

Appropriations Committee
Department of Health and Human Services
March 13, 2017

Courtney Phillips, CEO
Department of Health and Human Services

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 joined today by several Division Directors: Calder Lynch, Director of the Division of Medicaid and Long-Term Care; Dr. Tom Williams, Director of the Division of Public Health and Chief Medical Officer; and John Hilgert, Director of the Division of Veterans' Homes. The other directors will be before the Committee tomorrow.

The team at the Department of Health and Human Services is guided by our mission of helping people live better lives. This, together with our values and core competencies, is the foundation for the culture that is transforming DHHS. Through new process improvement techniques, hard work and a dedication to succeed, we're seeing significant advances in providing Nebraskans with the responsive, high-quality and efficient services they deserve. Last year we developed our first business plan outlining 25 agency priority initiatives that include strategic actions and measurable outcomes. You will hear about some of these from the directors.

We have been working with Governor Ricketts since early last summer as he sought input on budget priorities in light of the current shortfall in tax revenues. We understand our programs and services have a direct and meaningful impact on Nebraskans and we valued the opportunity to be directly involved in the process.

The Department conducted a thorough review of all programs and services and identified both strategic increases necessary to meet critical services and strategic reductions in response to the budget gap that we believe will have the least impact to direct client care, service capacity and recipient services.

Decisions regarding reductions are never easy but are necessary for the State to meet its financial responsibilities. The Department of Health and Human Services Fiscal Year 2017 original base appropriation was \$3,696,338,386 Total Funds, of which \$1,635,578,047 are state General Funds. The Governor's biennium budget recommendations consist of strategic reductions and necessary increases that result in a Total Fund base appropriation of \$3,598,072,257 for Fiscal Year 2018, of which \$1,604,083,299 are state General Funds. The Total Fund net decrease is -2.66%, and the General Fund net decrease is -1.93%. The Total Fund base appropriation for Fiscal Year 2019 would be \$3,640,619,271, of which \$1,625,769,198 are state General Funds. The Total Fund net decrease for Fiscal Year 2019 from the Fiscal Year 2017 base year is -1.51% and the General Fund net decrease is -0.60%.

The Governor is recommending (\$61,622,878) in strategic General Fund reductions and (\$105,490,271) Total Funds in Fiscal Year 2018, and (\$61,838,725) General Fund reductions and (\$106,136,858) Total Funds in Fiscal Year 2019, identified by DHHS as modifications.

These recommendations achieve savings in administrative areas through efficiencies in personnel, contracts and operational costs; shifts in General Fund spending to other fund sources; and alignment of our budget to historic and forecasted expenditures. This will streamline our services, reduce regulatory burdens and make the Department more transparent about how we do business. Also included are savings through rate reductions, program modifications and eliminations.

As part of the iterative process this past summer, the agency – together with the Governor – identified, and the Governor has recommended, General Fund increases of \$30,128,131 in Fiscal Year 2018 and \$52,029,877 in Fiscal Year 2019. The increases include the need to implement federal regulations, the opportunity to maximize Federal Funding, and to address growth in program utilization, capacity or costs.

These recommendations reflect the realities of the current economic situation and enable us to implement operational efficiencies throughout the Department and to redirect resources where necessary. Our commitment remains to deliver on our mission of helping people live better lives. The recommendations build on the Governor’s priorities of creating a more effective, more efficient, and customer-focused state government.

In light of the most recent economic forecasting report, the Department of Health and Human Services supports and is fully prepared to implement in full the lower of the two, whether that is the Governor’s budget recommendations or the Committee’s recommendations as contained in the preliminary report.

I want to thank you and your staff for your work on behalf of the Department. The directors will follow regarding the work of their divisions. Thank you. I’m happy to answer any questions you have.

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Calder Lynch, Director
Division of Medicaid and Long-term Care

Good afternoon, Senator Stinner, and members of the Appropriations Committee. My name is Calder Lynch (C-A-L-D-E-R L-Y-N-C-H) and I am the Director of the Division of Medicaid and Long-Term Care in the Department of Health and Human Services (DHHS).

