

# **Administrator's Statement**

**ADMINISTRATOR'S STATEMENT**  
80th Regular Session, Agency Submission, Version 1  
Automated Budget and Evaluation System of Texas (ABEST)

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Agency code: 529

Agency name: **Health and Human Services Commission**

Texas Health and Human Services Commission

“The mission of health and human service agencies in Texas is to develop and administer an accessible, effective, and efficient health and human services delivery system that is beneficial and responsive to the people of Texas.”

The Health and Human Services Commission (HHSC) was created in 1992 to coordinate and improve the delivery of health and human services across Texas. The 78th Legislature, Regular Session charged HHSC with overseeing the transformation of the delivery of health and human services. State leaders envision a coordinated system of health and human services that is rationally organized, effectively managed, centered on client needs, and accountable for results

In addition to overseeing the health and human services system in Texas, HHSC is responsible for program administration of Medicaid, CHIP, Disaster Assistance, Temporary Assistance for Needy Families, Food Stamps, Special Nutrition Programs, Family Violence and Refugee programs. Thus, HHSC has responsibilities as a leadership, operational, and oversight agency. The agency is accountable to Texans for ensuring that the newly consolidated Health and Human Services (HHS) agencies provide quality services as efficiently and effectively as possible. The agency executive commissioner is appointed by the Governor and assisted by a nine-member council.

#### FY 2006-07 Progress and Accomplishments

During the 2006-07 biennium, HHS agencies continued efforts to develop more efficient and effective service delivery systems and while responding to significant challenges. HHS agencies were among the first to offer assistance to the victims of Hurricanes Rita and Katrina.

#### HHS Enterprise

##### Responding to Disasters

As the 2006-07 biennium began, HHS agencies met the call of Governor Perry in assisting Hurricane Katrina evacuees from Louisiana, Mississippi, and Alabama. Hundreds of HHSC eligibility workers from across the state were deployed in East and Central Texas to provide emergency assistance to these families. Medicaid waivers were obtained from the federal government to provide health services. Over 59,400 individuals received Medicaid services and 121,000 households received Food Stamps, as well as over 9,800 cases receiving one-time TANF payments.

Less than a month later, Hurricane Rita hit Southeast Texas. Workers remained to assist the Rita evacuees. Almost 84,000 households have received \$91.9 million in Other Needs Assistance. This assistance is funded jointly from the State and the Federal Emergency Management Administration (FEMA). In July 2006, Congress reduced the state share for Rita assistance from 25 percent to 10 percent.

Additionally, 101 households have received \$0.7 million in Other Needs Assistance from wildfires.

##### Regional Consolidation

During the current biennium, the HHS agencies completed the consolidation of regional administration. DFPS was consolidated during FY 2006 and DARS and DSHS were consolidated at the start of FY 2007. While regional program staffs remain at each operating agency, the administrative support of regional operations resides at HHSC. This area is the last major function to be consolidated under H.B. 2292.

##### HHSAS Upgrade to Version 8.8

Across the HHS agencies, beginning in Spring 2005, work began on implementing a software upgrade of the Health and Human Services Administrative System, (HHSAS) which is the financial and HR system for the HHS agencies. This upgrade will be ADA-compliant, interface with the Comptroller's system, ISAS, and will continue standardization of processes across the enterprise as addressed in recent audit recommendations.

To improve contract oversight and administrative processes, the HHS agencies deployed a new administrative contract tracking and management system.

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Social Services

Integrated Eligibility and Enrollment

- In June 2005, HHSC signed a contract covering three functions – maintenance of the Texas Integrated Eligibility Redesign System (TIERS), enrollment broker for CHIP and Medicaid managed care, and integrated eligibility services, including call centers to help state workers process Medicaid, Food Stamps, and TANF clients. The integrated eligibility portion of the contract also moved CHIP processing from a previous vendor to the new contractor.
- The TIERS maintenance and enrollment broker functions were transitioned in November 2005.
- Statewide CHIP eligibility determination transitioned from the previous vendor in December 2005; processing of new Children's Medicaid applications was transitioned in January 2006.
- The integrated eligibility pilot was implemented in January 2006 in Travis and Hays counties for Food Stamps, Medicaid and TANF. Based on issues identified in pilot, no further rollouts have occurred.
- HHSC remains committed that this modernized approach to determining eligibility of services will create a system that works better, costs less, and provides clients options in accessing assistance. At the time of this LAR preparation, no additional rollouts are planned until modifications can be applied. New estimates of savings cannot be made until details and dates of new rollouts are determined. Therefore this budget request assumes the status quo of current implemented operations.
- During the current biennium, HHSC is reprocurring all components of the electronic process by which food stamps and TANF benefits are provided to clients. Electronic Benefit Transfer (EBT) components include Retailer Management, Central Processing and Call Center Support.

