

Courtney Phillips, CEO
Department of Health and Human Services
Appropriations Committee Testimony

Good afternoon, Senator Stinner and members of the Appropriations Committee. For the record, I am Courtney Phillips (C-O-U-R-T-N-E-Y P-H-I-L-L-I-P-S), Chief Executive Officer of the Department of Health and Human Services. I am here on behalf of the Department to present our mid-biennium budget request and am joined by our DHHS Division Directors.

Our DHHS team is guided by our mission and we are dedicated to delivering high-quality services to hundreds of thousands of Nebraskans across the state. A year and a half ago we embarked on 25 priority initiatives in our first Business Plan and completed 93 percent of the 213 deliverables. In July, 2017, our second Business Plan began and we are making progress on our 20 priorities. Preparations have started on the third DHHS Business Plan that will guide our mission-driven efforts through the next fiscal year.

Gov. Ricketts' Budget Request & Appropriation Committee Preliminary Budget

Before I begin to discuss items in the budget, I would like to thank you, your staff, and the Legislative Fiscal Office (LFO) team for your work on the preliminary budget recommendations and for reflecting the majority of the governor's mid-biennium recommendations that impact the Department. The budget adjustments proposed by Governor Ricketts, which we worked on together, are intended to continue our initiatives that help people live better lives. My testimony will focus on differences in the governor's budget recommendations and the committee's preliminary budget, as well as the investment in Program 354, Child Welfare Aid.

Differences in Request & Preliminary Budget

The first difference I will address is the \$21 million transfer from Program 354, Child Welfare Aid, to Program 033, DHHS Administration. We have met with our legislative fiscal officer and are able to meet her need to clearly identify fixed costs and variable costs by providing a monthly tracking sheet with this information. This updated information sharing is an agreed upon solution in lieu of the \$21 million transfer. On behalf of the Department, I ask that the committee rescind the recommendation to transfer the \$21 million appropriation from aid to operations, which would maintain the current practice of appropriating all the funds supporting the contract in the Eastern Service Area to a single budget program.

The second difference is the \$15 million transfer of IGT and Tobacco Settlement Trust funds to Child Welfare Aid recommended by the governor but not included in the committee's preliminary recommendations. The Child Welfare Aid budget has historically had prior year obligations nearing \$25 million. With our deficit request, we expect to carry over \$10 million dollars of state fiscal year 2018 appropriations into 2019. The \$15 million cash transfer is a contingency that will allow DHHS to use those funds one time to cover our potential \$25 million carryover obligation. This transfer was recommended by the governor to help correct a budget predicament the Division has experienced in prior fiscal years. We could not carry over enough prior year appropriated state funds to protect outstanding obligations remaining from the preceding fiscal year. On behalf of the Department, I ask the committee to restore this transfer in the budget. If it is not addressed, elimination of this carryover problem may require additional resources prior to the end of the 2017-2019 biennium.

2 & 4 Percent Reductions

While working with the governor on his budget recommendations, we also addressed his charge of identifying 2 and 4 percent reductions. In our constant effort to be good stewards of taxpayer dollars and balance our agency budget, the DHHS team has worked diligently to identify a variety of means to meet this goal. This will be achieved through a combination of:

- operational efficiencies, such as business process improvements;
- vacancy savings;
- aligning contracts to actual spending;
- project management; and
- an improved funding mix with cash and federal funds.

The reductions are limited to Program 033, DHHS Administration. Our Department is afforded the flexibility to be agile with the administration dollars due to how our administrative budget is appropriated. We have an umbrella program that allows us to move budgeted dollars among the individual administrative programs under the Program 033 umbrella, which provides the department needed flexibility to achieve our 2 and 4 percent reduction targets.

Issue, Program 354 Child Welfare Aid

Restoring the transfers and internally identifying how we would achieve 2 and 4 percent reductions are important because it allows for us to invest in Program 354, Child Welfare Aid and maintain the service if the fiscal landscape changes. We are seeking a General Fund increase of \$24,681,826 in Fiscal Year 2018 and \$31,004,088 in Fiscal Year 2019 for Child Welfare Aid. We have identified two primary drivers: an increase in the number of children being served and an increase in the per capita cost.

As a department, it is our belief that the best place for a child is with their family and our efforts are directed at keeping Nebraska families together when it is safe to do so. Unfortunately, for a variety of reasons, families are at times unable to stay together and children become the responsibility of the state. We see this responsibility as a top priority, as families work to reunite. When we initially developed our biennium budget in the fall of 2016, we saw an uptick in utilization of 4% when comparing the last half of the recently completed state fiscal year over the first half. At that time we felt we could absorb that within the budget through strategies we had in place and those we were implementing. However, over the last year and a half we've seen our census grow faster than forecasted. We first compared calendar year 2017 over 2016 and found a 9 percent increase- equating to 485 additional children in state care, including about 160 additional children in out of home care. Then we looked at the first quarter of the current fiscal year and compared it to the first quarter of the prior fiscal year. We found nearly a 10 percent increase for all kids in our child welfare system. We dug into the numbers further and found that those in direct care of the state grew by 12.7 percent.

There are many reasons for children coming into the state's care. One of these reasons is substance abuse by a parent or parents. Casey Family Programs reported that in 2015 35 percent of removals were due to substance abuse. An analysis of removals, by our Children and Family Services team, from January 2017 to the end of September 2017 showed 49 percent were due to substance abuse and of those removals 47 percent were for the use of meth. Our Behavioral Health team has found that in 2016 persons entering treatment:

- have cited meth as their primary drug, second only to alcohol;

- that a greater percentage of women report meth as their primary drug of choice than men do; and
- 19.7 percent of persons admitted cited meth as the primary drug of choice, compared to just 8.4 percent in 2011.

The second major cost driver is increasing per capita costs. As the number of children entering the child welfare system increases, the demands on in-home and out-of-home services grows, as does the cost to provide those necessary services. There has been an increase in foster care, adoption assistance, subsidized adoptions, and child welfare expenditures. As an example, this past year 538 children were adopted which is 34 more than in 2016; while it is a positive development, it does increase spending in the program. The Division has also seen around a 10 percent increase in services delivered. All of these factors increase per capita costs.

As you can see, these two primary drivers lead to a growing financial commitment by the state. While we work to keep families together and reunite them, it is imperative that the state invests in Program 354, Child Welfare Aid.

Conclusion

Our overall budget request and our request for the \$15 million one-time transfer for Child Welfare Aid to be included in the Committee's recommendation to the full Legislature which reflects the realities of the current economic situation, enables us to be good stewards of taxpayer dollars, and will help fulfill our mission of helping people live better lives. On behalf of the Department, I want to thank you, your legislative staff, and the LFO team for your tireless efforts on behalf of all Nebraskans. I would also like to thank you for your partnership with us in addressing the financial realities of operating the state's largest agency whose services touch the lives of hundreds of thousands in our state. Finally, thank you to my DHHS team for your efforts in the budget process and for driving our mission of helping people live better lives. I am happy to answer any questions you have, as are the DHHS Division Directors.