I want to begin by thanking Chairman Stinner, the members of the Committee, and your staff for the collaborative conversations that have brought us to this point. Obviously, we collectively have many difficult decisions to make on behalf of Nebraska's taxpayers and the people we serve, and I appreciate the dialogue that has occurred. As the state's Medicaid director, I have responsibility for a significant share of our state's finite resources – and this is a responsibility that I take seriously.

I would like to begin my testimony by highlighting some of the efforts that our team has been working on to modernize our programs to enable more effective management and cost control within the Medicaid program.

Over the past twenty years, the method of delivery for Medicaid in the state has moved gradually from fee-for-service (FFS) to capitated managed care. Last year, we awarded contracts to three qualified managed care organizations (MCOs) to administer Heritage Health, a program which integrates physical health, behavioral health, and pharmacy services for nearly all Nebraska Medicaid enrollees. The program began operations on January 1, 2017. Having one health plan responsible for a more complete range of services encourages investment in more cost-effective services to better address the health care needs of the whole person. Heritage Health is already delivering value to Nebraska, as reflected in the low overall forecasted growth in utilization, and the additional \$6.1 million in General Funds (\$13 million total) in savings related to reducing costly and avoidable care through better coordination in the coming fiscal year.

Shifting services into a more managed environment means better cost control and greater budget predictability. With the implementation of Heritage Health, the Medicaid-eligible population remaining in the unmanaged fee-for-service delivery system will constitute less than two percent (2%) of the overall Medicaid population. Later this year, we'll take another step toward that goal by implementing a managed dental services program.

Finally, last week, we released our draft plan for the redesign of long-term supports and services in Nebraska, which includes the eventual shift toward a managed long-term supports and services system – often referred to as MLTSS. MLTSS services accounted for \$818.2 million in annual spending in fiscal year 2016. While the folks who receive those services make up less than a quarter of our enrollees (23.2%), they consume nearly 65.8% of our total spending. As

our population continues to age, it is imperative that we create a complete and well-coordinated delivery system for long-term care that is sustainable and helps people live as independently as possible for as long as possible. Over the next few weeks we will be travelling the state and meeting with consumers, advocates, and providers to hear their feedback on this plan before it is finalized this summer.

Finally, I'll note that significant work is underway to modernize the systems that support our programs to better leverage technology and data to drive better decisions and program outcomes. This includes both the replacement of our eligibility and enrollments system, and the modular replacement of our Medicaid Management Information System (MMIS). This has resulted in a focused effort of procuring a data management and analytics platform that will improve data quality, enhance fraud detection capabilities, and increase access to timely data, while enhancing capabilities to ensure quality, medically necessary and cost-effective services are being provided. Together, Nebraska's model for a modular and services-based approach is expected to cost as much as 50 percent less than a traditional MMIS replacement solution.

Supporting the Governor's Recommendation

Governor Ricketts proposed a responsible budget for the Medicaid program. The MLTC current Fiscal Year appropriation is \$2.292 billion, of which \$880.9 million are comprised of state General Funds. The Governor's budget recommendation totals nearly \$2.2 billion for FY 2017-18, of which \$866.4 million are state General Funds. This represents just over half of the total General Fund request for DHHS. The Total Fund net decrease is -4.75%, which is largely driven by a proposed elimination of excess Federal Funds. The recommended budget declines in terms of General Funds – a 1.65% decrease. In FY 2019, there is a modest proposed increase of 1.74% over the recommended FY 2018 budget.

This is significant, and highlights the efforts we have taken to constrain spending when you compare this to the national picture. According to the Kaiser Family Foundation's annual Medicaid budget survey, the median Medicaid spending growth rate was 3.9% in non-expansion states in FY 2016, and is projected to be 4% in FY 2017.

Like Nebraska, enrollment growth among non-expansion states has also been relatively flat, with median enrollment growth pegged at 1.6% in FY 2016 and forecasted to be 1.2% in FY 2017. In Nebraska, we experienced a year-over-year enrollment decline of -1.1% in FY 2016 (average monthly enrollment). That has ticked up in recent months, where we have seen an increase of 1.7% in enrollment through January of the current fiscal year.

