

Appropriations Committee
Budget Hearing – Department of Health and Human Services
February 8, 2015

Courtney Phillips, CEO
Department of Health and Human Services

Good afternoon, Senator Mello 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), and I am privileged to serve as the Chief Executive Officer for the Department of Health and Human Services.

I am joined today by the division directors and others from the Department.

First, we would like to thank you and your staff for your work and for reflecting most of the Governor's mid-biennium budget recommendations that impact the Department. We will not address those requests unless you have additional comments for us.

The budget adjustments proposed by Governor Ricketts are intended to continue our initiatives that help people live better lives. They will help us provide a more customer-focused state government that is more efficient and effective. Let me briefly touch on the differences between your preliminary recommendations and the Governor's recommendation, and then we will respond to any questions you may have.

Cash Spending Authority for Licensure Database

The Governor's recommendation includes an increase of \$500,000 cash spending authority for State Fiscal Year 2016-17 to update the existing Public Health Licensure database. The improvements would be made in the database of credentialed individuals and businesses to offer more online services to customers and to improve efficiencies for them and for our staff.

Currently, license renewal is the only online service available. The goal is to expand the functionality of the system to include online services for initial licensure; the capability for applicants to check the status of their applications online; and for customers to be able to complete licensure transactions, including payments to DHHS, using their smart phones. The Licensure Unit is currently participating in a process improvement project and one of the recommendations is to enhance online capabilities to provide these services to customers.

Providing functional remote access capability for inspectors in the field is another goal for the upgraded system, equipping staff with tablets to enter inspection information that could be uploaded automatically to the database for processing.

The Licensure Unit has cash funds available in the Professional and Occupational Credentialing Cash Fund to support the purchase of an upgraded system; however, the current cash spending authority is not adequate to pursue these upgrades.

The Department respectfully requests the Committee increase cash spending authority of \$500,000 for this purpose.

System of Care

The Governor's recommendation included funding and Personal Service Limitation (PSL) to implement a children's behavioral health system of care. Systems of care are shown to have transformed children's mental health services and improved the lives of children and youth with serious emotional disturbances, and their families.

A system of care provides a framework for a new way of doing business that is collaborative with children and youth, families, advocates, providers and others. Through a public/private partnership, the Division of Behavioral Health is working with child and family serving agencies and the Nebraska Children and Families Foundation on this effort. The funding in the Governor's recommendation will finance one full-time position to work across DHHS Divisions and with the Department of Education, Tribal representatives, the Office of Probation, managed care organizations, Regions and communities, family organizations, youth organizations, and other partners along with the Foundation to implement the children's system of care. This statewide effort requires a dedicated administrator to ensure it meets its performance targets. Once the necessary partnerships and infrastructure have been established, staffing will be re-evaluated.

The Department respectfully requests the Committee fund the Governor's recommendation of General Funds and PSL for both FISCAL YEAR-2015-16 and FISCAL YEAR 2016-17.

Child Welfare Services

State General Funds available for Child Welfare Aid total \$156.1 million for FY16, consisting of new appropriations of \$142.6 million, encumbrances carried over from FY15 of \$1.2 million, and reappropriation balances from FY15 transferred from other programs within HHS of \$12.3 million. For FY17, General Fund appropriations total \$145.3 million plus whatever reappropriation is available from FY16.

The Dept. has encountered multiple issues that challenge the ability to manage within the resources available during the current biennium.

HHS received a one-time appropriation of \$6.6 million in FY15 to finance increase in Nebraska Families Collaborative (NFC) contractual costs for case management. The case management costs continue with the extension of the contract into FY16, but the funding has not been included in the FY16 budget. In addition it appears that the expenditures for the contract will increase by \$1.0 million in FY16.

Nebraska has experienced a 3.1% increase in the number of adoptions in fiscal year 2016. The resulting increase in adoption subsidy payments, tied to foster care per diems at the time of adoption, have contributed to a \$1.3 million increase in year-to-date adoption expenses. Don't get me wrong, adoption is a good thing.

We have experienced a 2.5% increase in out-of-home foster care placements, resulting in a year-to-date increase in expenditures of \$1.2 million, and in an effort to keep children in their own home, we have experienced an increase in in-home services of about \$4.0 million.

