

**House Health and Welfare Medicaid Savings and Efficiencies Task Force
House Majority Caucus Room
Minutes**

November 7, 2005

(Subject to Committee Approval)

Committee Members Present: Chairman Sharon Block, Representatives Kathie Garrett, Tom Loertscher, Peter Nielsen, and John Rusche.

Guests Present: Gregory Hahn, Idaho Statesman; Skip Smyser, Connolly and Smyser; Amanda Brown, National Association of Government Employees; Ned Parrish, Office of Performance Evaluation (OPE), Rakesh Mohan, OPE; Cathy Holland-Smith, Budget Analyst; Randy May, Department of Health and Welfare, Medicaid; Brad Hoaglund, American Cancer Society; Martha Arlos, Congressman Butch Otter; Scott Pugrad, Connolly and Smyser; Molly Steckel, Idaho Medical Association.

Chairman Block called the meeting to order at 9:00 AM.

MOTION: Rep. Nielsen moved to approve the minutes of September 15, 2005. With no objection, the motion passed.

Chairman Block welcomed the members, Cathy Holland Smith and Randy May. She thanked Pamm Juker for helping to arrange the meeting and Jennifer O'Kief for serving as secretary.

The **Chairman** invited **Cathy Holland-Smith** to address the committee and present an overview of the State General Fund Medicaid Budget. She began by saying that she was going to explain how the Medicaid budget is structured from both the State and the Agency's (Department of Health and Welfare) perspective.

She further explained that as a result of changes made to the appropriation process, the Agency's preparation of their budget now matches the State's accounting system, allowing for more detailed reports. She explained that the Legislature has to consider aspects of types of services, eligible persons, and level of service as well as appropriating and managing resources for personnel, operating costs and capitol expenditures, and how these choices are interrelated.

She proceeded to present a forecast of the budget in terms of caseload changes, pricing changes and utilization changes. She will touch on decision points, Medicare Part D program, the new Information Systems project, and the caseload utilization and pricing increases. The committee was given three handouts:

- 1) Medicaid Annual Average Participant Eligible by Category (Attachment 1)
- 2) Base Review Report by Sum Object 4 Year Comparison (Attachment 2)
- 3) Impact to Idaho to Implement Medicare Part D (Attachment 3)

Ms. Holland-Smith directed the attention of the committee to the first handout that illustrates what was forecast for FY 2005, based on actual figures from FY 2003 and 2004. She explained that the chart is separated into two groups of participants, 1) Elderly and Disabled and 2) Family Related. She noted the 6.5% increase in caseload from FY 2003 to 2004. She further noted that in FY 2005, the Department had expected a 5.7% increase or 9,296 participants. What actually happened was a 4.9% increase and only 7,928 eligible persons. She commented that growth in Medicaid had slowed down in the spring of 2005. The forecast for FY 2006 is a small increase of 1.6%, totaling 173,205, and FY 2007 is 4.2% equaling 180,507 participants.

Ms. Holland-Smith directed the members to page 2 --Medicaid Administration & Medical Management, FY 2005 Comparison of Estimated Versus Actual-- walking the members through steps that were taken to budget for the original appropriation and actual expenditures for 2005. She explained that for the purpose of more clarity, Medicaid was separated into two sections, 1) Personnel and FTP (full-time positions), Operating Expenses and Capital Outlay; and 2) Trustee and Benefits (page 3). She continued to explain that budget laws allow resources to be transferred between these categories. For example, money cannot be transferred into Personnel, but can be moved from Personnel and Trustee and Benefit into Operating Expense. Money from Capital Outlay cannot be transferred out, but money can be transferred in; any money can be transferred to Trustee and Benefit except for Capital Outlay.

