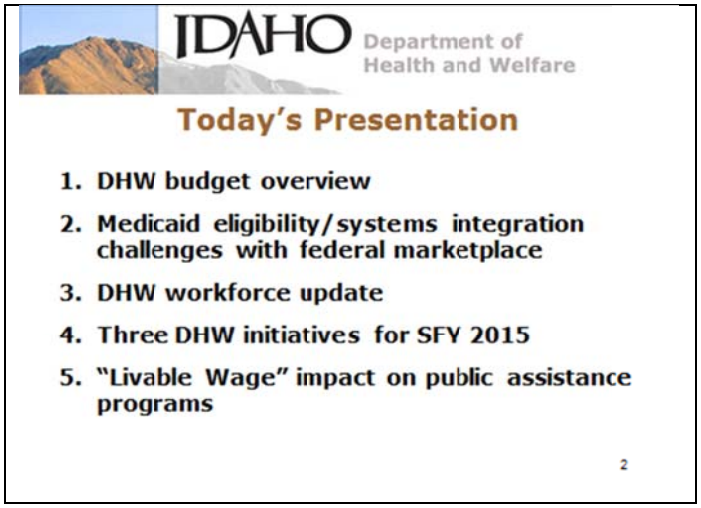
Mr. Chairman, members of the committee, good morning.

Today, I will present the budget requests for the Department Health and Welfare. I think you will find the recommendations this year add up to a maintenance budget, with less than a 2% overall increase.

Today, I will cover these five topics and then answer any questions you may have.



I will start with a brief overview of our budget recommendation.

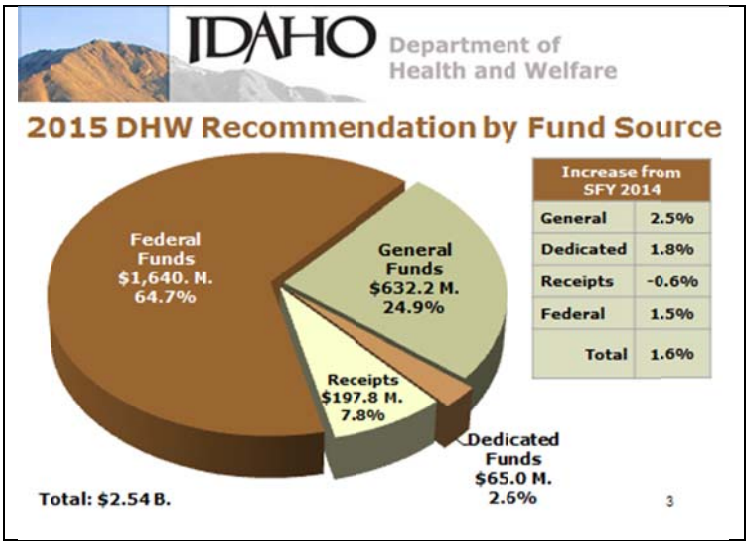
Next, I will explain the challenges we are facing in efforts to integrate the Medicaid eligibility system with the federally facilitated marketplace.

Third, our workforce has been under tremendous strain since the recession took hold in 2008. As the economy recovers, there are an increasing number of good job opportunities luring staff away. Our people are our most important asset….. our most important investment….. who we cannot afford to lose.

I also will introduce you to three initiatives that could significantly improve the lives of Idaho citizens in the years to come. Two of them are financed almost entirely by the federal government—the third has overwhelming public support.

Finally, we experienced a concerning increase in public assistance program enrollees over these last five years. Now, as the economy recovers, there is an expectation among all of us that those numbers should go back to pre-recession levels. But it's going to be a challenge, a challenge I think you can help address.

Let's start with our overall budget recommendation. As I mentioned, this is a maintenance budget, with a total increase of 1.6% from last year.

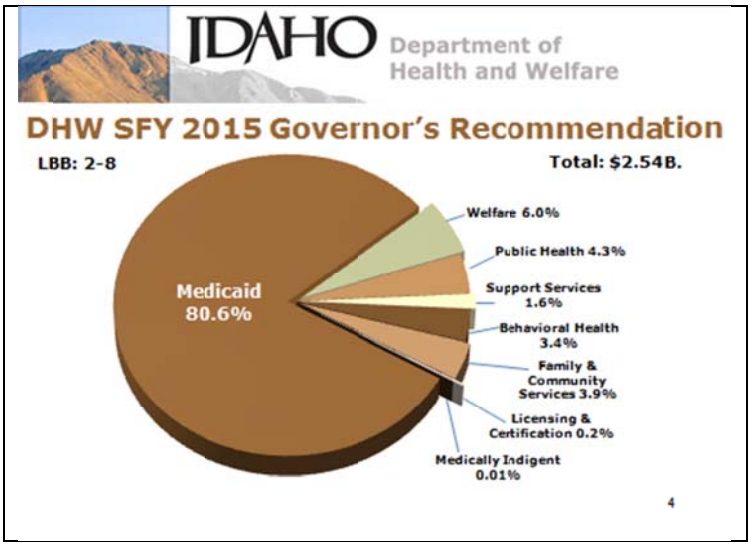


Increase from SFY 2014	
General	2.5%
Dedicated	1.8%
Receipts	-0.6%
Federal	1.5%
Total	1.6%

You will notice we had a slight increase in general funds and a decrease in receipts. The main driver here is a reduction in pharmacy receipts in our Medicaid program—many of the brand name drugs are transitioning to generic drugs, which are preferred in Medicaid.

