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# FISCAL YEAR 2020 JFC BUDGET HEARING



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CABINET SECRETARY

DEPARTMENT OF HEALTH AND SOCIAL SERVICES  
February 19, 2019  
JFC Hearing Room

Good Morning, Representative Johnson, Senator McDowell, members of the Joint Finance Committee and members of the public. I especially welcome the new members of the committee, and I look forward to helping you learn about the services we provide as one of the largest agencies in state government.

I am Dr. Kara Odom Walker, Cabinet Secretary for the Department of Health and Social Services (DHSS). With me today is Deputy Secretary Molly Magarik and my leadership team. For me, one of the greatest honors of my career is to work alongside my division leadership in service of the people of Delaware.

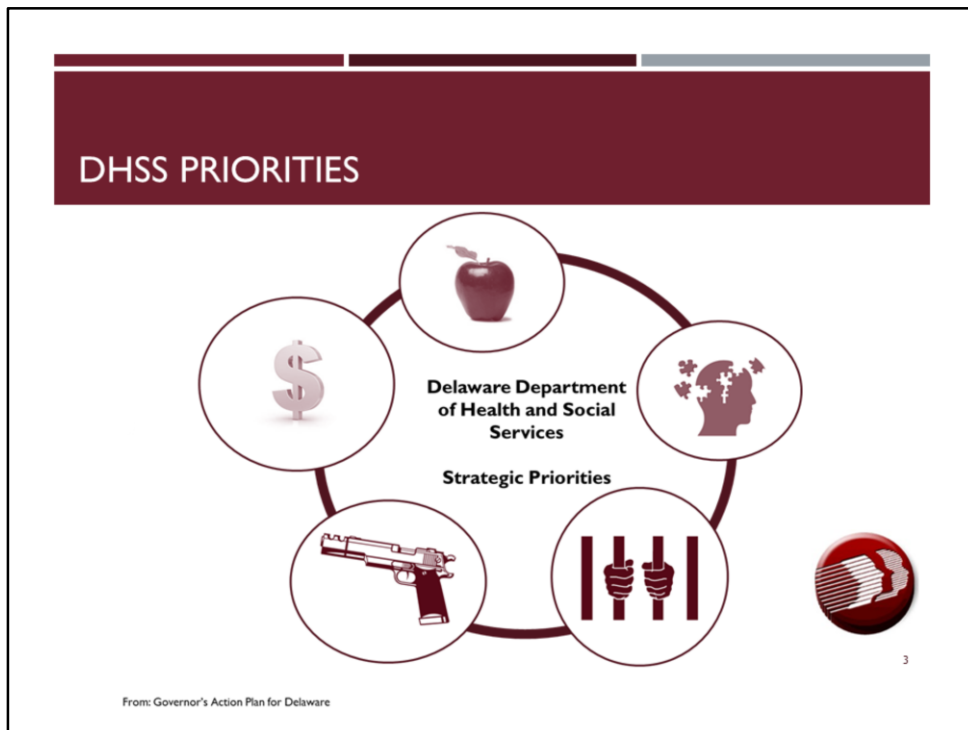
Over the next three days, you will hear from members of my leadership team. They represent this department, our personnel and, most importantly, our constituents.

Thank you for the opportunity to speak with you today and to present our accomplishments and Fiscal Year (FY) 2020 Governor's Recommended Budget.



While DHSS is a large and complex agency, we never forget that the work we do has a profound and personal impact on the hundreds of thousands of people we serve each day. Through our 11 divisions and the Office of the Secretary, we touch many lives – from newborns filled with so much promise, to seniors aging safely and with dignity, to people with disabilities working and living as inclusive members of our communities. As a Department, we are committed to a person-centered mission:

***To improve the quality of life for Delaware’s citizens by promoting good health and well-being, fostering self-sufficiency, and protecting vulnerable populations.***



Using both Governor Carney’s Action Plan and our budget process, we are focusing our work to address the state’s highest priorities.

One of the most important is transforming our health care system to improve care delivery and health outcomes for Delawareans, while slowing the rate of growth of health care spending and allowing state government to meet other important investment needs. I will go into much greater detail on the health care spending and quality benchmarks in just a few minutes.

In terms of the addiction crisis, we lost 345 people in Delaware to overdoses in 2017 and expect that heartbreaking number to surpass 400 deaths for 2018. This is the public health crisis of our generation, with thousands of Delawareans and their families continuing to be impacted by this chronic brain disease. Unfortunately, with the increased use of fentanyl – an opioid that is 50 to 100 times stronger than heroin – the losses are overwhelmingly painful.

Across state government, we are responding on many fronts. In a few minutes, I will provide a broad look at DHSS’ response and – over the next three days – members of my leadership team will go into much greater detail.

Our other priorities include working to help incarcerated and transitioning citizens succeed in finding jobs, reestablishing themselves in the community and providing them with free personal financial coaching.