Ms. Holland-Smith continued to identify in detail each of 37 line items (Lines 1-7 base budgeting costs, Lines 18--36 maintenance costs) and how they are applied to FTP, and the General, Dedicated and Federal funds. She noted in Line 34 the \$559,000 savings in Personnel that correspondingly is reflected in the General Fund in Lines 19 and 29. Less was spent in Personnel than was expected. This savings will be reappropriated for next year. She further noted the significant increase in Operating Expense in the Dedicated and Federal funds of \$22.9 million. She redirected the attention of the committee to the second handout (Attachment 2) which illustrates a comparison of dollars spent for Operating Expense per year from FY 2001 to 2005. She noted on page 2 the significant increase of \$4.7 million in Operating Costs between FY 2003 and 2004, which was a 26.26 percent increase. She stated that current appropriation does not support this level of operating expenditures. She explained that the agency has been coping with some of the increases they have had by transferring money from different accounts and also from receipts they receive from rebates and credits, etc.

Rep. Nielsen asked **Mr. May** if the new MMIS (Medicaid Management Information System) computer system would cause fewer problems and be a cost savings as well as generate savings on computer services. He expressed concern over the ongoing expense of this project. **Mr. May** answered that he will follow up on this issue.

Ms. Holland-Smith referred to page 3 **B**Medicaid Provider Payments, FY 2005 Comparison of Estimated Versus Actual-- which compares the original appropriation amount of \$1,015,534,000 with the actual expenditure of \$1,071,948,900. She noted the \$7.2 million Fund Adjustment in rebates that was applied to the Dedicated Fund. She explained that other than rebates, money is received from overpayments to hospitals of providers. She noted the \$2.9 million in the General Fund, in Line 14, which is in excess partly due to a decrease in caseload, and hospital credit from overpayment which will be applied to next year. Line 14 also illustrates that \$6.1 million more dollars were spent in Dedicated Funds and \$12.5 million less in Federal Funds which totals \$9.3 million less in expenditures than was estimated.

Chairman Block recessed the meeting at 10:20 AM for a morning break. The meeting was called back to order by the **Chairman** at 10:35 AM.

Ms. Holland-Smith continued with her presentation by directing the attention of the committee to page 4 of the first handout, --Medicaid Administration & Medical Management, FY 2007 Request--. She explained that this sheet illustrates how the structure of the budget currently looks for FY 2007. She noted in Line 4, Medicare Part D which reflects \$550,000 requested in operating costs for the computer programming changes necessary to make the system compliant. She noted in Line 5, MMIS which reflects \$7.4 million one time request. She continued identifying each line item request concluding with Line 32 which reflects the total request of \$64.8 million.

Ms. Holland-Smith referred to page 5, Line 23, Operating Expenditures, which reflects the largest change occurring which is an increase of \$28.6 million. She further noted Lines 31-43 which illustrate a breakdown of the expenditure items contributing to this increase. She commented that the money to fund some of the operating expenditures has come primarily from rebates. In response to a question from **Rep. Nielsen**, **Ms. Holland-Smith** said that the Department proposes to pay for the additional operating expense by additional rebate dollars that will be coming into the agency. **Randy May** remarked that the appropriate term to use is receipt, not rebate. He explained that there are ten or twelve areas where the Department receives funding from receipts; the largest is from drug rebates but not all.

There were many questions and comments from the committee. **Mr. May** accepted the request from **Rep. Garrett** to provide additional information for the committee that would better explain what actions or circumstances are driving the percentage increases, particularly for operation expenditures.

Ms. Holland-Smith directed the attention of the members to a color coded chart entitled, **A**Actual and Forecasted Medicaid Expenditures for FY 2006,**@**hat they had just been given (Attachment 4). She explained that this chart breaks down

the appropriation into categories of expenditures of services and the amount that was spent in each month and then the total for each quarter. She referred back to page 6 of the first handout, --Medicaid Provider Payments, FY 2007 Request--, and identified in detail the line items for appropriation and expenditures for Medicaid provider payments. The total request for FY 2007 is \$1,265,624,100.

She referred to the last handout (Attachment 3) to illustrate what the budget is looking like for the Medicare Part D program. She explained that this chart shows what the drug cost will be for the 17,000 dual eligibles, \$6.7 million; and the non-drug cost for the 7,000 new dual eligibles, \$1.6 million, in FY 2006. She noted on Lines 9-11 the **Clawback** clause at 90 percent which means the amount that is required to be paid back to the government, which is \$10.3 million.