However, we do not receive rebates on generics. The slight increase in general funds is necessary to replace the loss of receipts.

You've seen this slide before. I call it my Pac-man slide. There were years that our Medicaid Pac-man had an appetite that we were all uncomfortable with as we tried to preserve this safety net without breaking the bank.



But this year is different. This is the first year in recent memory I have shown this slide in which the Medicaid percentage actually declined—and that is huge.

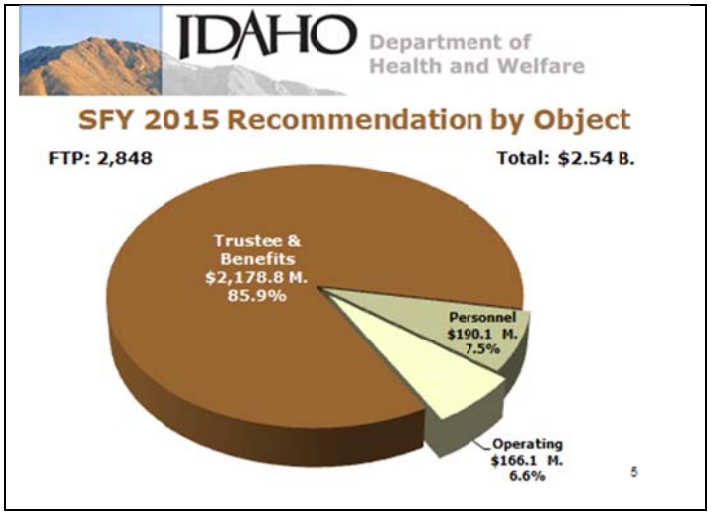
Last year, Medicaid was 81.4% of our budget. We have seemed to turn a corner—no longer does the Medicaid budget look totally out of control and unsustainable—gobbling up general fund dollars that are desperately needed elsewhere.

All the efforts we have made over the years are starting to see results—the Molina Medicaid claims payment system is adjudicating claims extremely accurately, saving millions.

The managed care efforts in transportation and dental care have been very successful. The new contract for managed care in mental health and substance abuse services implemented in September had a few bumps, but it is beginning to show promise.

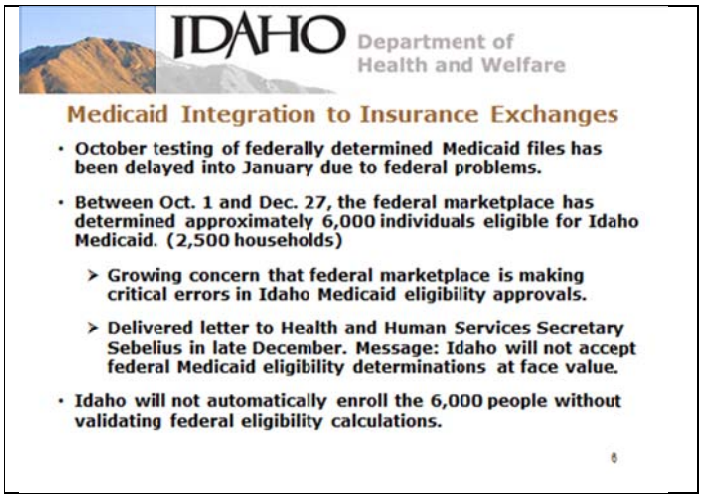
Paul Leary will present the Medicaid budget recommendation tomorrow and provide better detail. But I want to say that in the eight years I have presented in front of this committee, things are looking better with Medicaid as we utilize more health management tools.

This is the last budget slide, which I think very plainly shows that most of the money appropriated to our agency is paid directly out to Idaho citizens and healthcare and social service providers.



The recommendation includes 2,848 full-time positions, which is down 270 positions from the 3,119 we had in 2008, before the recession began.

Possibly one of the most frustrating challenges we face today concerns the Affordable Care Act. Since Idaho's State Based Marketplace is not yet functional, Idaho consumers currently apply for a tax credit and shop for private insurance through the Federal Marketplace.



This means that the Department must electronically share data with the Federal Marketplace through what we refer to as Account Transfers.

Idaho delegated authority to the Federal Marketplace to make eligibility decisions for Medicaid when someone applies for a tax credit but ends up being Medicaid eligible.

To make this possible, the Department provided Idaho Medicaid eligibility rules to the Federal Marketplace, so that when people began applying for insurance coverage through the exchange last October, the feds could accurately determine if they were eligible for Idaho Medicaid.

We agreed at the time to accept the federal determinations for Idaho Medicaid and automatically enroll them for January 1st coverage, based on their assurance they would accurately calculate Idaho Medicaid eligibility. We were told that we would receive test files in October that could be used to verify the federal eligibility determinations for Idaho Medicaid.

Well, we know how the federal rollout of the Affordable Care Act has gone. Because of the problems they were having, we did not receive the promised Medicaid test files. But, we did begin getting calls from citizens who were told by the Federal Marketplace they were eligible for Idaho Medicaid.

These callers were questioning the federal decision based on their higher incomes. As we looked into it further, they appear to be right in questioning the federal eligibility determinations.