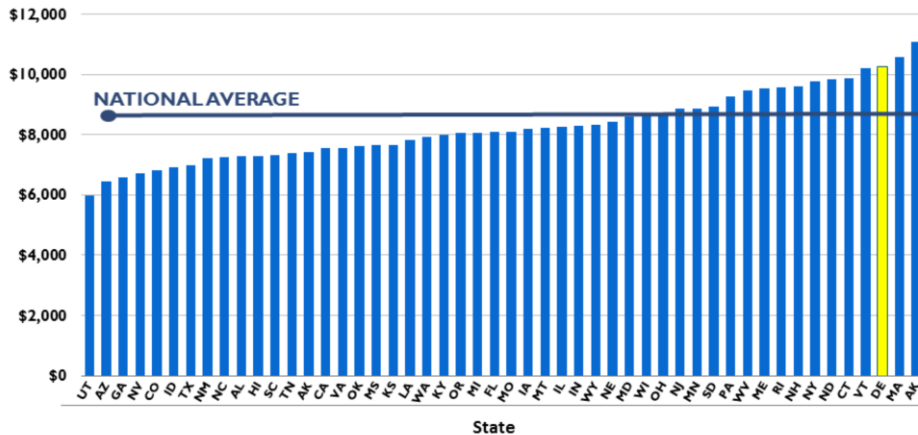
In the City of Wilmington, we are working to reduce and prevent gun violence by providing more employment and training opportunities, training our staff to be trauma-informed, embracing ways to share data across systems and working to integrate and coordinate services for vulnerable individuals and their families.



First, let me talk about the importance to our state – and the people of Delaware – of the health care spending and quality benchmarks.

## DELAWARE SPENDS MORE ON HEALTH CARE THAN MOST OTHER STATES

PER CAPITA PERSONAL HEALTH CARE EXPENDITURES, 2014

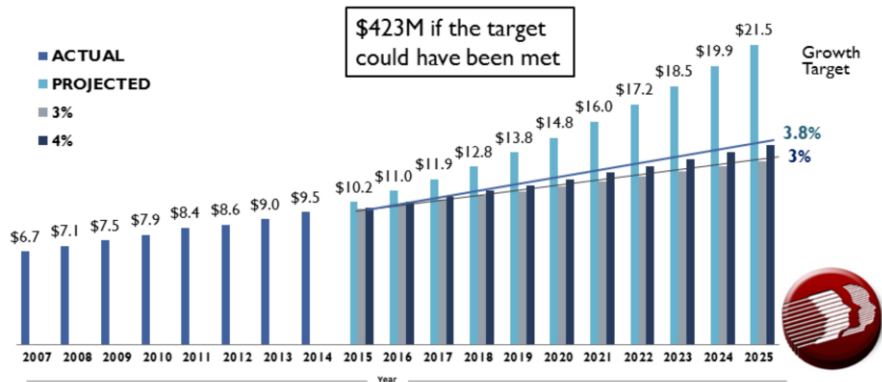


NOTE: District of Columbia is not included.  
 SOURCE: Centers for Medicare & Medicaid Services, *Health Expenditures by State of Residence*, CMS, 2017.

Delaware spends more per-capita on health care than all but two states – Alaska and Massachusetts. In a federal analysis of 2014 health care spending – the latest year available – Delaware’s per capita spending was 27% higher than the U.S. average. Despite this investment – and while the population health of Delawareans has been improving – we still ranked 31<sup>st</sup> among the states for overall health in 2018.

## DELAWARE'S TOTAL HEALTH SPENDING WILL DOUBLE FROM 2014 TO 2025

DELAWARE'S ACTUAL AND PROJECTED PERSONAL HEALTH CARE EXPENDITURES, 2007-2025  
(BILLIONS OF DOLLARS)



SOURCE: Centers for Medicare & Medicaid Services, *Health Expenditures by State of Residence*, CMS, 2017.

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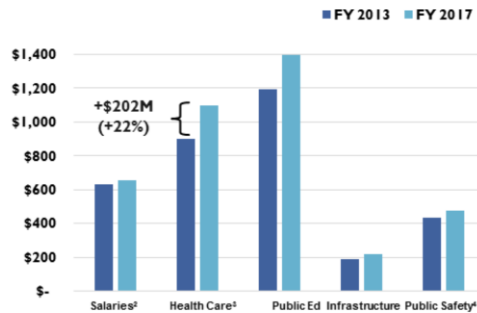
This work is important, not only for our Department budget, but also for the entire state budget – and for the economic future of our state. Without changes, the analysis by the Centers for Medicare and Medicaid Services (CMS) estimated that Delaware's total health care spending – including commercial, Medicaid, Medicare and other insurers – would more than double from \$9.5 billion in 2014 to \$21.5 billion in 2025. The status quo is not acceptable.

Based on this projected growth, if our per-capita spending had been more in line with state revenue, our health care expenditures across the spectrum could have been reduced by \$423 million.

The health care spending benchmark can help us slow that growth in spending. For this year, we had a cost benchmark of 3.8%, and over time it will trend to 3.0% across all sectors of health care.

## STATE'S INCREASING HEALTH CARE COSTS

DELAWARE GENERAL FUND EXPENDITURES<sup>1</sup>, FY2013 VS. FY2017



SOURCE: Delaware Office of Management and Budget, DEFAC Expenditure Reports.  
 1- Infrastructure funds reported from Transportation Trust Fund expenditures, not General Fund.  
 2- Salaries are not inclusive of public education salaries.  
 3- Healthcare includes employee health benefit expenditures and Medicaid expenditures.  
 4- Public safety expenditures include expenditures by D&H, DOC, and Youth Rehabilitation Services (DSCYP).

