization, however the Department has continued to experience a decrease in hospital stays and an increase in "observation status," which is not covered by Medicaid. Observation status are hospital outpatient services given to help the doctor decide if the patient needs to be admitted as inpatient or can be discharged. Hospitals' use of observation status for inmates included 351 occurrences in 2013-14, 489 in 2014-15, and an estimated 525 for 2015-16.

*Prescription Drugs.* In addition to increased hospital observation status, pharmaceutical costs have continued to increase. Corrections spent \$18,501,700 GPR in 2013-14, \$25,353,500 GPR in 2014-15, and is projected to spend \$26,851,300 in 2015-16. According to the request, 50% of drug expenditures involve three treatment categories: Hepatitis C medication, HIV medication, and Biologics used to treat severe inflammatory diseases. The costs of drugs in these three categories "have become more significant cost drivers over the past few years." New Hepatitis C medications became available in 2013-14, with costs ranging from \$56,500 to \$131,500 for treatment. Under the 2015-17 budget, Corrections estimated treating approximately 30 inmates annually with the new Hepatitis C medications, but now anticipates treating approximately 70 inmates in 2015-16.

*Contracted Nursing Services.* Corrections has continued to utilize contracted nursing services: "the Department has found on-going difficulty recruiting and maintaining permanent employees in health care positions due to a variety of factors including but not limited to a statewide shortage of trained personnel; market pressures which raise salaries in rural areas; and driving distance to prisons from urban areas." In its 2015 request, Corrections identified contracted nursing hours having increased from 25,518 hours in 2012-13 to a projected 49,000 in 2014-15. Under the current request, Corrections identifies an increase from 50,238 actual hours in 2014-15 to a projected 70,000 hours in 2015-16, with costs increasing from \$5.2 million in 2014-15 to \$8.0 million in 2015-16.

### **Appropriation Surpluses**

To address the 2015-16 deficit, Corrections requests the transfer of surplus monies from the following appropriations: (a) services for drunk driving offenders appropriation (\$3,050,000 GPR); (b) fuel and utilities appropriation (\$1,700,000 GPR); and (c) prison contract beds appropriation (\$670,000 GPR). These are the same appropriations from which Corrections has transferred surpluses to address deficits in prior years.

*Services for Drunk Driving Offenders.* Since the appropriation for services for drunk driving offenders is limited to the treatment, monitoring, and supervision of individuals on probation for second- or third-offense OWI convictions only, Corrections estimates the appropriation will be underspent. The Department has expended approximately 49% of its appropriation as of the end of May (\$3.2 million of \$6.5 million), and anticipates \$3.1 million in surplus.

*Fuel and Utilities.* Due to the mild winter, Corrections anticipates a surplus in fuel and utilities of \$1.7 million. As of the end of May, Corrections has expended approximately 81% of the fuel and utilities appropriation (\$22.1 million of \$27.3 million).

*Contract Beds.* The Department's actual use of prison contract beds has been lower in 2015-16 than projected and Corrections anticipates a surplus of \$670,000. As of the end of May, the Department had expended approximately 70% of its appropriation (\$8.4 million of \$12.1 million), with an additional \$3.0 million projected to be spent by the end of the year.

If the request is not approved, Corrections indicates that the fiscal year would end with the general program operations in deficit. It may be noted that the request is similar to requests submitted by the Department in the prior two years for funding transfers to address the shortfall in its general program operations as a result of hospitals' increased use of "observational status," prescription drug cost increases, and contracted nursing services, including in May, 2014 (\$6.6 million GPR reallocated) and in July, 2015 (\$11.1 million GPR reallocated). Since the Department is able to address the shortfall internally within its existing resources, the Committee may wish to approve the request.

## **ALTERNATIVES**

1. Approve the Department's request to the transfer of \$5,420,000 GPR to the Department's general program operations appropriation [s. 20.410(1)(a)] from the following appropriations: (a) services for drunk driving offenders appropriation (\$3,050,000 GPR); (b) fuel and utilities appropriation (\$1,700,000 GPR); and (c) prison contract beds appropriation (\$670,000 GPR).

2. Deny the request.

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