Medicaid/CHIP

Managed Care Expansion

- During FY 2007, HHSC will expand STAR+Plus managed care services for clients who are aged or have disabilities in all urban areas of the state except the Dallas-Fort Worth area where a new integrated care model (ICM) will be implemented. These expansions were required in Article II Special Provisions, Section 49 with a targeted savings of \$109.5 million GR.
- Additionally, the Primary Care Case Management Model (PCCM) is to be eliminated in rural areas of the state during the same time period.

Restoration of CHIP and Medicaid services

- CHIP service restorations during the current biennium include dental, vision care, chiropractic and podiatric services, mental health and other services.
- Certain Medicaid services were restored to adults, which include vision and hearing care, mental health services, and chiropractic and podiatric care.

Other Medicaid Initiatives

- The Medicaid program maintained drug coverage for certain clients who experienced difficulty in acquiring prescriptions during the early implementation of Medicare Part D coverage.
- In January 2007, the primary home care services for children will transfer from DADS to HHSC as directed by the Alberto N lawsuit so that services can be integrated and managed better with other health services.

Office of Inspector General (OIG)

- In December 2005, the OIG initiated criminal history checks of potential and current Medicaid providers.

Budget Request for the 2008-09 Biennium

FY 2006-07 Base Expenditures

The 2006-07 estimated base expenditures total \$29.8 billion in All Funds and \$10.4 billion in state funding. The 2006-07 biennial budget assumes a state-funded supplemental appropriation of \$130.3 million for Medicaid. The biennial shortfall is due primarily to the decision to make "clawback" payments to the federal government with the implementation of federal Part D drug coverage under Medicare in January 2006.

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Lower than expected Medicaid and CHIP caseloads have mitigated the anticipated supplemental appropriation. Current Medicaid caseload projections total 2,770,268 recipients in FY 2006 and 2,820,413 recipients in FY 2007. Current CHIP caseload projections total 309,172 recipients in FY 2006 and 327,012 recipients in FY 2007. Baseline expenditures also assume a \$59.7 million intergovernmental transfer (IGT) in lieu of a rate reduction (estimated at 28 percent) as a part of implementing managed care services for aged, blind, and disabled Medicaid populations pursuant to Section 49 provision in the General Appropriations Act.

#### FY 2008-09 Baseline Request

The baseline request for FY 2008-09 totals \$31.0 billion, of which \$11.1 billion is state funding. This request represents an increase of approximately \$0.7 billion in general revenue, or about 6.8 percent more than is projected to be expended in the 2006-07 biennium. The increase is associated with Medicaid caseload growth that was considered entitlement for baseline request development. However Medicaid costs were required to be held flat at FY 2006 levels. The baseline request also assumes continuation of the IGT associated with the Section 49 provision.

The baseline request assumes a 10 percent reduction in non-entitlement areas from the FY 2006-07 general revenue-related funding level. The GR amount of the biennial reduction totals \$139.3 million with an estimated loss of \$216.6 million in federal funds. The reduction is allocated across all programs and agency administration (including Department of Information Resources' support related to H.B. 1516). The number of FTEs reduced as part of the 10 percent reduction totals 517 annually.

Neither the CHIP Program nor the CHIP Perinatal Program was considered an entitlement program so there was flexibility in applying the 10 percent reduction. Because the Perinatal program is to be implemented for only eight months this biennium (beginning in January 2007), its projected expenditures for the 2008-09 biennium exceeded 2006-07 funding levels. Therefore there is no CHIP Perinatal Program assumed in the 2008-09 baseline request and is restored in an exceptional item request. The remaining CHIP programs are funded in the baseline request at projected caseloads at FY 2008 projected cost levels. CHIP caseloads are projected to increase from 327,012 in FY 2007 to 335,477 recipients in FY 2008 and 339,037 recipients in FY 2009. Medicaid caseloads are projected to increase to 2,937,221 recipients in FY 2008 and to 3,057,937 recipients in FY 2009 and reflect the Medicaid caseload growth associated with the elimination of the CHIP Perinatal Initiative in the baseline request.