Let me assure you the Department continues to explore and implement both short term and long term strategies to address budget challenges as those I just described.

We have made changes to the referral process for in-home services, enhanced the review process for services extensions, and are pursuing an opportunity to claim additional federal Title IV-E foster care maintenance funds for services provided in our eastern services area through our contract with Nebraska Families Collaborative, or NFC. Our federal partners are very supportive of us resuming Title IV-E claiming for NFC expenditures as well as expanding our Title IV-E waiver authority to enable us to claim federal funds for various evidence-based practices we are implementing and/or expanding.

While we analyze causes for recent increase in out-of-home placements, we are pursuing a re-tooled Intensive Family Preservation Program, with technical assistance from our federal partners and employing new evidence-based practices. These interventions focus on avoiding removal of children from their home and, if removed, return them home safely more quickly. The Department intends to begin claiming Title IV-E matching funds immediately to reduce reliance on state funds.

Steps are also being taken to assess the effectiveness of in-home services and have implemented cost containment strategies. Strategies include shortening time duration for new referrals as well as higher levels of approval for referral extensions. The goal is to assess and ensure these services are effectively and efficiently leading to desired outcomes.

Even with the continued efforts to manage the Child Welfare Aid budget within the available resources, projected expenditures exceed available resources. On the other hand, it is projected that Public Assistance Aid will not be fully expended as sound fiscal policies and minimal statewide unemployment creates less demand for economic assistance services.

To address our budget challenges in Child Welfare the Department requests authorization for fiscal flexibility with respect to the allocation of state General Funds in Public Assistance Aid and Child Welfare Aid for the remainder of the biennium. We would welcome the opportunity to work with the Committee and your staff to devise a mechanism that would result in needed flexibility and at the same time provide accountability to the taxpayers of the state. The Governor's Office has been briefed and supports our request for management flexibility.

The Department has embarked upon an effort to fully assess the appropriate amount of funding needed in future years. The results of this effort will be reflected in the agency 2017-2019 biennial budget document submitted September 15, 2016.

Maintain Sustainable Medicaid Budget

I would like to provide some additional information regarding our Medicaid program. First, I want to thank the Committee for your diligent work reviewing the Governor's recommendations and retaining the Medicaid adjustments and funding levels in its initial recommendations.

The governor recommended a combined reduction to reappropriation balances from Medicaid of \$84.8 million and the CHIP program of \$11.1 million, totaling \$95.9 million. Further, the CHIP current year appropriation was reduced by \$4.5 million.

These reductions are made on a one-time basis to unspent appropriations carried over from FY 2015.

Medicaid is a program whose costs can be driven by fluctuations in enrollment and utilization. We also sometimes experience programmatic changes from the federal level or through court decisions that impact our spending. The original purpose of the reappropriation for Medicaid and CHIP was to support the unknown costs of covering Applied Behavioral Analysis and other behavior modification services that were expected to be mandated through court decision in the current biennium. Static enrollment has kept the Medicaid and CHIP spending at minimum growth allowing the Department to better absorb these costs, as well as other previously unaccounted for costs within the current base appropriations.

By doing so, the flexibility of the program to account for increases in enrollment is reduced. Historically, enrollment in public assistance programs has reacted counter cyclically to the performance of the economy. The lower state revenue forecast should caution us that some flexibility in the Medicaid budget should be protected in case we see enrollment trend upwards in the future. Economic factors are not the only reason for an increase in aid spending. Health crises such as epidemic flu can also drive spending in these programs because normally healthy people that are eligible but not enrolled turn to the state for assistance. We also continue to see concerning trends in drug spending as more high-cost drugs enter the market and the cost of generic drugs continues to rise. In addition, the state is aware of a number of past audit findings that may come to repayment settlement in the near future.

For all of these reasons, the Governor's recommended budget retains a 2.5% emergency corridor, or contingency allowance, in the Medicaid budget. We feel this narrow protection is both appropriate and prudent, and we urge the Committee to retain this funding. By the very nature of Medicaid's utilization driven spending, these dollars will only be expended should it be necessary.

Thank you. We are able to respond to any questions you may have.