She explained that page 2 reflects the cost estimated for FY 2007, taking into account the additional cost of new people coming in to Medicaid. On Page 3, Maintenance Decision units for Provider Funding, she noted the costs in the categories of reappropriation, nondiscretionary adjustments, caseload increases, utilization increases and pricing inflation; total costs equaling \$129 million. On Page 4, Medicaid Management Information System, she walked through with the committee the projected supplemental costs for the new system for FY 2006 and 2007, including personnel costs (8 FTP), operating expenditures and capital outlay. Line 16 lists the total request for the MMIS for FY 2007 as \$21.5 million.

Ms. Holland-Smith concluded her presentation and asked that she present the Review of the Last Session Medicaid Savings Recommendations, which was scheduled next on the agenda, during the afternoon session after the lunch break. **Chairman Block** agreed with her request.

Chairman Block invited **Rep. Garrett** to address the committee, giving them an update on the Medicare Modernization Act (MMA). **Rep. Garrett** began by pointing out that another benefit for seniors in this Medicare program is that they will receive a physical. The new coverage will typically pay for about half of the drug costs. The average senior spends about \$2,100 per year on subscription drugs. The average person will save about \$1,100 per year. The coverage increases, based on need. Enrollees in **Extra Help** which is for people who are below 150 percent of poverty, will receive coverage of 85 percent or more of their drug costs. The estimate is that about one in three in this program will qualify for extra help. **Rep. Garrett** commented that this program, despite the cost factor of \$10 million, will be a substantial benefit to seniors and those other eligible individuals. She also commented that this is going to be a difficult and complicated process. There are currently about fifty drug plans offered in Idaho that participants will have to choose from. She stated that various tool kits and internet programs have been devised to help volunteers and workers who will be assisting the recipients. She stressed the importance of understanding that eligibility for prescription coverage is not tied to income. The program is voluntary, but all who are eligible have to make a decision of whether they will join the program or not. There is a penalty for those who do not enroll by May 15, 2006, but decide to enroll later. Not all plans are created the same.

There will be a premium, a co-pay, a deductible and a formulary. (See Talking Points, Attachment 5).

Rep. Garrett explained that the committee partnered with agencies from other regions and conducted numerous outreach efforts such as radio ads, call-in shows, newspaper ads, emails, faith-based communities, provided training for providers and volunteers, worked with the Commission for the Blind and the Commission for the Deaf, and Home Delivered Meals. She mentioned that some of the counties mailed post cards to those over 65 years of age who were on voting lists. She said that presently there are several enrollment sites, of which 29 are in the Health and Welfare offices, 22 Department of Labor offices, and 14 SHIBA (Senior Health Insurance Benefit Association) offices. There is a 211 line that is available to help participants.

Rep. Garrett provided a 3-page handout showing a web site including the steps to follow for searching for a Plan Comparison (Attachment 6). She mentioned that the Department has more resources for helping in the selection of the appropriate plan. She also provided a chart representing the breakdown of cost per participant who applies and qualifies for **Extra Help** based on annual income (Attachment 7). **Rep. Nielsen** pointed out that based on the allowable resource figures presented in this chart, a single person would qualify for more assistance than a married couple. He believes that this discriminates against couples who are married. **Rep. Rusche** commented that there is a lot of work to do to reach and assist everyone who will be participating. He further commented that given some 70 enrollment sites throughout the state, it will take a volunteer at each site 50 hours per week to be able to assist every senior with at least a half-hour session. **Rep. Garrett** answered **Rep. Nielsen's** question regarding having access to an official state web site. She explained that CMS (Centers for Medicare and Medicaid Services) offers a web site that does provide training tools and aids. **Chairman Block** thanked **Rep. Garrett** for her excellent presentation and excellent job. An informational brochure presenting the Medicare RX program is also attached (Attachment 8).

Chairman Block adjourned the meeting for lunch at 12:05 PM.