The LAR assumes a Medicaid match rate (FMAP) of 60.69 percent in FY 2008 and 60.89 percent in FY 2009. The LAR does not include an anticipated FMAP change due to Hurricane Katrina as Congress authorized an adjustment to Texas's FY 2005 per capita income calculation. This adjustment has yet to be determined but will impact Texas' FMAP for a three year period beginning in FY 2008. The CHIP match rate is 72.48 percent in FY 2008 and 72.62 percent FY 2009.

Average TANF caseloads are anticipated to increase from 189,300 recipients in FY 2007 to 196,802 recipients in FY 2008 and 205,082 recipients in FY 2009, which cannot be met in the baseline request.

In the 2008-09 baseline request the federal TANF maintenance of effort (MOE) requirement is not met due to the base funding reduction. This reduced level of MOE at HHSC could jeopardize the receipt of TANF federal funds unless it is maintained either at HHSC or another state agency.

#### Exceptional Item Requests

In addition to the base request, HHSC is seeking funding for 23 exceptional items totaling \$2.8 billion in general revenue and \$6.8 billion All Funds. Approximately \$1.9 billion GR and \$4.8 billion All Funds are needed to maintain current services in Medicaid, CHIP, and other agency programs and administration.

#### Medicaid Acute Care and CHIP

Almost 60 percent of the exceptional item costs, \$1.8 billion GR would maintain current services and cost projections for the Medicaid and CHIP programs over FY 2006 levels in the base request. The incremental cost to maintain FY 2007 Medicaid costs and utilization over the baseline request totals \$673.0 million GR. An

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additional \$1,091.5 million GR is requested to maintain projections for FY2008-09. Over \$107.0 million is requested to address the Alberto N lawsuit filed in the 1990s against the Medicaid program for program compliance and services, but not provider rate increases.

The incremental cost to maintain current cost projections for the CHIP during FY 2009 totals \$14.7 million. With the restoration of the Perinatal Initiative exceptional item there is a net savings of \$19.7 million general revenue resulting from the GR savings in Medicaid exceeding GR costs in CHIP (due to the better state match in the CHIP program). There is an All Funds net increase of \$158.7 million for the biennium. The caseload impact is an increase of 92,196 recipients in FY 2008 and 101,977 recipients FY 2009 in CHIP and a decrease of 59,269 recipients in FY 2008 and 63,416 recipients FY 2009 in Medicaid.

Other Medicaid related exceptional items would address certain hospital reimbursements, such as restoring the Graduate Medical Education Medicaid reimbursement (\$81 million GR) and providing state funding in lieu of IGTs that were previously provided to avoid a loss of federal funds with a rate reduction from FY 2002-03 (\$52.7 million GR) and with the Section 49 non-recurring IGT during the 2006-07 biennium (\$117 million GR). There is also a request to fund an upper payment limit program for private urban hospitals (\$54 million GR).

This appropriation request includes restorations of the rate reductions implemented in FY 2004-05 for HHS programs administered by HHSC. In addition to the restorations included in this appropriation request, the HHS consolidated budget request will include rate increases for various client services. Rate increases will include funding adjustments consistent with agency rules and/or the current State Plan as approved by the Centers for Medicare and Medicaid Services. The cost to restore rate reductions to FY 2003 levels in Medicaid totals \$232.0 million GR and in CHIP totals \$5.0 million GR and applies to all provider types, hospitals, medical professions, managed care organizations, pharmacists and ambulance.

#### Restore Base Funding

The ten percent reduction is restored to three exceptional items. The restoration of base funding totals \$72.6 million GR and \$178.9 million All Funds. This funding would maintain current operations and services across all programs and administrative areas. A portion of Medicaid contractor costs of \$7.0 million GR is in FY 07 Medicaid costs. The remaining share of the ten percent restoration, \$40.7 million, is included in the CHIP Perinatal Restoration. A total of \$120.3 million GR of the \$139.3 million GR reduction is requested for restoration for the 2008-09 biennium.

#### Other Critical Services and System Improvements

There are other exceptional items with a biennial cost of \$16.3 million GR and \$30.9 million All Funds to request funding to address critical services including \$2 million GR for Family Violence services to an estimated 3,000 women and children each year of the biennium. The Office of Inspector General requests \$6.6 million GR to add 85 FTEs to increase investigation efforts and comply with the Federal Deficit Reduction Act. An additional \$0.9 million GR is requested to impose a national background check on potential Medicaid providers.

