



MDH ATTENDEES: Meena Seshamani, MD, Secretary
Nick Napolitano, MDH Budget Director

Available For Questions: TBD

Maryland Department of Health (MDH) Overview
Fiscal Year 2027 Operating Budget
Response to Department of Legislative Services Analysis

House Appropriations Committee
Health and Social Services Subcommittee
Delegate Emily Shetty
February 5, 2026

Senate Budget and Taxation Committee
Health and Human Services Subcommittee
Senator Cory McCray
February 6, 2026

The Department thanks the Governor, the Department of Budget and Management (DBM), and the Budget Committees for their support. We thank the Department of Legislative Services for its insightful budget analysis.

MDH should comment on why it transferred funding from BHA that could have been used to cover shortfalls in the Behavioral Health Medicaid program. MDH should also indicate when budget amendments will be submitted reflecting the realignments that occurred at fiscal 2025 closeout (p. 15).

The deficiency adjustments in behavioral health programs L0102, L0103, and Q0110 reflect independent projections for these programs, per DBM practice.

The Department of Budget and Management (DBM) has advised that the Department's closeout realignment budget amendment has been signed by the Governor and will be shared with the General Accounting Division (GAD) by the end of the week. DLS will be copied on the email to GAD.

MDH should comment on its process of monitoring utilization and spending by program to identify potential shortfalls (p. 15).

The Department utilizes quarterly projection exercises coordinated at the statewide level by DBM to glean an understanding of potential budget shortfalls. The MDH projections are large endeavors that involve dozens of staff across our nearly 50 budget programs. Services budgeted within Medical Care Programs Administration (MCPA), Developmental Disabilities Administration (DDA), and Behavioral Health Administration (BHA) involve more complicated projections that benefit from utilization, enrollment, cost, and other data.

Utilization and enrollment data is used to generate the quarterly projections for entitlement programs budgeted in MCPA, including somatic services Medicaid, behavioral health Medicaid, and the Maryland Children's Health Program. MCPA Office of Finance shares monthly budget and expenditure reports with their programs; flagged budget variances are reviewed monthly with program leadership to inform top level decision-making and confirm adjustments to the quarterly projection.

DDA uses its utilization and enrollment data to generate quarterly projections for its Medicaid waiver program, Community Pathways. Since all providers have transitioned into LTSS *Maryland* effective September 2024, DDA has been able to provide more accurate forecasts based on actual Medicaid claims data. These processes accommodate data-informed decisions which drive DDA's budgeting methodologies.

Efforts to incorporate more recent enrollment and utilization data into projections for behavioral health services budgeted within BHA currently have been complicated by the Administrative Claims Organization (ASO) transition from Optum to Carelon. MDH believes that the attention and care devoted to the ASO transition has led to Carelon providing a cleaner, more accurate billing system for the Public Behavioral Health System that not only complies with Medicaid and PBHS business requirements, but also yields more accurate and reliable data.

MDH should comment on the dollar value of the accrued revenues reported in the audit that it has received to date and the timeline for receipt of any remaining receipts (p. 16).

The total amount of federal fund revenue received against the year end FY 2025 accruals is \$752,804,567.80 as of 1/21/26. This figure represents 99% of the \$758,762,414.00 of accrued revenue that was reported on Schedule G in our fiscal year closeout submission to the Comptroller. We are using the year-end closing submitted Schedule G as the base for calculating FF revenues received as of 1/21/26, rather than the \$1.15 billion figure cited in the DLS analysis,

because the \$1.15 billion figure appears to include unallocated holding account balances where there are no associated receivables or revenues expected.

For the remaining \$6 million of unsupported federal revenue accruals, accrued expenditures must be liquidated through payment to the vendor before federal revenue can be requested. We are following up with our programs to resolve these remaining items.

Collecting all accrued revenue within two months of closeout is challenging for a variety of reasons. Providers reimbursed through Medicaid have up to one year from the service date to submit claim requests; while the majority of claims are submitted and revenue received within the first quarter, we expect to continue collecting Medical Assistance revenue for approved claims through the end of the fiscal year following closeout. Also, accrued revenue collection for some categorical federal grants may be delayed due to reimbursement processes imposed by Department of Government Efficiency (DOGE) last spring.

The Department does not believe that any of the remaining accrued federal fund revenue is at risk.