Now remember, the people the feds are determining eligible for Medicaid are supposed to be people who qualify, but have never applied in the past.

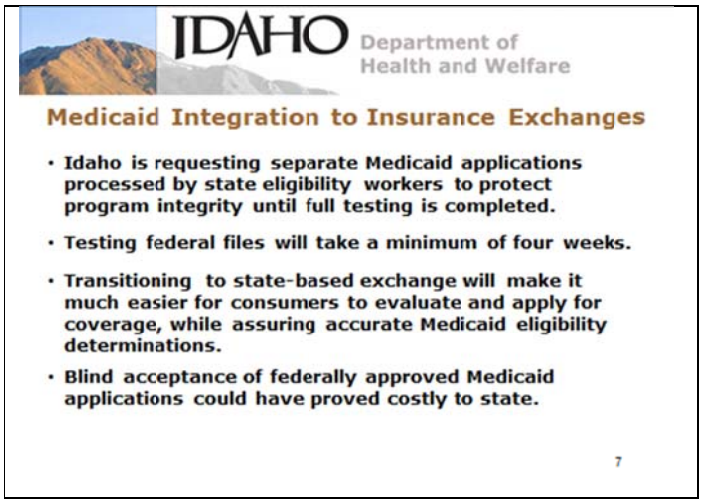
With the mandate to have insurance, we are expecting up to 35,000 people, mostly children, to come out of the “woodwork” and enroll in Idaho Medicaid. We have referred to this group as the woodwork group in past discussions with you.

The cost for covering these additional enrollees is the same as anyone else in Medicaid, about a 70/30 split with the feds. There is no enhanced funding available for this woodwork group.

When we still had not received any test files by late November, we started pushing back. As things progressed past mid-December, and still no test files, I sent Secretary Sebelius a letter. I told her we will not accept federal Medicaid determinations at face value come January 1.

The integrity of the program is too important to blindly accept people into the program when we have had no opportunity to validate federal decisions.

Instead, we began moving forward with our own plan. We did receive a list from the feds identifying the people they had approved for Medicaid.



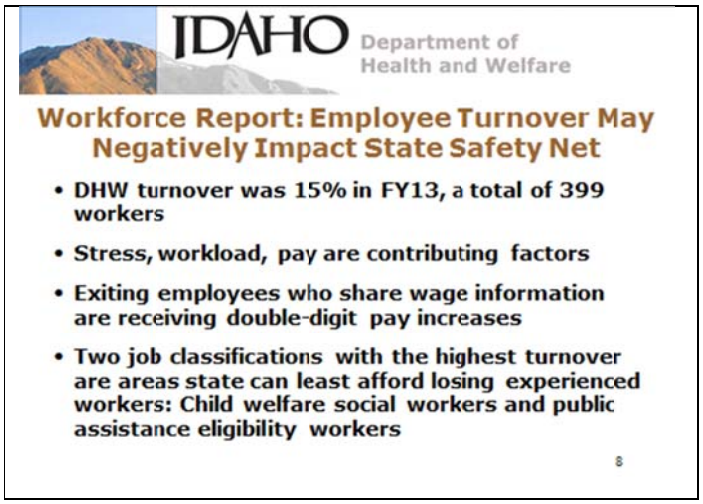
There were about 6,000 people from 2,500 households. Beginning in early January, we began mailing them Medicaid applications with pre-paid return envelopes, and asked them to submit the applications to us as soon as possible.

We developed a small team of eligibility workers who will expedite these applications and determine eligibility within one to two days. We know this must be terribly frustrating for people, and for our own workers, but we have to get this right or it is going to become an even greater quagmire.

Hopefully, this will all be temporary. We began receiving production quality test files last week. We estimate it is going to take four weeks to thoroughly test and identify any accuracy issues so they can be fixed.

For the long-term, transitioning to a state-based exchange should solve many of these issues. We will integrate our Medicaid rules engine into the state exchange for accurate, timely determinations. We are very eager for that day to come.

Next, I would like to provide a workforce update.



Many people come to work for our agency because they believe in public service and the mission of our department. We conducted an employee survey last fall, and the highest scoring of 58 questions was for "My work is important to me personally." 89% of DHW employees responded favorably to that statement.

But the survey also showed that high workload, stress and pay are serious workforce issues. In exit interviews of employees leaving to work in the private sector, the vast majority report double-digit pay increases. Even though people are passionate about their work at DHW, we cannot expect to keep them with this huge pay differential, coupled with lower stress work environments and more reasonable workloads.

The recession precipitated a fundamental shift in our workforce. We reorganized and consolidated positions, with many people taking on additional responsibilities. We hubbed many management positions, reducing higher paying jobs so we could hire additional workers onto the frontlines. To this day, we continue to strategically shift and fill positions to meet the demands of the day, as we try to deal with the continued and changing high workloads.

But for everything our employees have gone through, we have not been able to do much for them in return. It is getting to the point that I worry that our safety net programs are not going to be quite as safe. We are losing experienced, high-performing workers.