Chairman Block called the meeting to order at 1:20 PM. She introduced **Rakesh Mohan** from the Office of Performance Evaluations (OPE) and asked him to address the committee, giving them an overview of the Department of Health and Welfare Management Review. **Mr. Mohan** began by explaining that the study was requested by **Rep. Block** at the end of the 2006 Legislative Session. JLOC (Joint Legislative Oversight Committee) approved the study to be conducted with the request that some of the work be completed by the beginning of the 2006 Session. **Mr. Mohan** explained that because of the high volume of work and the time involved to complete the project, JLOC was asked to prioritize the jobs, which they did in the following order: First, Substance Abuse, Second, School of the Deaf and Blind, and Third, Health and Welfare Management

Structure. **Mr. Mohan** explained that because the first two assignments took more time than was planned and because the Department is as large as it is, employing over 3,000 full-time positions and an annual budget of \$1.6 billion, it was decided to use a multiphase approach to review the Department's management structure and be able to provide meaningful information to the Legislature by mid-February, 2006.

Mr. Rakesh explained that they will strategically look at certain key functions of Department's Management Structure over the next three months and identify some areas that will need further study. He further explained the following key functions:

- Communicating with policy makers and stakeholders
- Communicating with line staff, supervisors, program managers, and middle management
- Ensuring resources are used efficiently, program staffing levels are appropriate, and staffing resources and caseloads are fairly distributed
- Ensuring services are provided uniformly statewide

He explained that the methodology for this study will include the following components:

- Conduct an agency-wide survey of line staff and supervisors
- Conduct an agency-wide survey of program managers and middle management
- Review the Department's methods of managing its caseloads, workloads, and staffing
- Analyze the Department's turnover rate, examining morale issues, etc.
- Review authorizing statutes

Mr. Mohan listed the seven issues raised by **Rep. Block** which this methodology will allow to be addressed:

1. Communication between central and regional offices
2. Consistency of community-based services among regions
3. Communication between upper and middle management
4. Size of middle management which will be derived from both the survey and staffing analysis
5. Usefulness of strategic plan and performance measures
6. Adequacy of fiscal management and resource allocation
7. Role of the Board of Health and Welfare

Mr. Mohan recognized **Ned Parrish** who will be leading the project. He stated that there will also be four individuals working on the project from the OPE office and five consultants, four from BSU and one from Seattle, Washington. **Rep. Garrett** brought up the issue of trust and expressed her concern for those

involved in the survey, that they be reassured that anything they say will not be held against them by the Department in an employment issue. **Mr. Mohan** responded by saying that the surveys will be operated with total confidentiality and that they will honor that trust. **Rep. Rusche** expressed his interest in benchmarking with other states. He stated that it seems that there must be some standard, some basic average performance to benchmark against. **Mr. Mohan** stated that in this initial stage of the study, there will not be enough time to conduct this type of comparison. He further stated that he will look at addressing benchmarking when working on additional projects in the future. He commented that there will be a degree of comparisons made within the different divisions of the Department.

Mr. Mohan asked the **Chairman** if **Mr. Parrish** could speak to the committee regarding the review process for this project. **Chairman Block** welcomed **Mr. Parrish** who explained that their plan is to complete the field work and research over the next couple of months and then begin writing their reports, which will be a fairly lengthy and involved process. He explained some of the approaches they will use. For example, they will look at the turnover rate by program and division and examine how turnover varies within those departments. They will also look at how the Board of Health and Welfare sees their role and their working relationship within the Department. They will be talking to selected legislators. They will be providing diagnostic information for the Legislature to help target areas for future studies. **Mr. Parrish** acknowledged that they would look into **Rep. Garretts** concern regarding the Legislators' suspicions over the Departments' usage of their vacant positions.

Rep. Nielsen commented that the Department, particularly Medicaid, is unsustainable and the state must begin to figure out how to control expenses. He is encouraged that this report will be helpful. **Rep. Block** thanked **Mr. Mohan** and **Mr. Parrish** for their commitment and dedication to the work ahead of them.

