

# JOINT FINANCE COMMITTEE TESTIMONY

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## Introduction

Senator Decker, Representative Rhoades and members of the Joint Committee on Finance--thank you for the opportunity to testify before you today. I am pleased to make my first appearance before your Committee as Department Secretary and I look forward to discussing with you highlights of the Governor's 07-09 biennial budget for the Department of Health and Family Services.

The Governor's budget for health and human services is based on the following core principles:

- Reform health care by expanding access, reducing cost, and improving the quality of health care for all Wisconsin residents.
- Improve the health of Wisconsin youth and adults by reducing tobacco use.
- Invest in Wisconsin's children to provide them the opportunity to grow up safe, healthy and successful in strong families.

## Health Care Reform for Primary and Acute Care

Governor Doyle's health care reform initiative includes reforming primary and acute health care and long-term care. Similar to the rest of the nation, Wisconsin faces four key challenges in the primary and acute health care arena:

- **Access**—The number of uninsured children in Wisconsin is increasing and thousands of adults do not have access to affordable health insurance.
- **Cost**—Health care costs are increasing at rates in excess of growth in personal income.
- **Quality**—There is a lack of easily accessible information about the quality of care and medical errors are far too common.
- **Medicaid Financial Demands**—Medicaid, the state's health care safety net for approximately 850,000 individuals, requires increasing levels of state funding each year.

The state must be the leader in health care reform. Wisconsin's Medicaid program is the largest insurance payer in the state. One of seven residents receives help with health care needs through Medicaid. Our goal is to transform Medicaid from a passive system that just pays claims to a dynamic, streamlined, efficient system that provides care management, especially for those with chronic health conditions; uses electronic health records and other strategies to improve quality; offers preventive care to help individuals live healthier lives, and quickly identifies and resolves gaps in our health care safety net.

Governor Doyle is proposing an ambitious plan to expand access, reduce cost and improve quality in health care. This is important to all of us, not only the 185,000 uninsured children and adults who will have access to affordable health care under the Governor's plan.

Most of the state's population has access to health care through their employer, but that number is decreasing every year. The cost of uncompensated care is a burden on our health care system that those of us with employer-sponsored insurance absorb indirectly. The Governor's plan helps dampen this cost-shifting.

The Administration has set the goal of ensuring that within the next five years, 98% of Wisconsin residents have access to affordable health insurance, including universal access for all kids. The 07-09 biennial budget is an opportunity to make substantial progress towards this goal through the BadgerCarePlus initiative and the extension of Medicaid to low-income adults without minor children in their home. These two initiatives will expand access to affordable health care to more than 185,000 children and adults who currently go without health care coverage.

### *BadgerCare Plus*

BadgerCare Plus will provide access to health care coverage to all children, regardless of income. Families with incomes above 200% of the federal poverty level (FPL) will pay premiums on a sliding scale fee, based on income, and those above 300% will pay full costs. Monthly premiums are set at an affordable level, ranging from \$0 to \$125, depending on income.

BadgerCare Plus also expands eligibility to a number of new youth and adult populations, including: pregnant women with incomes up to 300% of FPL, youth aging out of foster care, caretaker relatives up to 200% FPL, parents with children in foster care up to 200% FPL, and farmers and other self-employed individuals up to 200% FPL, contingent on depreciation calculations.

BadgerCare Plus dramatically simplifies our current complex program and eligibility structure by merging BadgerCare, Healthy Start and roughly 20 other family Medicaid programs into one comprehensive, simplified program that is easy to use.

The existing population will continue to receive Medicaid benefits, as will the new enrollees with incomes under 200% of poverty through Medicaid's current "standard plan". Children and pregnant women with incomes above 200% and certain self-

employed individuals (including farmers) will receive benefits under a Benchmark Plan, which would include, among other services, routine doctors appointments, immunizations and acute care.

BadgerCare Plus will use a number of strategies to promote prevention and healthy behaviors, including provider pay for performance mechanisms and individual incentives for positive behavior changes such as quitting smoking and undertaking regular exercise.

BadgerCare Plus requires approval by the federal Centers for Medicare and Medicaid Services. We expect federal approval to be forthcoming; in our discussions to date, federal officials have been very supportive of and impressed with our BadgerCare Plus proposal. Assuming timely federal approval, the implementation date for BadgerCare Plus is January 2008.

#### *Medicaid expansion to low-income adults*

The Governor's budget also expands health care access to 71,000 low-income adults with no minor children living in their home. These are often hard-working men and women who cannot afford their employer's health insurance premiums or who work for an employer that cannot afford insurance.