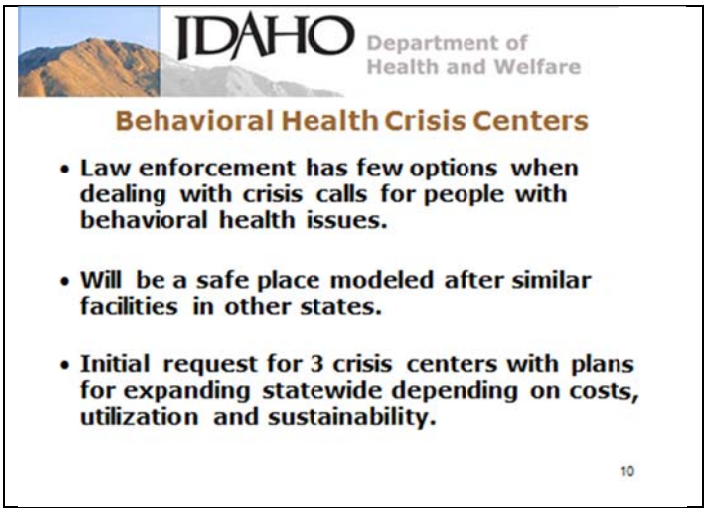
The two areas we are experiencing the greatest turnover are areas we can least afford it—eligibility workers and child protection social workers. The applications and redeterminations for public assistance services remains high, coupled with an expected influx of Medicaid applications due to the Affordable Care Act. Our Child Welfare social workers have one of the most

difficult jobs imaginable, so pay issues, high workloads and stress only contribute to their high turnover rate.

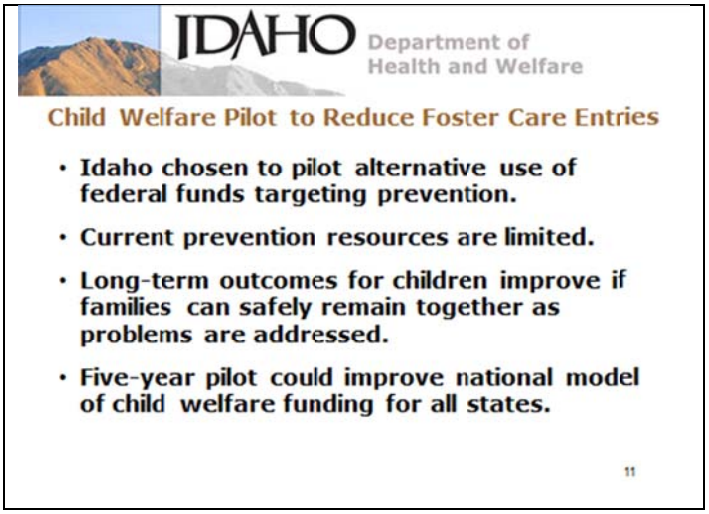
I know the CEC Committee unanimously passed a recommendation for a state employee raise on Friday. As I said earlier, our employees are our most valuable asset and they would greatly appreciate your serious consideration of that proposal.

I am going to briefly touch on three initiatives that can have a lasting impact for Idaho citizens. You will hear more about these throughout the week from our Division Administrators.

The first, the behavioral health community crisis centers, was mentioned by Gov. Otter in his State of the State. The concept is modeled after successful crisis centers in other states for people with behavioral health disorders. The goal is to reduce incarcerations and hospital ER use, both of which are used inappropriately because there are few alternatives for law enforcement answering behavioral health crisis calls. With this initial request, we would pilot three crisis centers in the state with plans to expand to seven based on success and costs.



The IV-E pilot is a five year program that is federally funded and could shape the national child welfare model. Currently, federal IV-E funds are available for states when a child enters foster care. The more children in care, the more federal funds a state receives.



But what if states are allowed to use this funding to prevent children from coming into care? Frequently when we go out on a child welfare referral, a child may still be safe with their family, but there may be serious issues that need to be addressed before family situations spiral out-of-control. Currently, there are very limited resources to provide intensive in-home services to prevent foster care placements.

With this pilot, the federal government is going to allow us to use the funding for specific in-home, preventive services through a waiver. Our goal is to prevent foster care placements that could be avoided, which we believe will result in improved, long-term outcomes for Idaho children. Like I said, if this proves successful, we could see a change at the national level for child welfare funding for all states.

Finally, the State Healthcare Innovation Plan, or SHIP as we call it, is really starting to pick up momentum in the healthcare field. This is not a DHW program—the federal funding for the planning grant flowed through our agency and we have a keen interest because Medicaid will benefit. But it really is a partnership with healthcare providers, insurers and participants to transform the healthcare model from one that pays for the number of services provided, to one that pays to

oversee patients' healthcare needs within a medical neighborhood, focused on improving patient outcomes.

Dr. Ted Epperly, a Boise area physician, gave a great presentation about the SHIP concept to the state healthcare task force meeting in early December that some of you attended. Dr. Epperly used an analogy of a basketball team to explain the SHIP concept. If we pay each player on the team for the number of shots they take, there is no incentive to play as a team. The five best players in the world are going to lose every time to less-talented players who work together. With SHIP, a primary care physician oversees all of the services provided to their patients in a medical home model, engaging specialists and other providers when necessary. All healthcare providers use electronic health records so there is no duplication of services, while also focusing the providers on improving a patient's health. SHIP also collects treatment and outcome data to identify best practices and encourage the most effective care for healthcare providers. Paul Leary also will provide more information to you on the SHIP initiative tomorrow.

Next, I've had a number of discussions with several legislators these last few years about the high number of people on public assistance. Some have voiced a genuine concern that Idaho is becoming a welfare state.

