

Statement of Lowell Arye on the FY 2008 Proposed Budget

I want to thank the Chairman Kenny (Greenwald) and all the members of the Committee for the opportunity to testify today. I am Lowell Arye, Executive Director of the Alliance for the Betterment of Citizens with Disabilities (ABCD). ABCD is a statewide organization representing seventeen member agencies that provide an array of community services to more than 10,000 people with developmental disabilities and their families. ABCD member agencies provide services to a range of individuals with multiple physical disabilities and behavioral challenges. ABCD also created the EI Coalition which is comprised of 14 organizations that provide Early Intervention Services to close to 50% of all children (birth to three years old) and families served in the State.

Crisis for Community Providers and the need for a 4.1% Cost of Providing Care Increase

There is a crisis for provider agencies that imperils the long term care system for people with developmental disabilities. Inadequate funding has affected all agencies, but those who serve people with medically complex needs and/or behavioral challenges, have borne a larger share of the deficits due to the specific needs of the individuals served.

Agencies that provide services to the most medically fragile individuals in the community are not being reimbursed by the Division of Developmental Disabilities (DDD) for the actual costs of services. These agencies are using their fundraising dollars to pay for services and/or are going into significant debt to continue to provide services.

Providers are finding it almost impossible to recruit and retain quality staff, deal with increases in gas prices, liability insurance, workers compensation, and health insurance. In addition, the process by which providers are reimbursed for new admissions from the state is inefficient and laborious, taking as much as 6 months to be reimbursed. For agencies working on small margins this presents significant cash flow problems and is not conducive to keeping agencies viable.

ABCD is a member of the Cost of Providing Care Coalition. The Coalition surveyed providers to better understand the issues faced by community agencies. What we found was that last year, when the budget included a 1% cost of providing care increase, 77.5% of respondents gave staff raises last year of on average 3%, using a combination of the contract increases and their own fundraising efforts. If raises were not given, the contract increase was spent on health benefits for staff or to offset other increased costs of providing services including energy, business and liability insurances, etc.

The survey also focused upon the financial health of organizations. 48% of the respondents have a deficit caused by insufficient state contract funds that covers multiple programs. The average deficit for community provider agencies is 5% of their overall budget. Approximately 14% of agencies reporting a deficit (6 out of 44) have deficits of at least 10% of their budget (several with 15% to 18% of their budget). Some organizations have closed programs, laid off staff, raised funds, reduced the number of clients served, and/or increased waiting lists as means of addressing the deficit.

Actions Needed:

- Include a 4.1% cost of providing care increase in the budget for FY 2008. This increase reflects the Consumer Price Index for Urban Workers (CPI-U) for the Northeast for the first half of the year in calendar year 2006.
- An annualized cost of providing care increase tied to the Consumer Price Index for Urban Workers (CPI-U) for the Northeast.

Need to Reinvest Federal Medicaid Funds into Community Services for People with Developmental Disabilities in New Jersey

In FY' 06, \$141.494 million of federal funds from the Medicaid Community Care Waiver was used by the General Treasury rather than being used in community services for people with developmental disabilities. It is unclear how much of this is constituted from retroactive funds received in earlier years.

According to the FY' 08 Budget in Brief, New Jersey received \$380.149 million in federal funds in FY' 06 from the Medicaid Community Care Waiver. However, the FY'06 budget included language that limited the expenditures of federal funds to \$238.655 million.

In FY' 05, \$9.391 million from the Medicaid waiver was used by the General Treasury rather than being used in community services.

According to the FY'06 Budget in Brief, the State estimated that in FY' 05 \$203.980 million would be netted from the federal waiver. However, there was a supplemental appropriation of \$17.373 million in FY'05 to rectify a federal CCW claiming shortfall. According to FY' 07 Budget in Brief the actual federal funds for FY '05 were \$230.744 million, \$9 million more than previously estimated.

Over the years, Legislative leaders and advocates have raised concerns that New Jersey is not maximizing its federal revenues from the Medicaid Community Care Waiver. In fact, several years ago, the leadership in the Assembly and the Senate, based on initial reports of the State Auditor, expressed their view that additional federal revenues from the current federal waiver for people with developmental disabilities can and should be maximized. Estimates by the leadership ranged from \$18 million to as high as \$65 million in additional federal revenues that could be maximized in the current waiver.

In this time of state fiscal constraints, New Jersey should do everything possible to ensure that all federal funds are maximized by ensuring that all possible services are reimbursed through a federal HCBS waiver.

Action Needed:

- Any federal funds maximized from the Community Care Waiver should be reinvested into community services for people with developmental disabilities.