The largest driver of growth in the budget is related to the anticipated growth and enrollment costs that totals nearly \$17.2 million in FY 2018 and nearly \$34.8 million in FY 2019 across the Medicaid aid budgets (General Funds only). This modest forecasted growth is based on an analysis of historic trends as well as forecasted program changes.

The expected increase in costs is offset by a number of budget modifications recommended by the Governor across the MLTC budget lines, which total \$34.9 million in General Funds. The MLTC budget recommendation as proposed by the Governor also included the consolidation of several budget units to ease administrative burdens on management of the program. I support

the Governor's budget recommendation as the prudent course forward given the current revenue forecast.

These recommendations reflect the realities of the current economic situation and enable us to implement operational efficiencies and to redirect resources where necessary. Our commitment remains to deliver on our mission of helping people live better lives. The recommendations build on the Governor's priorities of creating a more effective, more efficient, and customer-focused state government.

In light of the most recent economic forecasting report, the Department of Health and Human Services supports and is fully prepared to implement the Governor's budget recommendations.

I want to thank the committee for retaining many of the Governor's recommendations, including the merger of two administrative budgets and inclusion of funding for forecasted utilization increases and federally mandated projects. The committee also retained many important budget modifications necessary to hit our spending targets.

With that said, I want to highlight some specific differences between the Governor's recommended budget and the committee's preliminary recommendation that warrant further review.

Provider Rates and Services

The Governor's budget recommended an average provider rate reduction of 3%. This amounts to \$24.2 million in General Fund savings. The committee's recommendation significantly constrains the magnitude of these reductions, and even includes rate increases for some providers, resulting in \$13.6 million in additional costs in FY2018 and \$15.4 million in FY 2019 over the Governor's recommended budget.

I would also note that the committee recommended rate increases for providers of Developmental Disability waiver services, while holding rates steady for Aged & Disabled Waiver providers. As these services can be similar and often provided by the same individuals, we would strongly encourage parity in the approach to these rates.

While reducing reimbursement rates is a difficult decision, MLTC has maintained a commitment to working with provider groups to develop an implementation strategy that preserves access to services and sustainability for providers. Nebraska has been fortunate to offer Medicaid provider rate increases in 10 of the last 11 fiscal years. As we have reviewed our rates in comparison to other states in which comparable data is available, we believe our rates will allow us to maintain access to services with the recommended 3% average reduction.

In addition, the committee did not include in its preliminary recommendation a proposed reduction in the annual dental benefit cap for adults from \$1,000 to \$500. Dental benefits for adults is an optional benefit under federal regulations. The reduction in the annual dental cap will allow us to retain the benefit while saving over \$1 million annually in General Funds. Adults accessing dental benefits represent less than one tenth of one percent of the total Medicaid population, and of the adults who use the Medicaid dental benefit, only a quarter of them utilize more than \$500 in services annually.

Fiscal Agent Savings

The Governor's budget recommendation also included savings from the implementation of a fiscal agent for home care services. This effort would employ a fiscal intermediary to manage claims payments for home and community-based services resulting in opportunities for cost savings. A fiscal agent for home care could reduce aid costs by detecting and avoiding potential fraud, waste, and abuse.

Recognizing that time is necessary to procure and award a contract and conduct the necessary systems changes to implement the fiscal agent, the Governor's recommendation only included a half year of savings in FY 2018. The committee preliminary recommendation took a full year of savings. This will not be practical and we urge the committee to adopt the Governor's recommended approach and restore \$819,185 in General Fund to the budget for Fiscal Year 2018 only. The Department supports the \$1.6 million General Fund reduction in the Committee's preliminary report for Fiscal Year 2019.