- During this same time frame, General Fund revenue collection has grown by just 7.6%.
- Health care costs now account for about **30% of the state's budget**.
- **Crowds out necessary investments in:**
  - Education
  - Public Safety
  - Infrastructure
  - Salaries



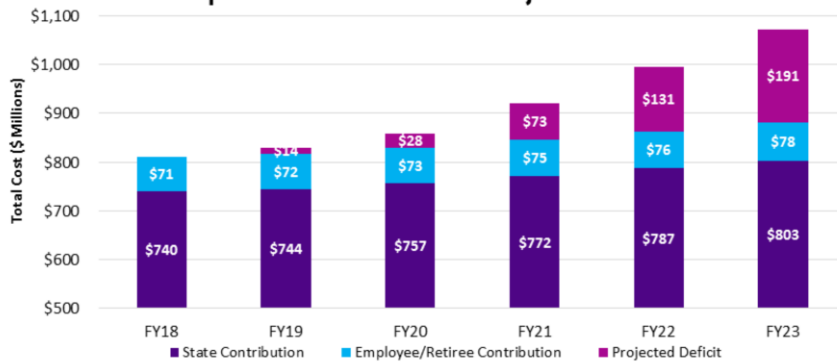
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Over the period of FY 2013 to FY 2017, state revenue grew 7.6%, while health care costs increased 22%. This is unsustainable.

With health care costs making up about 30% of the state's overall budget, by slowing the growth of that spending, we can provide more funding to other critical state services such as education, the environment, public safety, infrastructure and employee salaries.

## DELAWARE'S EMPLOYEE AND RETIREE HEALTH CARE COST PROJECTIONS

### Group Health Insurance Plan Projected Cost



**Notes:** FY18 total cost based on final reported FY18 premium contributions per June 2018 fund equity report, and FY18 budget rates and enrollment. FY19 total projected cost based on claims data for the period 1/1/2017-12/31/2018 weighted 35% earlier / 65% later period, estimated savings from expanded COE and site-of-care steerage implemented for 7/1/2018, 7.4% composite health care trend assumption, and enrollment as of December 2018. FY20-FY23 includes savings attributable to program changes (approved 2/11/2019) effective July 1, 2019, including site-of-care steerage, Highmark infusion therapy program and Livongo; assumes no additional program changes, 2% annual enrollment growth, and 5% annual health care trend (6% long term health care trend less 1% reduction for future initiatives); includes estimated excise tax liability starting calendar year 2022. FY19 and FY20 includes financial impact of legislative bills impacting GHIP (\$1.2m increase to FY19 budget and \$2.4m increase to FY20 projection).

On this slide, we show the impact that the high per-capita rate of health care spending is having on the Group Health Insurance Plan for state employees and retirees. Without intervention, the projected deficit could be as high as \$191 million in 2023. That's why the spending benchmark – and the transparency that will come with it – is so important.



## GOVERNOR SIGNS EXECUTIVE ORDER 25 ESTABLISHING HEALTH CARE BENCHMARKS



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On November 20, 2018, Governor Carney signed Executive Order 25, which sets health care spending and quality benchmarks – targets, if you will – for Delaware to reach. The benchmarks will help increase the transparency and accountability around the cost of health care and the specific targets in health measures that will lead to the overall improved health of Delawareans.

## HEALTH CARE SPENDING BENCHMARK

### Executive Order (EO) 25

- EO 25 establishes a subcommittee of Delaware Economic and Financial Advisory Council (DEFAC) for setting the health care spending benchmark for calendar year 2019.
- The Subcommittee set the benchmark at 3.8% for 2019.
- For subsequent calendar years, the benchmark will be:
  - 2020: 3.5% per capita Potential Gross State Product (PGSP) growth rate
  - 2021: 3.25%
  - 2022: 3.0%
  - 2023: 3.0%



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For 2019, a subcommittee of the Delaware Economic and Financial Advisory Council (DEFAC) set the target for the growth of health care spending in our state at 3.8%. The rates for subsequent years are detailed in the Executive Order and are tied to the state's overall economic growth.

Our health care spending should not grow at a rate faster than our overall economy. By peeling back the layers of our health care spending, we can begin to see where our spending goes, reduce waste and inefficiency, and hold providers accountable by requiring that spending have a stronger link to positive health outcomes.

## HEALTH CARE QUALITY BENCHMARKS

Initial quality benchmarks set for 2019 are to remain in place for three years and focus on:

- Ambulatory care sensitive emergency department visits
- Opioid-related overdose deaths
- Co-prescribed opioid and benzodiazepine prescriptions
- Adult obesity
- Tobacco use
- High school students who were physically active
- Statin therapy for patients with cardiovascular disease
- Persistence of beta-blocker treatment after a heart attack



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The health care quality benchmarks include 8 measures that we will track statewide year to year, with aspirational goals for us to reach in each of those three years. We will focus our efforts in three key areas: 1) monitoring primary care access; 2) addressing the opioid crisis; and 3) improving cardiovascular health prevention and treatment.

The 8 goals are:

- Emergency Department utilization rate;
- Opioid-related overdose deaths;
- Overlapping opioid and benzodiazepine prescriptions;
- Adult obesity;
- Adult tobacco use;
- High school students who were physically active;
- Statin therapy for patients with cardiovascular disease; and
- Persistence of beta-blocker treatment after a heart attack.