Two requests would replace aging vehicles as a part of infrastructure for regions and state schools and state hospitals (\$0.6 million GR), and repair buildings for the safety of employees (\$1.4 million GR). Other requests would address coordinated health services (\$1.2 million GR) and support Food Stamp and TANF caseload growth and related transactions associated the Electronic Benefit Transfer system as well as provide for system migration and implement an integrated benefits card (\$3.6 million GR).

#### Enterprise Exceptional Items

There are several exceptional items requested on behalf of the HHS enterprise – two relate to continuing an initiative implemented this biennium by further reducing waiting and interest lists, one for improving IT systems, and one for improving the retention and recruitment of nurses.

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**Improving Telecommunications and Technological Systems**

This funding request of \$20.9 million GR and \$39.2 million All Funds would support several HHS enterprise initiatives that would improve telecommunications and technological systems and security. Requested state funding represents the state share for all five HHS agencies. Many of these initiatives would fulfill statutory requires or address audit findings. The request would build on-demand information Management and Data Warehouse capability; create a Security Services Center/Forensics Lab to improve the overall security of IT assets; provide a single sign-on for all applications with identity management; acquire software licenses for developing web-based applications; enhance telecommunications by improving voice mail systems and regional office PBXs and streamlining toll-free numbers; and standardize messaging and collaboration technologies across the enterprise.

There is also an enterprise request for federal compliance with HIPAA regulations of \$7.5 million GR.

**Reducing Waiting and Interest Lists**

The first of two requests would address reducing HHS waiting and interest lists by keeping pace with the state's population growth. This request totals \$56.5 million GR and \$93.1 million All Funds. The impact by agency is as follows:

- Department of Aging and Disability Services (DADS): Home and community care waivers, non-Medicaid services, and the In Home & Family Support program. The home and community care waivers include Community Based Alternatives, Community Living Assistance and Support Services, Medically Dependent Children's Program, Consolidated Waiver Program, Deaf-Blind with Multiple Disabilities, Home and Community Based Services, and Texas Home Living.
- Department of Assistive and Rehabilitative Services (DARS): Comprehensive Rehabilitation Services and Independent Living.
- Department of State Health Services (DSHS): Adult Community Mental Health, Child and Adolescent Community Mental Health, and Children with Special Health Care Needs.

The second request would continue the reduction of waiting/interest lists for long-term care programs at the same three agencies. The cost of this request is \$198.2 million GR and \$444.2 million All Funds. The two requests combined would eliminate the lists for programs at DSHS and DARS.

**Nurse Retention and Recruitment**

Additionally there is a request of \$32.0 million GR to improve the retention of nurse positions across the enterprise by increasing nurse salaries by 15 percent and providing an educational stipend and licensure expenses. The majority of the impacted nurses are at the state facilities for mental health and mental retardation at DADS (\$8.7 million GR) and DSHS (\$23.0 million GR) with \$0.3 million GR for nurse positions at HHSC.

**Rider Revisions**

Many riders were revised to update biennial dates. HHSC also proposed revisions to consolidate similar riders and clarify authority and intent while avoiding duplication on reporting. Greater transfer flexibility is needed to manage funds between CHIP and Medicaid as well as other funding outside of HHSC's Goal B appropriations. A proposed revision would provide unexpended balance authority within the biennium for the rest of the agency to provide flexibility in addressing disasters, cost allocation and other issues. Deleted riders pertaining the Medicaid reimbursement would improve the potential for savings in rural areas of the state. Additionally, observing the impact of Hurricane Katrina, the Legislature should consider providing additional funding flexibility (probably in Article IX General Provisions, Sec. 13.13) in addressing disasters as the State is at the greatest risk in the last three months of a biennium after the Legislature has left and there are limited resources available at that point in the biennium.

**Cost Allocation Issues**

The methods of finance reflected in HHSC's LAR are based upon a cost allocation plan first submitted to the federal government prior to H.B. 2292 consolidation and revised subsequently as additional consolidations and decisions were determined. Since FY 2005, HHSC has operated with a cost allocation not yet approved by the

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federal government. Subject to final federal approval, the distribution of costs across the various strategies and methods of finance could change.

Conclusion

Even with implementation of program improvements and progress made in other on-going endeavors, the demand of state resources continues to increase. HHSC recognizes that the rising cost of health care and securing access to that health care for all Texas remains a challenge. Because caseload is the most volatile factor in our projected expenditures, HHSC intends to provide the Legislature and the Governor with updated projections in February 2007 and May 2007. Our work to improve effectiveness and accessibility continues. We look forward to working with you and your staff during the 80th Legislative Session.

Respectfully submitted,

Albert Hawkins  
Executive Commissioner