Budget Unit Consolidation

The committee did not include a recommendation to merge the Medicaid aid budgets, which are currently divided between the Children's Health Insurance Program (or CHIP) and regular Medicaid. I understand that this has generated some questions and concerns, which I hope to allay today. Medicaid and CHIP are both entitlement aid programs that operate using the same delivery system, benefit package and regulations. By combining these programs we are increasing the flexibility for matching state aid as needed when enrollment or utilization shifts occur. CMS, Legislative, and Agency reporting requirements will continue to be met as CHIP activity will continue to be tracked in a separate budget program. This in no way impacts the services provided under either program or enables us to somehow not meet our obligations to either the CHIP or Medicaid program. This merger will also better prepare us for future federal changes in the structure of these aid programs, which are likely to look different than they do today.

Rural Health Clinic Savings

We also note that the Committee did not include a \$76,160 General Fund reduction recommended by the Governor relating to Rural Health Clinic payments. I would note that this modification was the result of discovering that our payment practices were not in line with our regulations, which specify that RHCs are reimbursed the lesser of the Medicare rate or billed charges. Our systems have been corrected and these savings are already being achieved. The Department supports the reduction as recommended by the Governor.

Thank you for your consideration of these items. I'm happy to answer any questions you have.

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Tom Williams, M.D., Director and Chief Medical Officer
Division of Public Health

Good afternoon, Senator Stinner and members of the Appropriations Committee. For the record, I am Tom Williams (T-O-M W-I-L-L-I-A-M-S), Director and Chief Medical Officer of the DHHS Division of Public Health.

The Division of Public Health includes areas of community and environmental health, including health promotion, lifespan health activities, environmental health services, and community and rural health planning. We also focus on health licensure and health data. This work includes facility, professional and occupational licensure; epidemiology and health data collection; investigations; public health preparedness and emergency response; and vital records. Our work furthers the Department's mission of helping people live better lives.

As Courtney said earlier, the DHHS team has focused on priority initiatives and process improvements, underscoring the Governor's priorities of a more efficient, effective and customer-focused state government, and the Division of Public Health is benefitting.

Process improvement projects in the Division have taken hold. Our first, in nurse licensing, simplified applications and streamlined screening resulting in faster turnaround times. The first time application completion rate was 28%, now it's 98%; and turnaround time for applications went from 96 days to 36. Other licensing improvement projects are underway in mental health/substance use/social work, emergency medical services, child care, nursing and assisted living facilities, and physician and pharmacy licensing. We are seeing real benefits from these improvements.

Another initiative is the enhanced prescription drug monitoring program, or PDMP, we launched together with the Nebraska Health Information Initiative. We've received over \$3.5 million in Federal Funding to help advance drug overdose prevention, and we're working with partners to establish opioid prescribing guidelines to increase provider and patient education, and create awareness about expanded access to treatment. These efforts are ongoing, and several areas within the Department are partnering with the Attorney General on the Dose of Reality public awareness campaign to prevent prescription painkiller abuse in Nebraska.

The budget proposed by Governor Ricketts reflects the realities of the current economic situation and enables us to implement operational efficiencies throughout the Department and to redirect resources where necessary. The Division of Public Health will continue strategic and priority services in our commitment to our mission of helping people live better lives. The

recommendations build on the Governor's priorities of creating a more effective, more efficient, and customer-focused state government.

In light of the most recent economic forecasting report, the Division of Public Health supports and is fully prepared to implement the Governor's budget recommendations.

I will highlight the specific differences between the Governor's recommended budget and the Committee's preliminary recommendation.

Merge the Public Health Administration Program 179 Budget into the Program 262 Budget

The Committee has included the merger of two administrative programs within the Division of Public Health, Programs 179 and 262, consistent with the Governor's recommendation. Maintaining these as two separate programs is simply not necessary. There appears, however, to be a discrepancy in the Committee recommendation summary that was shared with the Department. The Committee preliminary recommendation summary shared with the Department shows appropriation amounts remaining in Program 179. Merging Program 179 into 262 should result in zero appropriations recommended for Program 179.