America's Health Rankings ranked Delaware 31<sup>st</sup> in 2018, so making progress in these 8 areas will not only make Delaware a healthier state, but it will also reduce health care spending over time.

## HEALTH CARE BENCHMARKS: WHAT'S NEXT?

- **By May 31<sup>st</sup> of each year:** Delaware Economic and Financial Advisory Council (DEFAC) will report to the Governor and the Health Care Commission (HCC) on any changes to the spending benchmark approved by DEFAC.
- **4<sup>th</sup> quarter of each year:** HCC will report on the performance relative to the spending and quality benchmarks.
- **Ongoing:** HCC will engage providers and community partners in discussion – with the State and each other – about how to reduce variation in cost and quality, and to help the State perform well relative to each benchmark.



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Last month, we finished the Implementation Manual for the health care spending and quality benchmarks, and its accompanying worksheets. This will begin the real nuts and bolts of the benchmark work.

Going forward, this is what you can expect:

- By May 31 of each year, DEFAC will report to the Governor and the Health Care Commission (HCC) on any changes to the spending benchmark approved by DEFAC.
- In the fourth quarter of each year, HCC will report on the performance relative to the spending and quality benchmarks.
- And throughout the year, HCC will engage providers and community partners about how to reduce variation in cost and quality, and to help the State perform well relative to each benchmark.

This is why it is an exciting and important time in our state for health care.



## SOCIAL DETERMINANTS OF HEALTH

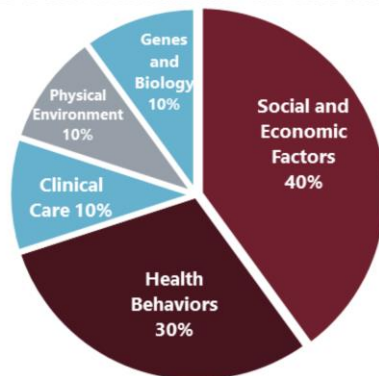


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Now, let me share another priority across the Department of Health and Social Services, social determinants of health.

## SOCIAL DETERMINANTS OF HEALTH

### Determinants of Health



### World Health Organization's (WHO) Necessary conditions for health

- Peace
- Shelter
- Education
- Food
- Income
- Stable eco-system
- Sustainable resources
- Mobility
- Social justice and equity

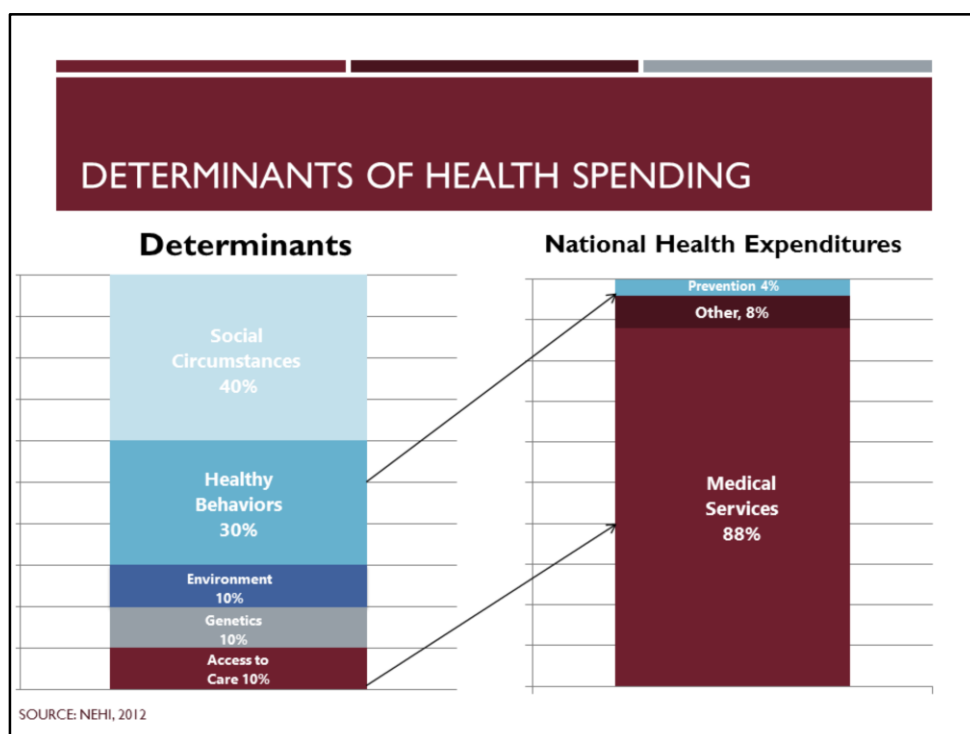


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Determinants of Health Model based on frameworks developed by: Tarlov AR. *Ann N Y Acad Sci* 1999; 896: 291-95; and Kindig D, Janda Y, Booske B. *JAMA* 2000; 283(17): 2081-2093.

World Health Organization. Ottawa charter for health promotion. International Conference on Health Promotion: The Move Towards a New Public Health, November 17-21, 1986. Ottawa, Ontario, Canada, 1986. Accessed July 12, 2002 at <<http://www.who.int/whp/archivewebdocs/ottawa.html>>.