IDAHO Department of Health and Welfare

Public Assistance Program Participation 2001-2013

Year	Total Population	Cash Assistance	Medicaid	Food Stamps	Child Care	Unduplicated Total
2001	1,293,953	12,799 1.0%	133,745 10.3%	59,601 4.6%	9,785 0.8%	NA
2003	1,341,131	14,715 1.1%	156,965 11.7%	84,066 6.3%	8,600 0.6%	179,901 13.4%
2005	1,393,262	15,869 1.1%	170,839 12.3%	94,956 6.8%	9,158 0.7%	197,240 14.2%
2007	1,466,465	15,640 1.1%	184,508 12.6%	86,946 5.9%	6,923 0.5%	205,396 14.0%
2009	1,523,816	16,633 1.1%	199,887 13.1%	146,516 9.6%	6,011 0.4%	245,123 16.1%
2011	1,567,582	17,410 1.1%	230,081 14.7%	234,763 15.0%	6,092 0.4%	321,403 20.5%
2013	1,595,728	18,343* 1.1%	247,964 15.5%	226,960 14.2%	6,688 0.4%	321,695** 20.2%

*98.5% of cash assistance goes to the elderly, disabled, blind, or children being raised by relatives. Four of five recipients receive a monthly payment of $53.
**Counts are taken on June 30th, the last day of each fiscal year.

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In this chart, we look at the enrollment of four public assistance programs over the last dozen years. It shows the percentage of Idaho citizens receiving public assistance benefits, along with the trend.

The first assistance program on the chart is for cash assistance. Over 98% of cash assistance goes to people who are elderly, blind, disabled, or children who are being raised by a grandparent or other relative. The vast majority of people on cash assistance receive an average payment of $53/month.

It is very difficult for an able-bodied, working age adult to qualify for cash assistance in Idaho. Out of the 18,300 people receiving a cash benefit, only 270 are able-bodied, working age adults. These are adults with children in the household. Working age adults without children are not eligible for cash assistance in Idaho. For able-bodied adults who qualify, there are strict requirements to participate in work services or they are dropped from the program. And on top of that, there is a 24-month lifetime limit for the benefit.

The next column shows Medicaid enrollments, which have increased from 10% of the population to 15% over the last dozen years. Our biggest growth in Medicaid has been low income children.

Food Stamps are probably the most-discussed benefit when it comes to public assistance. Idaho had traditionally seen a low percentage of enrollees until the recession hit. Before the recession, people who would have qualified for food stamps did not apply because they seemed to get by with help from their communities, churches or families. Some of those resources have undoubtedly dried up with the recession because Idaho is now just below the national enrollment for Food Stamps.

Child care assistance is the last service on this chart, and the only one that has experienced a decline. We attribute this mostly to the fact that the number of jobs have decreased. If you are not working, you don't need child care.

Finally, the numbers on the right show us that DHW is serving over 20% of the state's population in these four programs, up from 13% a decade ago. I think this is what the growing concern is about. At first blush, the numbers may seem to indicate a growing dependence on government welfare.

Let's evaluate Idaho's welfare programs. The CATO Institute published a report last August that placed a value on welfare benefits available by state. This is a follow-up to a similar study it did in 1995. Its evaluation was for a family of one adult and two children, which it defines as the typical welfare family. The point was to show that in some states, you can earn as much on welfare as working a full-time job.

IDAHO Department of Health and Welfare

CATO Report: Work vs. Welfare Tradeoff 2013

Ranks states by the total level of public assistance benefits available to "a typical welfare family" defined as a single parent household with two children.

Highest Welfare Benefits by State		
State	Annual Equivalent	Hourly Equivalent
1. Hawaii	$60,590	$29.13
2. Massachusetts	$50,540	$24.30
3. Connecticut	$44,370	$21.33
4. New York	$43,700	$21.01
5. New Jersey	$43,450	$20.89

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This chart shows the welfare benefits available in the top five states of their study. On the next slide, it shows the lowest five.

As you can see, Idaho is the lowest, with the total benefit package adding up to $5.36 an hour for a full time worker. The median state was Alaska, at $12.69/hour, which is still more than double that of Idaho.

IDAHO Department of Health and Welfare

CATO Report: Work vs. Welfare Tradeoff 2013

Lowest Welfare Benefits by State		
State	Annual Equivalent	Hourly Equivalent
46. Texas	$12,550	$6.03
47. Arkansas	$12,230	$5.88
48. Tennessee	$12,120	$5.83
49. Mississippi	$11,830	$5.69
50. Idaho	$11,150	$5.36

- **In same report, CATO ranks Idaho #1 for the highest % of adult TANF recipients participating in work activities, 88%.**
- **"Other states should learn from Idaho," Michael Tanner, co-author of CATO report.**