Reduce Pass Through to Local Health Departments

The Governor's recommendations include a reduction of pass through funds to the eighteen (18) local health departments in Nebraska that receive General Funds, for a total of \$189,824 in Fiscal Year 2018 and \$189,824 in Fiscal Year 2019. This will reduce each department's allocation by \$10,545.

We continue to support the local health departments with over \$5 million in cash funds and \$1.7 million in General Funds. Local health departments have the ability to apply for grant funding from other sources.

The Division of Public Health will continue to work with the local health departments to maximize use of the Federal Funding they receive to monitor local health issues, provide guidance to their populations and collaborate with health care providers and local government. I urge the Committee to reduce the Local Health Department aid as recommended by the Governor.

Thank you for your consideration of these items. I'm happy to answer any questions you have.

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John Hilgert, Director
Division of Veterans Homes

Good afternoon, Senator Stinner and members of the Appropriations Committee. For the record, I am John Hilgert (J-O-H-N-H-I-L-G-E-R-T), Director of the DHHS Division of Veterans' Homes as well as the Agency Director of the Nebraska Department of Veterans' Affairs.

The Division of Veterans' Homes includes the four state Veterans' Homes in Grand Island, Norfolk, Scottsbluff and Bellevue, which provide assisted living and skilled nursing care to 471 of our nation's heroes.

The construction of the Central Nebraska Veterans Home is well underway. The projected opening is the fall of 2018. We are drawing down funds from the United States Department of Veterans Affairs' (USDVA) State Veteran Home Construction program to the tune of nearly \$20 million dollars.

We continue to try innovative ways to address our staffing needs. We have set up our own training opportunities in each of the four communities in which we are located. Each approach is slightly different but each shares the common goal of educating a motivated workforce to care for American's heroes.

The Governor's budget recommendations include General Fund reductions of (\$2,696,197) for the Division of Veterans' Homes by shifting funding to federal and cash resources for staffing, training, and transportation contracts, and savings realized from new pharmacy software and medication dispensing machines. We will be accessing the funds identified in the Kearney proposal for staffing transportation costs.

The Department conducted a thorough review of all programs and services and identified both strategic increases necessary to meet critical services and strategic reductions in response to the budget gap that we believe will have the least impact to direct client care, service capacity and recipient services.

The budget proposed by Governor Ricketts reflects the realities of the current economic situation, and enables us to implement operational efficiencies throughout the Department and to redirect resources where necessary. It is intended to continue strategic and priority services in our commitment to our mission of helping people live better lives. The recommendations build on the Governor's priorities of creating a more effective, more efficient, and customer-focused state government.

The Division of Veterans' Homes supports and is fully prepared to implement the Governor's budget recommendations.

I would like to thank you and your staff for your work on behalf of the Department. I will now address our requests that are included in your preliminary recommendation unless you have additional questions for me.

Merger of Division of Veterans' Home into the Dept. of Veterans' Affairs

LB 340, introduced on behalf of the Governor, transfers the DHHS Division of Veterans' Home to the Department of Veterans' Affairs. This merger would bring together, under one roof, if you will, state services provided specifically to Nebraska's veterans. It will provide consistency and contribute to a more efficient, effective and customer-focused state government. The Department supports LB 340 and urges the Committee to encourage the Government, Military and Veterans Affairs Committee to advance the bill, and take advantage of the \$1.6 million in savings as identified in the Department's fiscal note.

Using Federal Funds for Staffing Contract

I want to thank the Committee for including the ability to shift \$800,000 in General Funds to Federal Funds each fiscal year to support our use of staffing contracts; however, this is just under half of the Governor's recommended amount of \$1,600,139.

The Division receives Federal Funds from the United State Department of Veterans Affairs in the form of per diems to assist in covering the costs associated with providing care for our resident members. Our annualized agency staffing expenditures for Fiscal Year 2016 were just over \$1.6 million. I believe we can indeed utilize Federal Funds to absorb the total amount of agency staffing as proposed in the Governor's budget recommendation for the 2017 – 2019 biennium.

Thank you for your consideration of these items. I'm happy to answer any questions you have.