During the next few days of hearings, you will hear many of our division leaders reference the “social determinants of health.” As a family physician and as a health care policy leader, I understand that our overall health is affected by so many more factors than just the clinical care we receive. In fact, only 10% of anything we do as doctors actually impacts life expectancy. Experts understand that our health and quality of life are influenced by how much money we make; the physical environment in which we live, work and play; the healthy behaviors we do or do not embrace; and, of course, our genes and biology. Almost 70% of the social determinants of health are either these social and economic factors or health behaviors.



From what we know about spending on health care in our state, we would like to be able to make the connection that what we spend actually aligns with those things that actually make us healthier. Unfortunately, almost 90% of all health expenditures are for medical services (visits, tests and procedures) and not those social factors or health interventions that could make everyone in our state healthier. For this reason, our Department as an integrated health and service agency is working to best align our health strategies with our social service strategies. This focus will help to make people healthier, reduce health care costs and promote greater well-being.



Now, let me shift gears to our response to the addiction epidemic.



## JOHNS HOPKINS RECOMMENDATIONS

- In April 2017, Secretary Walker asked researchers from Johns Hopkins Bloomberg School of Public Health to review Delaware's treatment system and make recommendations to strengthen it.
- In July 2018, the Johns Hopkins team issued its recommendations:
  - Increase the capacity of the treatment system
  - Engage high-risk populations in treatment
  - Create incentives for quality care
  - Use data to guide reform and monitor progress



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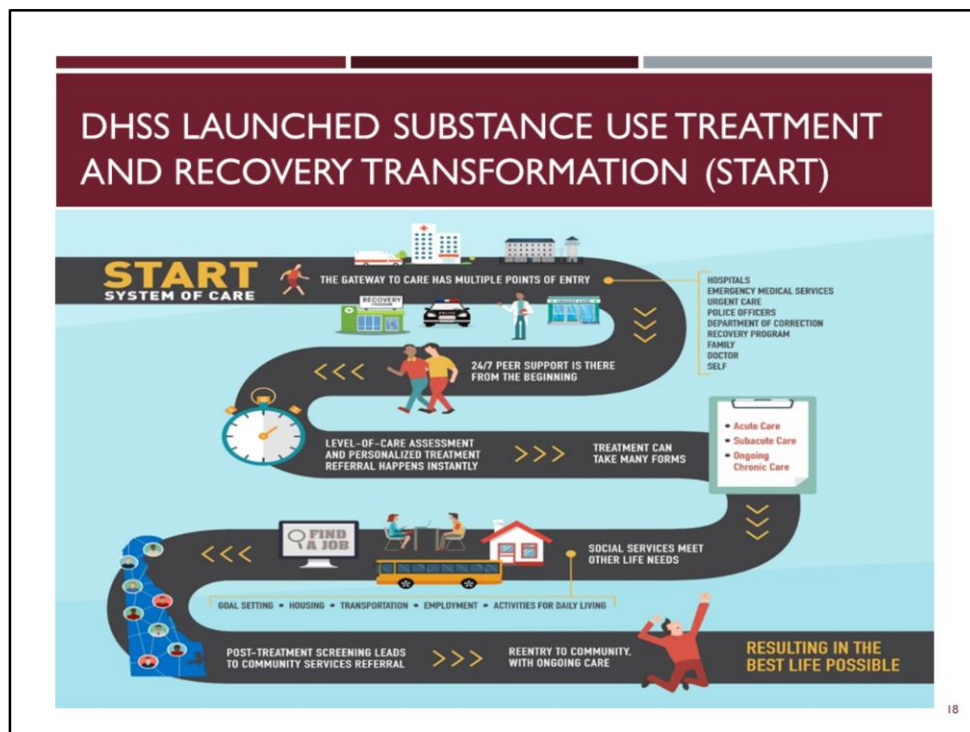
Soon after I took office, I invited researchers from Johns Hopkins University to meet with me and key members of my leadership team. In April 2017, I asked the Hopkins team to review Delaware's substance use disorder treatment system and to make recommendations to strengthen it.

In July 2018, the Hopkins team issued its recommendations in a 33-page report. Over the next three days, you will hear how my leadership team embraced those recommendations and is putting them into practice as we reform our treatment system.

Specifically, the Johns Hopkins researchers recommended that Delaware:

- Increase the capacity of the treatment system;
- Engage high-risk populations in treatment;
- Create incentives for quality care; and
- Use data to guide reform and monitor progress.

In collaboration with the Behavioral Health Consortium, led by the Lieutenant Governor, the recommendations gave us a strong foundation for moving forward.