Need Adequate funding for the Division of Developmental Disabilities (DDD) Community Based-Services

The FY' 08 budget includes \$10 million in additional funding for the Division of Developmental Disabilities (DDD). We understand that these funds, in addition to the \$50 million over three years appropriate last year, will allow for an expansion of day programs for 150 people; Real Life Choices for 150 people; a waiting list initiative to place 124 people over four years; and family support services of about a \$1.1 million. These funds, although appreciated, are not enough to deal with the enormous issues that are faced in the developmental disabilities community. For too long, the DDD has been provided with inadequate funding.

Approximately half of the 3,000 individuals residing the State's Developmental Centers want to and have the right to move into the community. The Supreme Court's Olmstead decision mandated that the State move forward on such a plan. More than 3,683 individuals, living in their parents' home, are on a Priority Waiting List to live in the community. A majority of these individuals are age 40 and older. There are 24,000 individuals receive Family Support services representing approximately 60% of all individuals served by DDD, but who receive only about 8% of the funding for the system.

Governor Corzine signed P.L. 2006, C. 61, mandating the DDD to create a plan with public input, by May 2007, to ensure that within eight years, each resident in a State developmental center expressing a desire to live in the community and whose individual habilitation plan recommends community living is able to live in a community-based setting. Based upon the current funding in the FY' 07 and FY'08 budgets it will take twenty years to move the 1, 500 individuals out of the Developmental Centers.

In the FY' 07 budget, there was an increase in funding for the Division of \$50 million over a three year period. For Family Support, the funds available in each year represented \$1.2 million in year one, and \$1.3 million in FY' 08 and FY' 09. For people on the Waiting List this represented \$6.2 million over the three years. For people moving out the State's Developmental Centers, approximately 180 individuals can move out over the three years, under an Olmstead initiative.

It is imperative that the State begin to fund adequately community-based services for people with developmental disabilities.

Action Needed:

- Begin to address the waiting list by funding an initiative for 10% of individuals to live in the community.
- Ensure that there is \$3 million in funding for Family Support.
- Fund Olmstead initiatives so that over an eight year period all residents who want to move into the community have the opportunity.

Medicaid Co-pays Hurt the Poor

ABCD is a member of the Coalition for a Moral Budget that is concerned about the budget proposals to institute co-pays for Medicaid beneficiaries in the areas of: \$2 a prescription with a cap of \$10 a month; \$3 on outpatient use of hospital services; \$6 on non-emergency use of the ER with a cap of \$12 per month; and \$3 for medical day care.

The budget says that New Jersey is one of only five states which do not have co-pays for Medicaid. Our response is that the 45 states that do have co-pays are wrong.

Health services research has consistently shown that co-payments cause low-income people to forgo health care services, including essential services which can lead to costly consequences such as increased use of emergency rooms.

A study examining the impact of Medicaid drug co-payments policies in thirty-eight states found, that after controlling for other factors, the primary effect of co-payments is to reduce the likelihood that Medicaid beneficiaries fill any prescriptions during the year.

A study in Minnesota found that more than half reported that they had been unable to get their prescription drugs at least once in the past six months because of co-payments of \$3 for brand name drugs and \$1 for generics.

Research found that when Utah imposed small co-payments (\$2 or \$3 per service or prescription); this led to significant reductions in health care access and utilization. Even though the co-payments were “nominal” forty-percent (40%) of beneficiaries reported that it caused “serious” financial hardships.

One study found that higher co-payments led to reductions in patients’ use of drugs for high blood pressure and cholesterol reduction, which can lead to the disease progressing and to more severe consequences such as heart attacks.

Some argue that cost-sharing encourages responsible use of health care services. However, the research does not support this argument.

Two studies by the Urban Institute found that after controlling for health characteristics, people on Medicaid used the same average amount of care as similar individuals with private insurance.

Other research has found that while co-payments lead people to reduce their medical care, they do not necessarily make people “smarter” health care consumers. When co-payments are imposed, patients reduce their use of essential and less-essential services.

Action Needed:

- Eliminate the Co-Payment Budget Proposals.

Early Intervention (EI) Needs a Long Term Financing Plan

ABCD is pleased that the FY'08 budget includes \$17 million in additional funding for Early Intervention (EI). That includes the \$12 million in additional funding for the next fiscal year to allow the program to be whole as well as \$5 million in funds for expected growth in the program and for a 2% cost of living adjustment for reimbursement rates. In addition, for FY' 07 there will be a \$12 million supplemental to deal with the shortfall, including the funds that were expected due to the increased Family Cost Participation but did not arise because of a delay in implementing the cost share.