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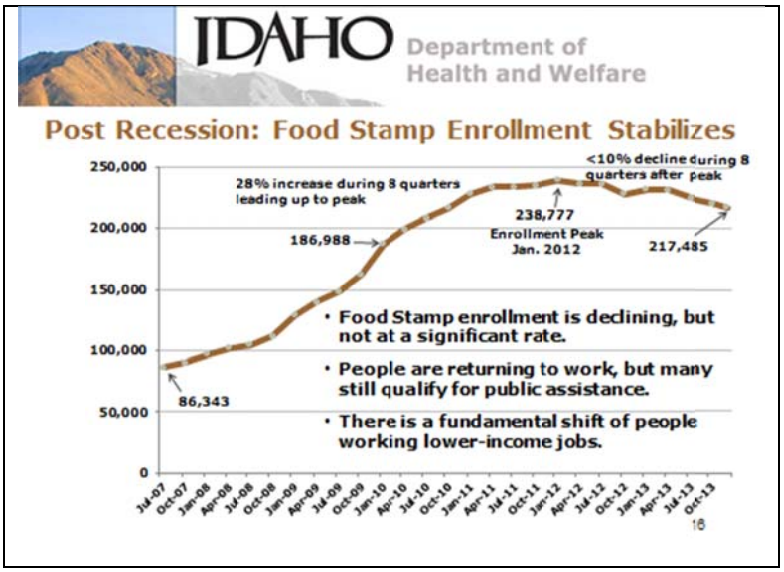
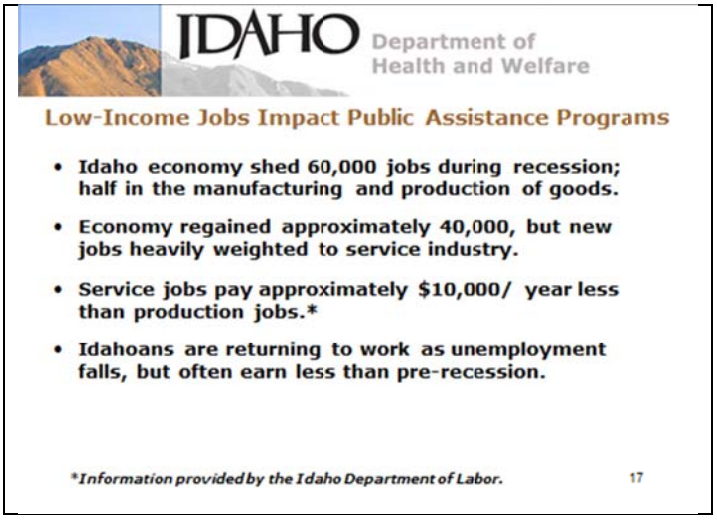
Coming in last for this report proves that no one can live as a welfare king or queen in Idaho. But there was one measure in the same report that shows us as being number one in the nation. This is for the percentage of adults receiving TANF benefits who participate in work activities. This measure, along with the low amount of benefits available, shows very plainly that Idaho is not a welfare state. If you are an able-bodied adult receiving public assistance, you have to take part in work-search or job-training activities. In fact, the co-author of the CATO report told the Idaho Statesman that "Other states should learn from Idaho."

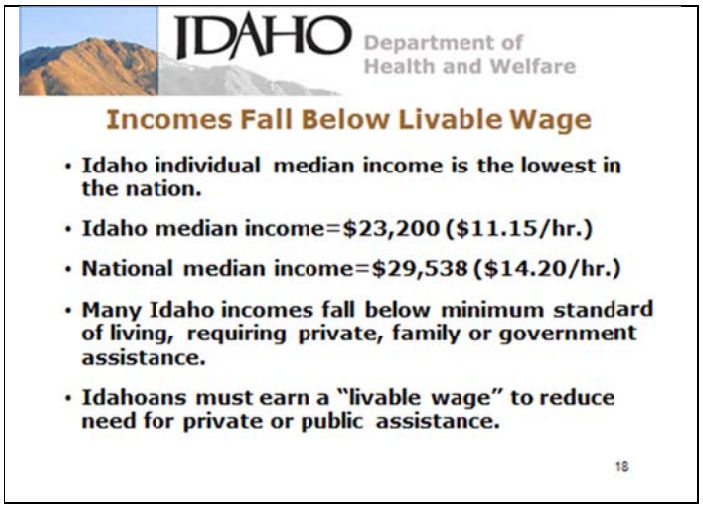
Now let's look at the Food Stamp program and its growth. Food Stamp enrollments peaked in January 2012, exactly two years ago. During the two years since, Idaho experienced a 9.8% reduction in caseload. But you can see from this line, the decline does not mirror the increase—it is going down but not at the rate many would like. We know that people are returning to work, but they still qualify for food stamp benefits. The reason—their new jobs do not pay as much as they were earning prior to the recession. Their monthly benefit amount is lower, but their incomes are still below 130% of poverty, which qualifies them for the program.



The Idaho Department of Labor shared some interesting data with us as we analyzed the high numbers of working people who continue qualifying for public assistance. From that we learned there has been a fundamental shift in jobs. During the recession, 60,000 jobs were lost, with half in goods production. This would include higher paying construction and manufacturing jobs. We have regained 40,000 jobs; however, they are heavily weighted to the service industry, which pays an average of about $10,000 a year less. This is quickly becoming our new reality—people are working, but not earning as much.