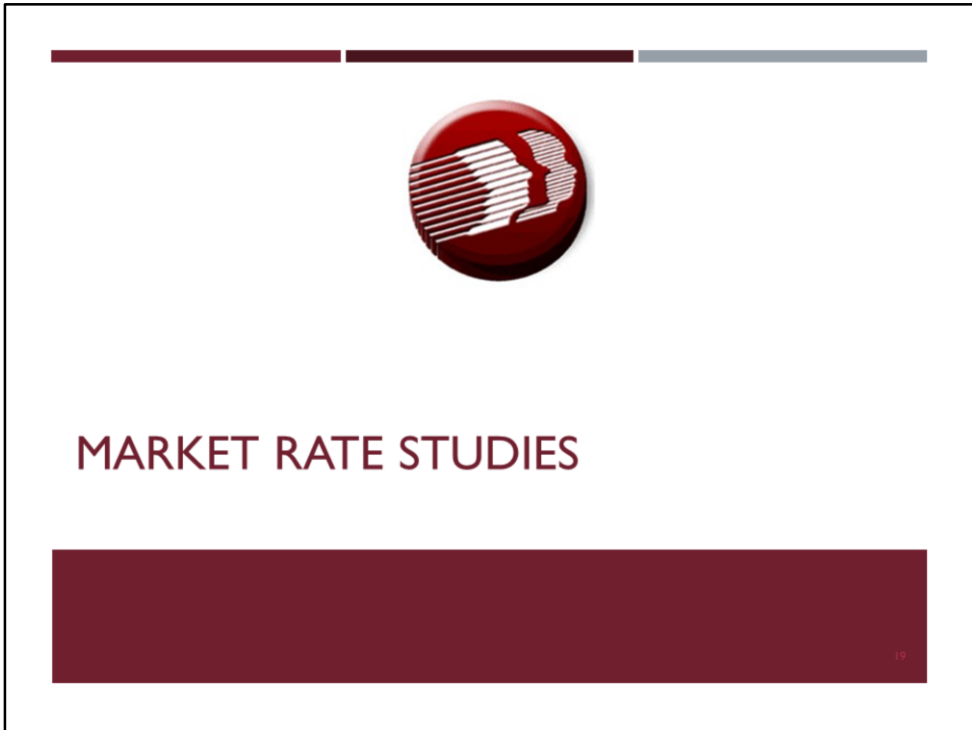


I want to highlight where one of the Hopkins recommendations led us.

In October, our Division of Substance Abuse and Mental Health (DSAMH) launched the **S**ubstance Use **T**reatment **A**nd **R**ecovery **T**ransformation – or START Initiative – to engage more Delawareans suffering from substance use disorder in treatment. We do this by using certified recovery peers – people with similar life experiences who have been trained to support people suffering from addiction.

To foster long-term recovery, START is also addressing clients' additional needs for housing, employment, education and other wraparound services.

This is a critical step forward in providing treatment that is high-quality, comprehensive, coordinated, evidence-based and person-centered. DSAMH Director Elizabeth Romero will provide more details when she testifies on Thursday.



Market rate studies is another important area I want to highlight.

## UNDERSTANDING THE NEED IN KEY AREAS



Purchase of Care Providers



Direct Support Professionals



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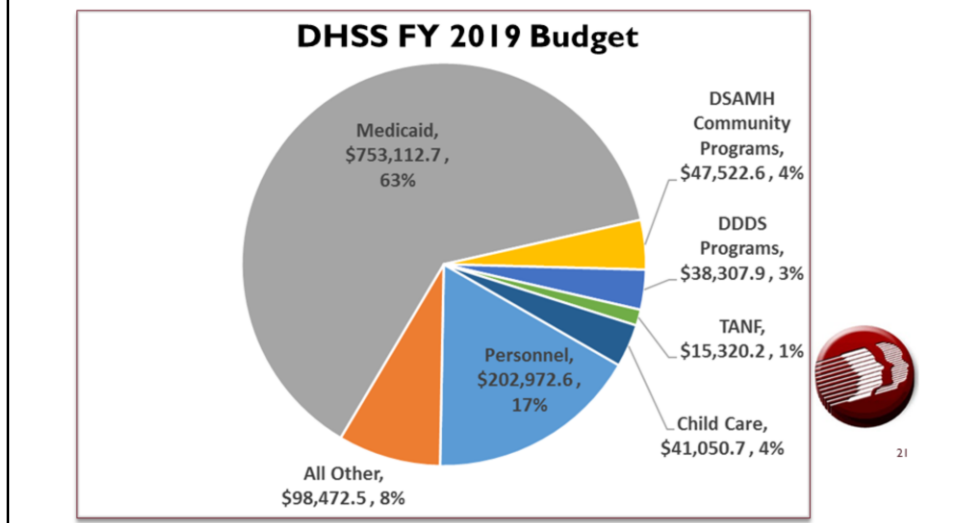
Without the vast community of providers in Delaware, DHSS would not be able to provide such a wide range of services throughout our state. There are two major conversations occurring around provider compensation – one for Purchase of Care providers and the other for Direct Support Professionals in the Division for Developmental Disabilities Services (DDDS).

It is critical that providers be compensated in such a way as to ensure adequacy of services statewide, but we know these needs must be balanced with all of the other needs across state government.

Since July, we have engaged in conversations about implementing changes to the market rate paid to child care providers. This conversation is happening in a larger context of meeting new federal requirements for the state's Purchase of Care services and ensuring that quality is a key component of early childhood care. In the spring, the Division of Social Services will implement federally required changes to parent payments, and, after that, DHSS will look to implement increases to bring provider rates in line with the 2015 market rates.

Additionally, DDDS just finished an update to the 2014 direct service provider compensation benchmark study – which provides information on fair market rate compensation for direct care professionals in Delaware who assist clients with remaining self-sufficient and in the community.