Chairman Block invited **Cathy Holland-Smith** to present the review of the Last Session Medicaid Savings Recommendations. **Ms. Holland-Smith** passed out a 2-page report titled, **Department of Health and Welfare, FY 2006 JFAC,** (Attachment 9) which represents all of the individual decisions that JFAC (Joint Finance Appropriations Committee) made for the entire agency. She also provided two appropriation bills, HB 385 (Attachment 10) and SB 1238 (Attachment 11). She provided a table titled, **Department of Health and Welfare, Proposed Appropriation Structure,** which illustrates the reorganizing of the structure of some of the divisions and service categories (Attachment 12). She provided a document titled, **Health & Welfare FTPs,** which shows the supplemental recommendations for workforce and the number of FTPs that were actually approved (Attachment 13). She continued with her presentation by explaining that she would speak to those areas where the Legislators had provided recommendations as listed in the House Health and Welfare Committee

Budget Report to JFAC by Rep. Block, February 22, 2005, a copy of which was given to the members (Attachment 14). **Ms. Holland-Smith** reviewed the status of the following decision units from that report:

Child Protection Workers and Services -The recommendation was to cap hiring new people until the current FTPs were filled. However, there is currently a 30 percent increase in turnover rate. The situation is worse this year than last. She suggested that possibly one of the ways to address the problem would be to give personal pay raises and see if that begins to curb the turnover. She suggested that we may have to look more closely at salary management. **Rep. Garrett** commented that we need to have a salary package that will entice individuals in, and that will encourage them to stay. **Ms. Holland-Smith** stated that this high turnover rate is generating huge amounts of salary savings. By artificially freezing salaries and giving no pay raises, the problem becomes worse. There was continued discussion regarding this salary and turnover issue.

Access to Substance Abuse Services **B**he three staff positions were added.

Adult Access Card Program **B**Was instituted and will be up for review this coming year.

Complete rural ACT Teams **B**Did take place and some of the funding came from pay increases. The equivalent of 8 FTP were provided. The program has been very successful.

Children's Mental Health Positions **B**Was pulled into a separate program.

Early Hearing Detection and Intervention **B**This program will be able to be maintained. Additional federal funds have been received. The Governor allowed hiring an additional person under this grant. This will be an ongoing process.

Child Support and Caseload Increases **B**Additional money was given for foster care and adoption assistance. Personal dollars were put back. The work conditions seem to be very difficult. Caseloads appear to be high and there is no relief in sight in the short-term.

Citibank Call Center **B**JFAC accepted the recommendation not to fund this program.

Review Budgets by Program **B**This was done and each program was reviewed independently.

Department Budget Strategies **B**The message was given to the Agency for the concern that some of the strategies were being used to generate savings. They appear to be having challenges to maintain the work force.

Review Health & Welfare Travel and Training Budgets **B**After review, it was discovered that costs were being lumped together. They have been requested to separate the costs out, identify employee training and travel costs separate from volunteers and council members, etc., who are not directly related to the operation of the Agency. (Requested in intent language in HB 385.)

Review Legislative Audits **B**The Legislature decided this was not an issue.

Postpone Medicaid Payments for One Week to Generate Savings **B**The suggestion by the legislative auditor to delay payments for one week to generate some cash savings was considered but was not implemented.

Co-Payments - This issue has been under consideration under the Medicaid Reform program. The Department along with the Governor's office has been discussing this issue and whether or not co-payments are appropriate for some of the eligible populations.

Administrative rule Requirements **B**Has been accomplished. Legislation has passed which requires the agencies to give a fiscal note with all of the rules.

Elder-Care Loopholes **B**The agency is requesting for consideration to enhance estate recovery.

Medicaid Buy-In for the Disabled **B**Is not in the budget as a separate item this year. The Department may be including this with Medicaid Reform, basically looking at not penalizing those who are disabled and want to work.

County Options for Medicaid **B**Still working on reform.

Criminal History Checks **B**The Legislature passed legislation and it was carried by Rep. Lodge.

Counseling Billing, Hours, Patient Attendance, Credentialing **B**There has been significant review of practices of mental health care providers which should eventually result in significant reform. This may also come back in the form of some savings.

Review Management Structure **B**COPE will be conducting a study.

Forecast of Caseloads **B**Continues to be a major challenge for our state. Currently there is not the expertise available from the outside.

Scope of Services **B**This included a change that did take place regarding ending payments for non-necessary procedures. One example was the issue of circumcision, which has been eliminated.