MDH should comment on the status, length, and total cost of this contract, including the amount included in the fiscal 2027 proposed budget. MDH should also discuss planned and implemented improvements to its accounting procedures, particularly related to fiscal year-end closing (p. 16).

MDH has a task order with Deloitte under the statewide FMIS contract held by Maryland Department of Transportation (MDOT). The MDH task order began on 8/2/2023 and runs through 5/2/2026. The task order total currently is \$14,540,000 and we are working with MDOT to increase the task order by \$112,000 to improve accounting and grant processes within the Office of Minority Health and Health Disparities (MHHD).

Since 2022, our forensic efforts have successfully identified and cleared \$3.1 billion of the original \$3.5 billion legacy Schedule G balances. Significant progress has been made in clearing the backlog of legacy transactions through reconciliations, while simultaneously strengthening financial management and controls through targeted process improvements and automated workbooks. Together, these changes increase transparency, repeatability, and accuracy in day-to-day operational execution.

The following table shows 14 of the 94 implemented resources developed by Deloitte in partnership with our programs to strengthen accounting and claiming processes that feed into our fiscal year closeout.

Agency	Deliverable Name	Description and Purpose of the Deliverable	Delivery Date
DDA	Administrative Claim Reperformance Reconciliation	A reconciliation process to reperform DDA's calculation of the quarterly administrative claim for federal reimbursement.	6/30/2025
DDA	Administrative Claims Workbook	An automated workbook developed to support the DDA Reporting process that provides a detailed breakdown of administrative expenditures to claim and report for the quarter. It is one of the data sources used to compile and support the information reported.	12/12/2024
DDA	Monthly Expenditure Review Workbook	An automated workbook developed to review and monitor the appropriation budget per project by PCA and validate that all expenditures are aligned with correct PCA/AOBJ.	12/20/2024
DGA	Federal Funds Drawdown Automated Workbook	An automated workbook developed using power query to streamline the Federal Drawdown process. This process automatically determines the amounts that need to be drawn every month.	10/31/2025
Medicaid	CMS Admin Claim Workbooks	An automated workbook developed to support the CMS Reporting process that provides a detailed breakdown of administrative expenditures to claim and report for the quarter. It is one of the data sources used to compile and support the information reported on the CMS-64 forms.	8/29/2025
Medicaid	CMS MAP Claim Workbook	An automated workbook developed to support the CMS Reporting process that provides a detailed breakdown of claims for Medicaid services provided during the quarter. It is one of the data sources used to compile and support the information reported on the CMS-64 forms.	3/31/2025
Medicaid	Drawdown to CMS-21 Reconciliation	A reconciliation process to verify the weekly drawdowns with the CMS-64 claims submission. It reconciles actual CHIP claims with the weekly drawdowns requested throughout the quarter which results in identifying whether funds are owed to the state or if the state is required to return the funds.	6/28/2024
Medicaid	Drawdown to CMS-64 Reconciliation	A reconciliation process to verify the weekly drawdowns with the CMS-64 claims submission. It reconciles actual Medical Assistance Payment (MAP) and Administrative claims with the weekly drawdowns requested throughout the quarter which results in identifying whether funds are owed to the state or if the state is required to return the funds. This applies to MAP, and Admin only.	6/28/2024
Medicaid	Drawdown to PMS Reconciliation	Management System (PMS) are being requested accurately through the drawdown process.	4/26/2024
Medicaid	Expenditure Review and Federal Matching Workbook	An automated workbook developed to assist in validating that expenditures and revenues are posted to the appropriate PCA, Object code(AOBJ), and Grant number and monitor the FY budget remaining associated with each project.	9/11/2024
Medicaid	MMIS and FMIS to CMS-64 Reconciliation	A reconciliation process to confirm that the expenditures reported in the financial systems are being accurately requested for federal reimbursement.	7/1/2024
Medicaid	PMS to Clearing Account to FMIS Reconciliation	A reconciliation process to confirm federal funds drawn down through PMS have been credited in FMIS the overall clearing account and accurately allocated to the respective sub-clearing accounts.	3/29/2024
Medicaid	Weekly Drawdown Workbook	An automated workbook developed to streamline weekly process that calculates the Federal Financial Participation (FFP) of adjudicated Medicaid claims to that have been paid out to providers.	11/15/2024
Medicaid	MMIS to FMIS Reconciliation	A reconciliation process to confirm that all transaction from MMIS are flowing into FMIS correctly	1/30/2026

Deloitte currently is working on 17 additional resources to be delivered and deployed through the end of the current task order, including one that will more explicitly tie collected revenue to accrued revenue at the line item level, which FMIS does not enable.