## FY 2019: OUR FISCAL REALITIES



Before I get to our Governor's Fiscal Year 2020 Recommended Budget, let me explain in top-line terms where we are today. The pie chart on this slide shows our budget for FY 2019 – which is just about \$1.2 billion General Fund (GF) dollars.

With the support of OMB and the General Assembly, the Department's General Fund budget grew by 1.6% in FY 2019. These funds allowed us to continue services to clients in several key areas, including but not limited to, Developmental Disabilities, Medicaid, Birth to Three and Purchase of Care.

Also, additional funds allowed DHSS to expand substance use disorder services, establish school-based health centers at St. George's and Appoquinimink High Schools and increase rates paid to DDDS Direct Support Professionals. We thank all involved for their continued support.

## FY 2020 GOVERNOR'S RECOMMENDED BUDGET



	GF	ASF
FY 2019 Budget	\$1,196,759.2	\$144,150.4
FY 2020 Request	\$1,238,781.3	\$144,763.9
% Change	+3.5%	+0.4%

FY 2020 Funding Requests	\$\$
FY 2020 Door Openers	\$32,469.4
Core Services Growth	\$7,728.7
Behavioral Health & Addictions	\$1,825.0
Business Operations & Continuity	\$2,049.4
Efficiency & Sustainability	\$682.8



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The Governor's FY 2020 Recommended Budget included over \$1.2 billion General Fund dollars and \$144 million in Appropriated Special Fund (ASF) authority for DHSS.

This includes \$32.5 million in Door Openers and additional operating support of \$12.2 million.

These funds will address the demands on programs and ensure that DHSS provides efficient, effective and modern services to our clients. We developed our FY 2020 Budget Request along the themes of:

- Core services and program growth;
- Continuing to fight the opioid epidemic;
- Maintaining business operations; and
- Improving efficiency and sustainability.

## FY 2020 GOVERNOR'S RECOMMENDED BUDGET: DOOR OPENERS - \$32.5 MILLION

- Salary Contingency
- Medicaid & DHCP Growth
- DDDS – Community Placements
- DDDS School Graduates
- DVI Educational Services
- Purchase of Care
- Birth to Three Program
- DSAMH Community Housing Supports
- Delaware Contraceptive Access Now (CAN)
- Lease Escalators



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DHCP= Delaware Healthy Children Program; DDDS= Division of Developmental Disabilities Services;  
DVI=Division of Visually Impaired; DSAMH=Division of Substance Abuse and Mental Health

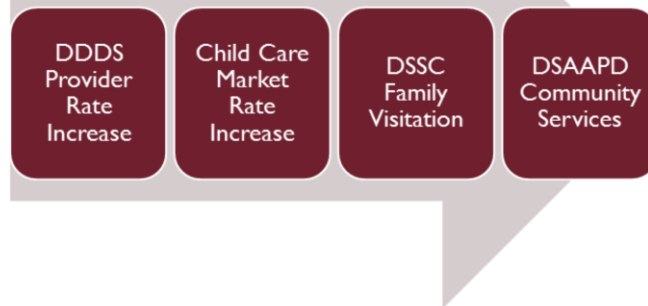
The GRB includes \$32.5 million in Door Openers, which represent continued growth in our core, mandatory programs.

This includes:

- \$5.0 million in salary contingency.
- \$18.2 million for changes in the Medicaid and Delaware Healthy Children Program (also known as CHIP).
- \$4.8 million to support full-year funding for FY 2019 placements and new placements in FY 2020 for school graduates and community placements in DDDS.
- \$2.9 million to support multiple initiatives that include: continued, mandatory growth in educational services for students with visual impairments, housing for individuals with severe and persistent mental illness, the Birth to Three program, and the Purchase of Care subsidized child care program.
- \$1.6 million to sustain the operational costs for both signed state leases and the Delaware Contraceptive Access Now (CAN) initiative.

My colleagues will discuss these initiatives in more detail during the rest of this week.

## FY 2020 GOVERNOR'S RECOMMENDED BUDGET: PROGRAM GROWTH - \$7,728.7



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DDDS= Division of Developmental Disabilities Services; DSAAPD=Division of Services for Aging and Adults with Physical Disabilities; DSSC=Division of State Service Centers

Our request supports growth in non-entitlement programs that touch people's lives at the day-to-day level, protecting vulnerable populations and fostering self-sufficiency.

One critical area of growth is in Community Services within the Division of Services for Aging and Adults with Physical Disabilities (DSAAPD). These services meet the needs of Delaware's older population through home and community-based services designed to support older persons and their caregivers, and prevent unnecessary placement in nursing homes.

The Delaware Family Visitation Program, run by the Division of State Service Centers, provides safe, supervised visit locations in six areas throughout Delaware. To support the program, \$75,000 is requested to meet costs associated with an average yearly growth of 12% and to continue providing family visitation sites for more than 700 families.

This request also includes funding to support the provider rate increases previously described for child care providers, as well as continuing to support provider rate increases for our DDDS providers.



FY 2020 GOVERNOR'S RECOMMENDED BUDGET:  
BEHAVIORAL HEALTH & OPIOID EPIDEMIC - \$1,825.0



- \$50.0 – Youth Prevention Education & Treatment
- \$100.0 – Naloxone Community Access
- \$125.0 – Medication-Assisted Treatment
- \$350.0 – Needle Exchange Expansion
- \$400.0 – Withdrawal Management
- \$800.0 – Level IV Recovery Homes



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To address the behavioral health and the opioid epidemic across the continuum, the Department requests ongoing support in six areas – from youth prevention, to harm reduction, to treatment and recovery services.