Audits and Edits **B**Eligibility **B**Significant error rates continue to be a problem. This issue will be followed up with JFAC this coming year.

Technology **B**There is no update this year.

Electronic Health Records **B**The Department is currently discussing this in the context of Medicaid reform and will probably be bringing this back to the Legislature.

Interactions with Other Agencies **B**Has no additional information.

Hospital costs, Prescription Drugs, Long-Term Care **B**There were no additional cuts to these budgets.

Disproportionate Share Hospital (DSH) Payments **B**The practice of using Medicaid as an avenue to pay hospitals for the uninsured is ongoing.

Disease Management **B**An area that has not been directly dealt with. However under Medicaid reform, there may be a degree of consideration because of the screening process in determining care based on need.

Hold Medicaid or CHIP Expansion **B**The suggestion is that the employer and the individual bear the cost and in turn receive a federal match.

Recover Birth Costs **B**An issue brought by the legislative auditor, but has not been pursued.

Utilization Management Program (UMP) **B**May come back under Medicaid reform.

Medicaid Pharmacy Management **B**An excellent job has been done in this area.

Durable Medical Equipment and Supplies **B**The Department will be proposing to have statewide contracting for transportation costs and adult diapers, which is a significant purchase.

Policy Adjustments **B**Was discussed at length last year, and will look forward to more discussion this next year.

Program Expenditures **B**Even though there was a lot of discussion about putting a cap on the level of service, this was not done.

Zero-Based Approach **B**This was done with the Health and Welfare budget and will continue to be done.

Optional Services **B**Did not come up again.

Encourage Payment of Child Support **B**The will probably need additional resources.

Mental Health Work Group **B**This group will be reporting back to the Legislature.

Healthy Families Initiative **B**There is a federal authorization pending and the final results are not back.

Health Insurance for Employees **B**The Healthcare Task Force is looking at this.

Volunteer Services **B**The Legislature is looking at the efforts being pursued in this area.

Family and Community Responsibility **B**Cannot speak to this directly.

Governor's Blue Ribbon Committee Findings **B**The results have already been provided to the members.

Rep. Block thanked **Ms. Holland-Smith** for her report. She expressed her desire for the committee to pursue their ideas and continue to work concurrently with the Department of Health and Welfare. She further expressed that the desire to go forward with statutes on the issues that have been brought forward. The members spent the remaining time expressing some of their points of view.

Rep. Loertscher commented on the following points:

He believes the first thing that must be done is to stop expanding Medicaid programs in order to have reform. Individualizing benefit packages would eliminate to some degree unnecessary services.

Providing individuals, who can otherwise handle their medical needs, the opportunity to have the benefit of receiving their medications, **A**medications only **@**benefit, allowing them to continue work and still be eligible for Medicaid.

Change some of the programs in Medicaid to be incidence-based, patterning the method used by the County Indigent Programs, which has been very effective.

Make provision for the services of immediate need rather than high-cost and unnecessary incidences.

Look at ways of restructuring the levels of reimbursement in order to redirect the Medicaid traffic to the primary care providers, and avoid the more expensive emergency room settings.

Review the recommendations already made by the Task Force and fully implement where possible, including necessary waivers to accomplish this.

Rep. Nielsen offered the following points:

Referring to **Sen. Cameron's** remarks regarding behavioral change from the previous meeting, **Rep. Nielsen** suggested one way to change behavior might be to redirect tax dollars on cigarettes to Medicaid and County Indigent funds

Aoll-Road Effect **BA** those who use the road ought to pay the bill. **@**He suggested offsetting tax on healthy foods onto unhealthy foods, i.e., vegetables and fruits vs. fast food; milk vs. sodas.

The issue of legal and illegal substances contributing to mental illness is critical and needs to be seriously addressed in an effort to affect behavioral change and avoid the enormous increase in costs that are going to be a result.

Contract with the private insurance carriers to administer a plan which enables the state and the participant to pay for part of the premium. This would serve those who are not on Medicaid, but who are uninsured.

Chairman Block adjourned the meeting at 3:05 PM.

Representative Sharon Block
Chairman

Jennifer O'Kief
Secretary