The same provisions that are included in BadgerCarePlus will apply to this population, including premiums and co-payments. This group will be enrolled in the Benchmark Plan. Mental health and alcohol and drug abuse services will continue to be provided by the counties, as they are now.

Enrollment in BadgerCarePlus for low-income adults without minor children in their home will start January 2009, contingent on federal approval by the Centers for Medicare and Medicaid Services.

We plan to utilize managed care delivery systems for the new programs and increase the use of managed care in our existing Medicaid and BadgerCare programs for low-income families. Currently, 70 percent of the state's Medicaid population is enrolled in managed care and we strive to increase that to 100 percent. Managed care entities have proven to be cost-effective and to improve the quality and coordination of health care. In the Medicaid low-income family program, since 2000, managed care HMOs have improved immunization levels for children by 54% and well-child check-ups by 52%.

The BadgerCarePlus and expansion to low-income adults represent fundamental reform of Wisconsin's health care system:

- When fully implemented, the two new programs will extend access to health insurance coverage to more than 185,000 individuals, including: kids; pregnant women; farm and other self-employed parents; caretaker relatives; and low-income adults without children in their household. At full implementation, the programs will achieve universal health care access for children and virtually universal access, at 98%, for adults in Wisconsin.

- The health status for individuals who previously lacked access to coverage will improve significantly as they receive timely and appropriate care.
- The financial burden of uncompensated care will decrease dramatically. This will benefit the individual providers currently saddled with these costs and will also temper the increase in overall health care costs that every person who has insurance must now absorb through increased premiums.

## Health Care Reform for Long-Term Care

### *Family Care Expansion*

The Governor's goal is to implement fundamental reform in the state's long-term care system as well, through the statewide expansion of Family Care.

We face the following challenges in the long-term care area:

- Increase the choices offered to individuals about where they live and the care they receive;
- Improve access to community-based long-term care—at least 11,500 individuals are currently waiting for community-based long-term care services;
- Simplify the system;
- Prepare for the aging of the “baby boom”;
- Promote wellness to prevent the need for the most expensive care; and
- Control and better manage public costs.

Family Care, a managed care long-term care program operating in five pilot counties since 2000, successfully meets these challenges:

- **Choice:** Family Care gives seniors and people with disabilities the choice to get long term care in their own homes and communities as an option to nursing home care;
- **Access:** Waitlists for community care are eliminated in Family Care counties; all eligible individuals have access to the long-term care services they need;
- **Cost-effectiveness:** An independent evaluation found Family Care to be cost-effective: specifically, it saved an average of \$452 per person per month in total Medicaid expenditures in the four non-Milwaukee counties during 2003 and 2004. Family Care also saved money in Milwaukee.
- **Quality:** Family Care clients have better health and functioning than their counterparts in other long-term care programs.

The two major components of Family Care are the Aging and Disability Resource Center (ADRC) and the Care Management Organization (CMO). ADRCs are welcoming and convenient places for seniors, people with disabilities, their families, and other members of the public to get information and assistance. ADRCs provide prevention services to keep people healthy, safe, and independent; provide information and assistance to direct individuals to appropriate community resources; provide objective long-term care counseling to help individuals use their own financial resources wisely; and serve as an

entry point to the Family Care program. ADRCs currently serve 23 counties, representing 43% of the state's population. The Governor's budget allocates funds to expand ADRCs to 75% of the state's population by the end of the 07-09 biennium.

Care Management Organizations (CMOs) provide individuals with a flexible, integrated, individualized managed care benefit. CMOs may be private organizations, public-private partnerships, or multi-county consortia. At the beginning of this calendar year, a Family Care CMO came on-line in Kenosha and Racine, bringing the total number of counties with the full Family Care benefit to seven, representing 24% of the state population. The Governor's budget provides funding to expand CMOs to cover 62% of the state's population by the end of the 07-09 biennium.

Ten regional consortia are currently engaged in intensive planning for Family Care expansion. Implementing the new Family Care approach requires wrestling with complex and challenging governance, political, financial, management, and service delivery issues. I want to recognize and express appreciation for the tremendous commitment, time and effort that our county partners are devoting to this planning. Good progress is being made and we look forward to working with counties as they get ready to start Family Care this biennium.

Statewide expansion of Family Care represents fundamental, structural reform of the state's long-term care system. Family Care:

- Eliminates waitlists for community-based care
- Restructures the entitlement under Medicaid for long-term care to include the choice of community-based, as well as institutional, options;
- Improves quality by focusing on achieving individuals' health and social outcomes; and
- Establishes a cost-effective long-term care system that is sustainable in the future.