One-time funding was provided in FY 2019 to initiate these efforts. Our request in FY 2020 is to continue operations for several of these initiatives that provide critical elements of a comprehensive substance use disorder system of care.

## FY 2020 GOVERNOR'S RECOMMENDED BUDGET: BUSINESS CONTINUITY & SUPPORT - \$2,049.4

### IT Solutions

- Electronic Health Records
- Disaster Recovery Solutions
- Information Technology Operations

### Patient Care

- Incident Management
- Stockley Contractual Support



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Our request includes \$2.0 million to support ongoing business operations and continuity. These funds will help support the critical and essential behind-the-scenes work that allows our staff to provide direct services to the vulnerable people we serve.

As a health care agency, we must automate more to meet federal requirements and standards. This helps us to provide more streamlined services to clients, meet them where they are and to leverage additional federal dollars, where appropriate. This is done with the end goal of providing more effective and evidence-based care.

## FY 2020 GOVERNOR'S RECOMMENDED BUDGET: SUSTAINABILITY & EFFICIENCY - \$627.8



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Our FY 2020 request also includes \$627,800 for initiatives related to sustainability and efficiency.

This includes funding to support technical assistance around the health care spending benchmark and additional analysis around price variation. These are long-term investments aimed at achieving House Joint Resolution 7 and Executive Order 25 by slowing the growth of health care spending, while improving care delivery and health outcomes for Delawareans. With investments today, we can contain costs in the future, allow additional investments in areas that support all Delawareans, improve affordability to patients and small businesses, and help drive economic development and growth.

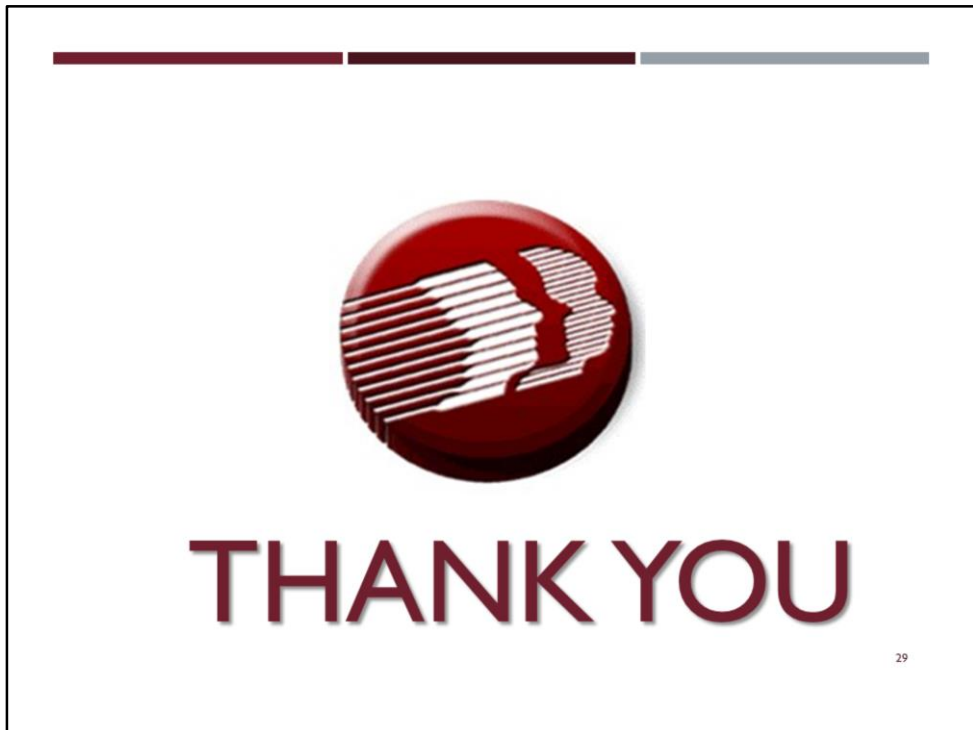


Along with focusing on our core services, DHSS continues to serve as one of seven critical focus areas for the Government Efficiency and Accountability Review (GEAR) Board.

Since its inception, DHSS has aligned many initiatives with GEAR's goals, including:

- Establishing a health care benchmark;
- Setting a goal to reduce overtime by addressing its systemic causes and working with our partners at the Office of Management and Budget and Department of Human Resources;
- Containing costs of leased space by working with OMB to renegotiate existing leases and examine alternatives within state-owned space;
- Reducing fleet costs based on utilization trends;
- Reducing energy consumption with green, energy-saving improvements;
- Reducing mail and postage expenses by eliminating unnecessary mailings;
- Reviewing fees collected by the Department and how they impact operations; and
- Leveraging federal funding by establishing a cost-allocation unit, which identified \$2.2 million in federal funds that was used to off-set state salary expenses in FY 2018.

Over the next few days, my colleagues will highlight many other initiatives in the Department that embody the goals of accountability and efficiency, while meeting our clients' needs.



Thank you for the opportunity to share with you the challenges and opportunities facing the Department of Health and Social Services. I look forward to your questions.