The contract with Deloitte is not included in the FY 2027 proposed budget. We are exploring a continuation of the task order to support additional accounting resources. The Department will work with DBM to confirm available budget resources should the task order be extended.

MDH should discuss its preliminary spending plan for Rural Health Transformation Program funding for strategies within the three main initiatives and provide a timeline for budgeting the funds and developing competitive grant programs (p. 18).

On 12/29/25, the Centers for Medicare & Medicaid Services (CMS) awarded Maryland \$168M Rural Health Transformation Program (RHTP) for budget year one. As for all states, CMS restricted Maryland's award pending submission of a revised budget. The first budget period runs from 12/31/25 through 10/31/2026, with the ability to spend budget year one funds through 9/30/27. All funds must be obligated by 10/31/2026.

On 2/2/26, Maryland submitted its revised RHTP budget to CMS and requested CMS to unrestrict the State's budget year one award. CMS has 30 days to review the revised budget. We anticipate CMS will approve our revised budget and begin to unrestrict some funds in March 2026.

MDH is actively working with subrecipients (e.g. Department of Labor, Department of Agriculture) and other partners (e.g. CRISP) to develop RFPs/RFAs. We anticipate MDH and subrecipients will hire personnel in early Spring 2026. Depending on when CMS unrestricts funds, we anticipate some subrecipients will begin releasing competitive RFPs/RFAs by late Spring 2026.

Maryland's revised RHTP budget does not substantially change or curtail any RHTP activities from those proposed in our November 2025 RHTP application to CMS. Budget year one includes:

- \$25.8M for Pillar One: Transform the Rural Health Workforce;
- \$126M for Pillar Two: Promote Sustainable Access and Innovative Care for Rural Marylanders;
- \$15.3M for Pillar Three: Empower Rural Marylanders to Eat for Health; and
- \$1.1M for governance, representing less than 1% of the RHTP budget. Governance provides coordination and high-level oversight, strategic direction, and accountability to ensure compliance with legal, financial, and programmatic requirements

Within each of the three pillars, Maryland's RHTP plan spends funds in two ways.

- First, immediate impact funds will enable subrecipients to implement shovel-ready activities. In some cases, subrecipients will award immediate impact funds competitively. We anticipate some subrecipients will begin spending immediate impact funds as soon as the end of March 2026.
- Second, transformation funds will enable subrecipients to develop competitive opportunities to subaward funds for initiatives that require longer-term planning and partnerships.

The timing of the award did not allow for its inclusion in the Governor's Budget. We are discussing internally and with DBM the most appropriate actions to allocate federal fund appropriation to support grant activities in FY 2026 and FY 2027. Options include current year realignment and closeout budget amendments, supplemental budget bill items, and planned FY 2027 budget amendment.

DLS recommends adding budget bill language to make \$8.4 million of the CRF special fund appropriation under Medicaid contingent on enactment of the BRFA provision expanding the use of certain funding from the separate account. This recommendation will appear in the M00Q01 – Medical Care Programs Administration analysis (p. 22).

MDH concurs with this recommendation.

MDH should discuss (1) how it will allocate the reduction of CRF spending from the separate account if Maryland does not receive the \$35 million in additional payment assumed in the allowance and (2) the projected impact of this reduction on CRF-supported programs (p. 22).

Following conferring with DBM, the \$35 million is included in the overall revenue estimate for CRF in FY 2027 and is not tied to any specific expenditure. Should the additional \$35 million payment not be received as estimated, DBM, the Governor's Office, and the various agencies that receive CRF will work on a resolution through the FY 2028 or FY 2029 budget cycles depending on the timing involved.

To align with CRF spending from the separate account across several statutorily required CRF uses, MDH and DBM should propose an amendment to the BRFA to waive, in fiscal 2027 only, the requirement that 50% of the CRF appropriation support specified programs (p. 23).

MDH respectfully disagrees. MDH has confirmed that DBM consulted its Attorney General, who advised that BRFA language is not required for this provision, and so believes no BRFA amendment is needed.