### eHealth

Another component to ensure that all Wisconsin families have access to affordable, quality health care is to reduce medical errors and unnecessary spending by helping providers implement electronic medical records systems.

According to national studies, about 30% of health care spending in the U.S.—almost \$300 billion—is inappropriate, redundant, or unnecessary and can lead to unfavorable and even fatal outcomes for patients.

Investments in eHealth are vital in providing health care that is patient-centered, safe, and cost effective. Health information today is fragmented, often inaccessible and error prone. Patients, providers, public health authorities and payers often make important decisions with inadequate information. With better use of information technology, we can transform our health care system by reducing medical errors, improving safety and decreasing health care costs.

Private sector health providers in Wisconsin recognize the importance of health information technology and are undertaking a number of measures to strengthen their use of information technology. Our eHealth initiative is designed to accelerate and assist these efforts.

Last year, the eHealth Care Quality and Patient Safety Board, which is a strong collaboration of public and private sector health care partners, consumers, and information technology and health care experts appointed by the Governor, developed a five year eHealth Action Plan. The Plan provides a roadmap for public-private partnerships to advance adoption of electronic health records and the exchange of health information in Wisconsin. Just yesterday, the eHealth Board held an Implementation Summit to begin to define in more detail the steps needed to implement the Action Plan.

The Governor's 07-09 budget strongly supports the adoption of health information technology by providing incentives to increase the use of electronic medical records, including \$10 million per year in grant funding to organizations to invest in eHealth information systems and tax credits for eHealth investment.

### Restructuring Medicaid Financing

As stated earlier, a key prong in our health care reform strategy is restructuring Medicaid financing. The Medicaid program, in our state and others, requires increasing amounts of state funding each biennium due to rising health care costs, caseload changes, increased use of services, and other factors. The Governor's 07-09 biennial budget seeks to reduce Medicaid reliance on state General Purpose Revenue (GPR) by diversifying the funding sources supporting Medicaid.

This diversification is highlighted by creating a new Health Care Quality Trust Fund established solely to support Medicaid and related health care programs. The largest component of trust fund revenue will be generated from a \$1.25 increase in the tax on tobacco products, which is appropriate in light of the significant amount of costs the Medicaid program must fund for smoking-related conditions.

Another major initiative in this area is to implement an assessment on hospitals, which will increase federal funding and provide increased payments to hospitals that serve Medicaid clients. The proposed hospital assessment, which equals 1% of gross patient revenues, will generate an additional \$575 million in federal funds over the biennium. The majority of the funding, \$702 million, is used directly to increase Medicaid rates to hospitals.

A hospital assessment is a permissible approach to diversify Medicaid funding and maximize federal revenue. Twenty states, including all of our neighboring states, utilize provider assessments to help fund their Medicaid programs.

Recently concerns have been raised, particularly by the Wisconsin Hospital Association (WHA), about the viability of the Governor's hospital assessment proposal. First, let me state that the goal of the hospital assessment is not to siphon off the money to use in other areas of the budget. The goal of the hospital assessment is to bring back to Wisconsin the

state's fair share of federal funding, which we would use to support the Medicaid program, with the bulk of the funding going directly to hospitals to address their Medicaid costs.

The administration is reviewing the concerns raised by the hospital association, which has acknowledged that a review of the Medicare upper limit methodology and maximum use of disproportionate share hospital payments creates an opportunity to increase reimbursement to hospitals. We have retained an experienced, independent consultant to assist in clarifying areas of concern. Based on our understanding of upper payment limits calculations in other states; our ability to increase disproportionate share hospital payments; and federal changes to decouple managed care rates from fee-for-service payment limits - we feel our proposal is both viable and practicable.

We will continue to refine the model as we develop the request for federal approval and look forward to working with the WHA and Legislature as we design the assessment and payment structure.

### Combat Tobacco Use

One of the most effective ways to improve the health of individuals and to reduce health care costs is to help them quit smoking. Governor Doyle, a long-standing and passionate proponent in the fight against tobacco, intensifies the state's efforts to combat tobacco use in his 07-09 biennial budget. The budget proposes the following specific measures:

- Raise the cigarette tax by \$1.25 per pack and increase taxes on other tobacco products. This measure in and of itself reduces tobacco use: national studies show that for each 10% increase in the price of cigarettes, youth smoking rates decline by 6.5% and adult rates by 2%.
- Use a portion of this new revenue to triple the state's funding for tobacco control programs from \$10 to \$30 million, making Wisconsin one of only four states that funds tobacco cessation programs at the level recommended by the federal Centers for Disease Control. This additional funding will allow Wisconsin to build on the success of our current program, which has reduced youth and adult smoking to the lowest levels in history. With the additional resources, we can focus our efforts on the most difficult tobacco issues – helping pregnant smokers quit, eliminating the disparate impact of smoking on low-income and communities of color, and making sure every smoker who wants to quit has access to the best tobacco cessation resources available.

