State of Wisconsin
Department of Health Services

Scott Walker, Governor
Dennis G. Smith, Secretary

Joint Committee on Finance

Testimony of Secretary Dennis G. Smith

Department of Health Services

April 6, 2011

Senator Darling, Representative Vos, and members of the Joint Committee on Finance, I am pleased to testify before you today. I look forward to discussing with you the major components of Governor Walker's biennial budget for the Department of Health Services.

As you know, the Department of Health Services is the largest state agency in terms of total funding and the second largest in staffing, behind the Department of Corrections. The Department has 5,574 FTE, operates seven direct care institutions, and has an annual budget of about $8 billion.

The Medicaid and BadgerCare Plus programs comprise 86% of the Department's budget. Despite these extremely difficult budget times, the Department receives a $1.2 billion GPR increase in Governor Walker's budget for ongoing support of these two programs. The Department as a whole will see a 23% increase in GPR, and 86% of all new general tax revenue will go to fund Medicaid.

When Governor Walker took office, he faced a budget deficit of $3.6 billion, of which $1.8 billion was the cost to continue deficit for the Medicaid program. Rather than relying on budget gimmicks or service cuts, Governor Walker's budget fully funds Medicaid services while including measures to control the growth in the program in the coming years.

The Medicaid and BadgerCare Plus programs, including the Family Care long-term care benefit, have reached a crisis point. Over the past five years, expenditures have grown 50 percent while general fund tax revenues have been flat. Monthly enrollment in the program has increased by more than 25 percent since November 2008, and almost 20 percent of the state's population and 30 percent of our children are now covered by Medicaid.

The majority of the Medicaid growth over the past two years was supported by a temporary increase in federal funding for the program. Under the American Recovery and Reinvestment Act and the Education Jobs Act, the share of Medicaid costs reimbursed by the federal government increased between 5 percent and 10 percent between October 2008 and June 2011. While total expenditures increased an average of 12 percent per year between fiscal years 2008-09 and 2010-11, state funding for the program increased 1 percent annually. The additional federal funding totaled over $600 million in fiscal year 2010-11, which will require the state to replace $1.3 billion of Medicaid expenditures with state funding in the next biennium.

This growth is not sustainable. As Medicaid spending has grown, funding for other essential government functions such as public safety, education and property tax relief, have been squeezed. In the recently enacted Act 10, the Legislature provided the Department with new authority so that significant, immediate program reforms can be implemented in order to ensure the program remains viable into the future.

It is estimated that, in the absence of these reforms, the program would have continued to grow unabated in the next biennium. With the new authority, the budget projects that the Department can "bend the cost curve" by $500 million GPR over the next biennium.

Other states have resorted to drastic measures to balance their Medicaid budgets, such as:

- Arizona has proposed suspending Medicaid coverage for 280,000 people.
- New York State is proposing a 2% across-the-board decrease in Medicaid funding.
- Georgia has proposed dropping dental and vision coverage.
- California has proposed cutting Medicaid by $1.7 billion in part by reducing provider payments by 10%.
- Maryland has proposed cutting payments to hospitals by $264 million – on top of $133 million in hospital cuts over the past three years.

Governor Walker chose a different approach. Instead of eliminating coverage for thousands of people or slashing benefits or provider reimbursement rates, the Governor gave the Department the authority to make reasonable changes to the program to reduce costs, improve care outcomes and efficiencies, while maintaining essential services

Over the next several weeks, the Department will seek input from consumers, providers, advocates, and other stakeholders on how to implement these ideas. In addition, the Legislature has directed the Legislative Audit Bureau to conduct an audit of Medicaid, and we look forward to learning from that report as well. In general, we will pursue savings through:

Common Sense Changes to Eligibility. The federal Patient Protection and Affordable Care Act (PPACA) imposes maintenance of effort requirements on states, essentially freezing state Medicaid eligibility standards and processes as of March 23, 2010. The Legislature has directed DHS to seek approval from the federal government to waive certain requirements so that it can make common sense modifications to eligibility requirements. If the Obama administration fails to approve such changes, it would force Wisconsin to eliminate coverage for non-pregnant, non-disabled adults with family incomes above 133% of the federal poverty level as of July 2012, an outcome that no one wants.

The changes we will seek may include, among other things, strengthening standards for state residence, limiting retroactive eligibility, and requiring young adults to enroll in their parents health plans if eligible to do so.

Aligning Provider Incentives to Achieve Better Outcomes. The goal of these initiatives will be to ensure the appropriate care is provided in the appropriate setting at the appropriate time.

Aligning Coverage with Other Payer's Policies. These include expanded use of Benchmark coverage and higher cost share requirements to better reflect coverage that working families receive in the private insurance market.

Improving Managed Care and Care Coordination. The Department intends to explore the use of health homes and ways to better coordinate primary, acute, and long term care services.

Health Care Efficiency Measures. The Department will pursue other efficiencies, such as aligning Medicaid reimbursement policy with Medicare and expanding auditing activities.

Changes in Family Care Enrollment. The budget pauses further expansion in the Family Care program in the coming biennium, both in terms of enrollment increases in existing counties and expansion into new counties. The program has grown rapidly in recent years, and the Legislative Audit Bureau is currently conducting an audit of the program.

SeniorCare. As you know, the Governor's budget includes statutory changes to leverage Medicare Part D to achieve savings in the SeniorCare program. SeniorCare participants would be asked to enroll in Part D if eligible. In these difficult budget times, this proposal provides a way for the state to maintain coverage for seniors and preserve the SeniorCare program. SeniorCare will continue to provide valuable coverage for seniors not eligible for Part D, for prescription drugs not covered by Part D, and for costs in the Part D "doughnut hole." Even with these changes, Wisconsin seniors will continue to enjoy the broadest prescription drug coverage of any state in the nation.

Changes to the Medicaid Eligibility Determination Process. The budget directs the Department to centralize administration of the income maintenance system process statewide. This major new initiative is essential to prepare for the integration of Medicaid eligibility into the new Health Insurance Exchanges by 2014 and to achieve cost savings through technology and standardized workflow policies statewide.

To summarize, Governor Walker's proposed budget for the Department of Health Services preserves essential health services for low income families, the elderly, and people with disabilities while giving the Department the tools needed to reduce the rapid growth in health care costs that we have experienced in recent years. Under Governor Walker's leadership, I am confident we will ensure these fundamental health care supports are sustainable in the years to come.

I am happy to take any questions you may have.