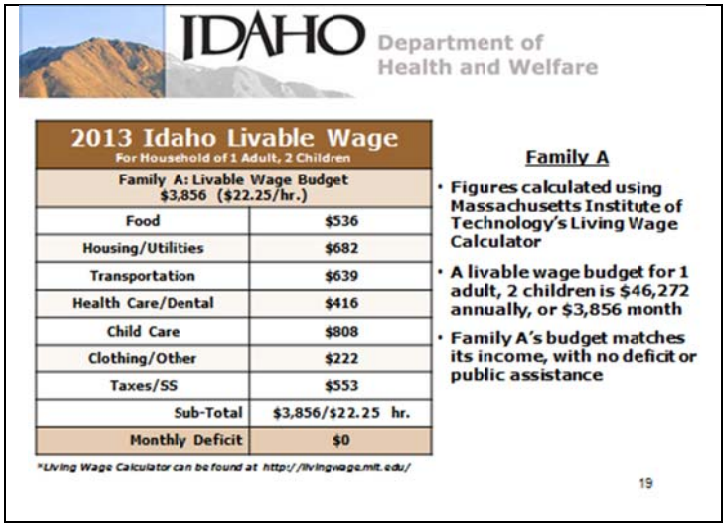
This is probably most evident if you look at Idaho's individual median income. The individual median income is the point at which half of the people in the state earn more than the median, and half earn less.



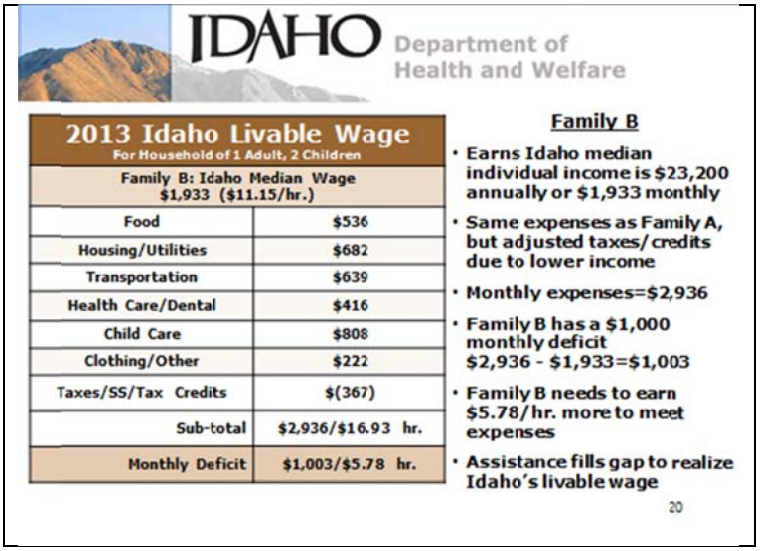
Idaho's median income is the lowest in the nation, at $23,200/year. For a full-time worker, that's $11.15 an hour. We have become a low-wage state, whether we like it or not. But this is our dilemma—if people are working as hard as ever, but they don't earn enough to make ends meet, what do they do?

It is easy to say go get a better paying job. But if the better paying jobs have four applicants for every opening, that means three do not get the higher paying job. Or in rural communities, if there are a limited number of higher paying jobs, what can aspiring workers do? I think the answer comes from assistance—whether it's from other family members, their church, a charitable organization, a community action agency or the Department of Health and Welfare. They need help in filling in the gaps while they learn new job skills to qualify for a better paying job.

This brings us to the concept of a livable wage. This chart shows figures from an online living wage calculator developed by the Massachusetts Institute of Technology, or MIT. The figures estimate basic living costs for Cato's typical welfare family—a household with one adult and two children. You can take your own experience and adjust individual items up or down, but on the whole it appears to be a valid tool.



You can see that without any assistance, the single parent would need to earn $22/hour at their job to make ends meet.



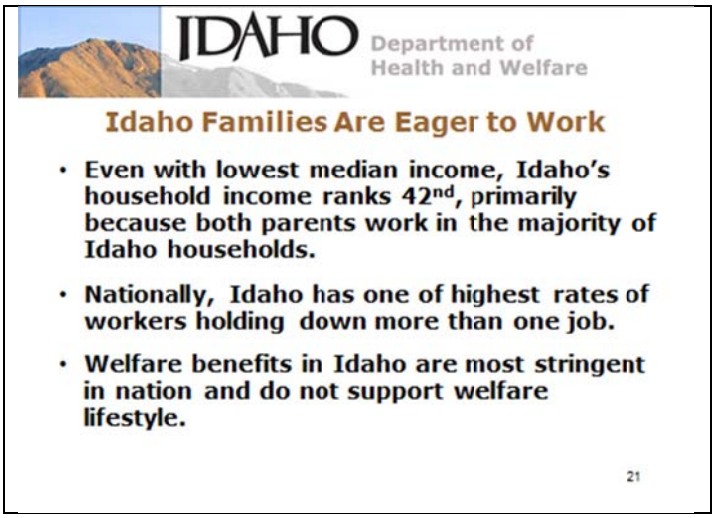
But if the parent only earns the median Idaho income of $11.15/hour, how does the family get by? Here are the same figures from the previous slide for living expenses, except for the taxes, social security and tax credits. A single parent making $23,200 will receive earned income and child care tax credits that offset taxes owed. They actually receive a refund. We adjusted the slide to update the taxes column for this family.

So now we see that the family has about $2,900 in monthly expenses, but is only earning the median income of $1,900. How are they going to get by? The parent needs to earn an additional $5.78 an hour to bridge the gap between their wage and a livable wage.