However, a long term financing plan is needed for the Early Intervention plan that explores all revenue streams to maintain adequate funding. Over the past several years, short-term fixes were necessary to ensure adequate funding, such as the one time transfer of funds in FY '04 from the Catastrophic Illness in Children’s Relief Fund, and a loan from the Material Child Health Block Grant program of \$2.5 million in FY' 06. The federal government assumes that the State uses funds from other streams including Medicaid, private insurance, and the families. Other states use federal Medicaid Home and Community-based Services Waivers to fund their EI programs as well as private insurance. It is imperative that the Department of Health and Senior Services bring together all stakeholders to analyze and propose a financing plan for Early Intervention.

ABCD and the EI Coalition are concerned that providers are not receiving an adequate reimbursement rate for services. According to the Letter of Agreement between Early Intervention providers and the Department of Health and Senior Services, reimbursement rates are supposed to increase every year, effective in January, based upon the Medicare Economic Index. Since the current reimbursement system was implemented in July 2003, rates have increased by 5.92% (including the proposed budget for FY'08) even though the Medicare Economic Index has increased by 12.4% in those same years. We have attached as an appendix charts showing the increases and the actual index as well as what rates should currently be based upon the index.

Action Needed:

- Pass the current budget and the supplemental for FY'07 for Early Intervention;
- Include in the current FY' 08 budget an additional \$3 million to raise the reimbursement rates by 4% (rather than the 2% included in the budget) for EI providers to account for the loss in funds from previous years without rate increases ; and
- Require the Department of Health and Senior Services to have a long term financing plan in place, with stakeholder input, that includes private health insurance, federal waivers, and any other potential funding streams.

Medical Day Care for People with Developmental Disabilities

The FY 2008 budget includes a reduction in inflationary factor by 50% for the reimbursement rate for medical day care providers at a time when providers of services to people with developmental disabilities need higher rates. This reduction is in addition to the proposed co-pays for medical day care that will, in effect, be a cut in the rate because many providers will not receive co-payments from beneficiaries.

People with developmental disabilities, particularly those with physical limitations, require a different kind and level of Medical Day Care support than that provided to the general geriatric population. They require both more staff to provide routine assistance, the assistance of professional specialties on a regular rather than consultative basis, and individualized approaches to managing transportation.

A recent study by the Rutgers Center for State Health Policy on medical day care demonstrates that other States use different staffing levels based upon acuity levels and base, at least in part, the reimbursement rates due to the acuity level.

Action Needed:

- Eliminate the budget proposal that limits the inflationary factor by half for reimbursement rates;
- Determine a reimbursement rate based upon acuity level and the needs of individuals with developmental disabilities.

Appendix Related to Early Intervention Reimbursement Rates

Actual Rate Increase for Early Intervention Providers and Annual Percentage Change in the Medicare Economic Index

State Fiscal Year July 1-June 30	Rates adjusted for Providers*	Medicare Economic Index
2003	Rate set on July 1, 2003	
2004	2.9%	2.9%
2005	0	3.1
2006	1.02% **	2.2
2007	0	2.0
2008	2% (in proposed budget)	2.2 (estimate)
Average	1.18	2.48
Cumulative	5.92	12.4

* Hourly reimbursement rates are supposed to be adjusted annually, according to the Letter of Agreement between providers and the Department of Health and Senior Services, effective January 1, using the Medicare Economic Index (based upon 1st quarter of calendar year)

** Providers received a \$0.88 per hour increase in October 2005 due to increased gas prices. The average increase for all individual practitioners was 1.02%.

Early Intervention Rate Structure in the Community for Practitioners by Current Rates and those that should be in effect based upon the Letter of Agreement with Providers

Practitioner Category	Current Hourly Rates (Effective October 2005)	Hourly Rates in January 2006 based upon the Medicare Economic Index	Hourly Rates in January 2007 based upon the Medicare Economic Index
Early Intervention Specialist	\$ 92.24	\$ 96.24	\$ 98.16
Paraprofessional	\$ 62.88	\$ 65.30	\$ 66.61
Physician	\$140.08	\$146.61	\$149.55
Therapist	\$108.56	\$113.55	\$115.82

Early Intervention Rate Structure in the Community for Practitioners by Current Rates and those that will be in effect based the Governor's FY 2008 Budget

Practitioner Category	Current Hourly Rates (Effective October 2005)	Hourly Rates in January 2008 based upon 2% in the Governor's Budget
Early Intervention Specialist	\$ 92.24	\$ 94.08
Paraprofessional	\$ 62.88	\$ 64.13
Physician	\$140.08	\$142.88
Therapist	\$108.56	\$110.73