### Investing in Children and Families

Another important value embodied in the Governor's budget is to make sure our children grow up safe, healthy, and successful in strong families. The centerpiece of the children and families portion of the Governor's budget is the creation of a new Department of Children and Families. The new Department will unify programs from DHFS and the Department of Workforce Development that serve the social and financial needs of children and families.

Children, youth and families at risk for poor outcomes due to life circumstances are often involved with several public human services systems simultaneously that are administered by separate departments with separate processes and service delivery systems. For example, a study by national experts found that half of the W-2 applicants in Milwaukee County during the 1999-2004 period had been involved in the child welfare system, illustrating the need to coordinate these systems closely. Consolidating programs in one Department will strengthen and improve access to and coordination of services for families in need.

I am committed to working with my Cabinet colleagues, advocates and the Legislature to ensure a smooth and successful implementation of the new Department. Recognizing the important programmatic interconnections that will continue between the new Department and DHFS, I am also committed to establishing a strong and productive working relationship with the new Department once it is established.

In the spring of 2004, the Governor issued his KidsFirst Agenda as a blueprint of measures to improve the lives of children and families. DHFS and other state agencies have successfully implemented many of the measures in the KidsFirst Agenda. The Governor's 07-09 budget proposes the implementation of several remaining KidsFirst items:

- Increasing the foster care rate. Foster parents provide children with the care and support they need when they cannot safely live at home and until a permanent home is found for them. The current 05-07 biennial budget bill provided for a 5% foster care rate increase in CY06. While this rate increase was helpful, Wisconsin's foster care rates still lag behind rates in other Midwestern states. The Governor's budget proposes a 5% foster care rate increase in CY08 and an additional 5% increase in CY09. Increasing the foster care rates as proposed in the Governor's budget will move Wisconsin's foster rate reimbursement closer to the level in other states in our region and demonstrate recognition for the invaluable services provided by foster care parents.
- Establishing a home visiting program for first time parents and expanding the targeted home visiting program for first-time parents enrolled in Medicaid. To make sure our kids get off to the right start, the Governor's budget funds an initiative that, when fully implemented, will offer home visits to every new parent in Wisconsin. The program is aimed at all first-time parents, and offers these new families the opportunity to have a home visit focused on supporting them in their new role as parents, promoting infant safety, and connecting them to community resources such as parent education and support programs. In addition the program will link parents who are especially vulnerable to the stresses of parenthood to appropriate services.

Experience in other states and in pilot programs in Wisconsin has demonstrated that children in home visiting programs are more likely to get medical exams and vaccinations on time and less likely to be subject to abuse and neglect. By enhancing the likelihood that children experience a healthy and safe childhood,

the program avoids public expenses in the longer run on more complex medical services, out-of-home placements and other child welfare system services.

- Strengthening the child welfare system in Milwaukee. The Governor's budget fully funds the projected caseload in the Milwaukee child welfare program and expands services to families in the Safety Services. In addition, it provides ongoing funding for the case manager recruitment, retention, and training efforts the Department initiated in the current budget. The recent Legislative Audit Bureau report, as well as national studies, highlight that turnover of child welfare staff is an important concern in the Milwaukee child welfare program and nationally; high turnover has been found to reduce the likelihood of children in the child welfare system achieving successful permanency outcomes.

As directed by the Governor, the Department reallocated one-time funding in the current 05-07 biennium to institute a number of recruitment and retention measures, including: raising the base salary levels of case managers, mentors, and supervisors; strengthening ongoing professional development; offering full and part-time Masters Degree training in exchange for a work commitment; and increasing inservice and support for new workers. The Governor's initiatives in the current budget cycle have led to dramatic improvements. For CY 2006, the BMCW's turnover rate was 25.5% compared to the 2005 rate of 30.1%. In addition, in 2006 there was a 44% decrease in the number of ongoing case managers who left their position compared to previous years; as a result, BMCW has the benefit of a more experienced workforce. It is crucial that we provide ongoing funding to maintain these measures and uphold this progress.

### Conclusion

In conclusion, the Governor's budget reforms health care, combats tobacco use, and invests in children and families. While remaining fiscally responsible, the Governor's biennial budget proposes bold initiatives in all of these areas that will enhance the quality of life for Wisconsin's citizens in fundamental and far-reaching ways.