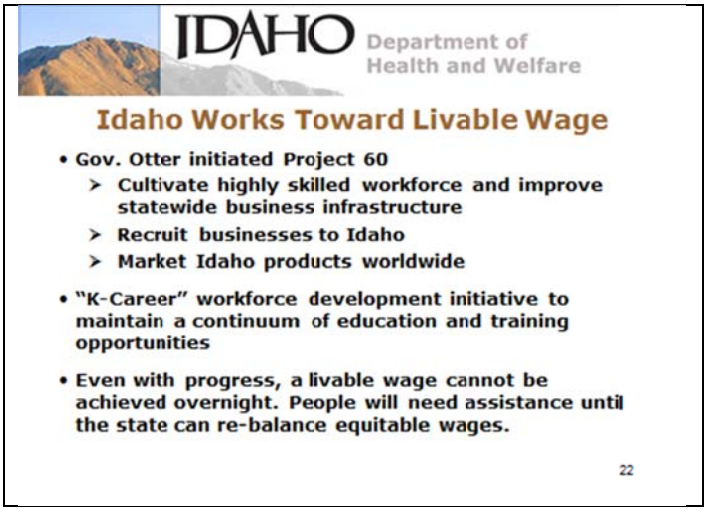
If we go back to the CATO report, this Idaho family can access approximately $5.35/hr. in public assistance benefits in the form of Food Stamps, Medicaid and child care assistance. Those numbers are fairly accurate. If you plug in that $5.35, the family is close to a livable wage. They are probably going to make ends meet. But if you take away any of those supports, they begin to struggle with daily living expenses.

What concerns me is the fact that we have 121,000 households in Idaho with collective incomes below the $23,200 median wage. These are Idaho families who are probably going to need some supports to get by.

I don't think Idahoans lack a strong work ethic. We may have the lowest individual median income, but in 62% of our households, both parents work. We also have one of the highest rates in the nation of workers holding down more than one job. And we know Idaho's public assistance benefits are among the most meager in the nation. The issue is our workers lack the opportunities to earn a livable wage.

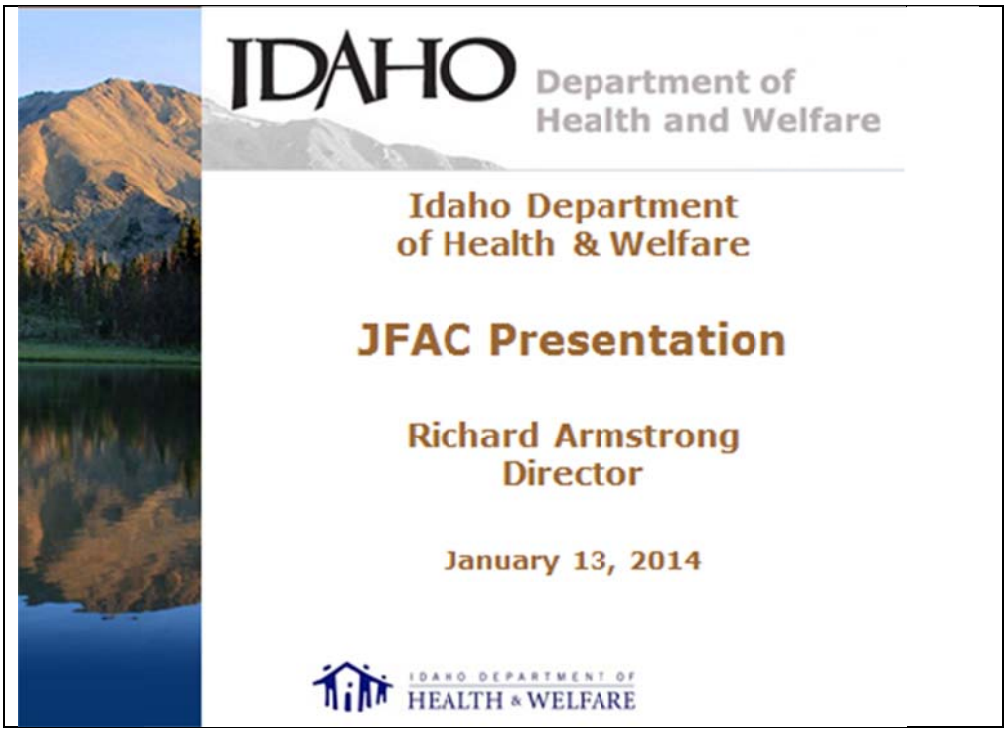


I don't have all the answers or policy recommendations to solve this. I wish I knew someone who did. When similar income figures were presented two weeks ago to the Idaho Economic Outlook and Revenue Assessment Committee, it generated quite of bit of discussion about improving education.



Gov. Otter's Project 60 has many of the ingredients for fostering business growth. And his K through Career workforce development initiative provides a fresh and unique approach for maintaining a vibrant workforce.

Although I don't have the answers, I do know that until we improve wages we are going to see high utilization of public assistance programs. Those numbers went up quickly over the last six years, but it is going to be a long haul to bring them back down. Our public assistance programs are not to blame for the increased use. There are about as lean as we can make them. And our citizens are not to blame—they are out there working, trying to be self-sufficient.

The answer lies in policies to improve wages, work opportunities and education. When we can do that, the high utilization of public assistance services will take care of itself.

That concludes my presentation; I will now stand for questions.