

**Health and Senior Services Commissioner  
Heather Howard  
Assembly Budget Committee Testimony  
Thursday, May 8, 2008  
9:30 am**

Good morning Mr. Chairman and distinguished members of the Assembly Budget Committee.

I would like to introduce the members of my senior staff who have joined me at the table:

- John Fasanella, Director of Management and Administration;
- Dr. Eddy Bresnitz, State Epidemiologist and Deputy Commissioner of Public Health Services;
- David Gruber, Senior Assistant Commissioner for Health Infrastructure Preparedness and Emergency Response;
- Matt D’Orta, Deputy Commissioner for Senior Services and Health Systems;
- Kathy Mason, Assistant Commissioner for Senior Benefits and Utilization Management; and
- Celeste Andriot-Wood, Assistant Commissioner for the Division of Family Health Services

I have enjoyed working with all of you these past four months in my new role as Commissioner. As I have toured the Department and met with most of the staff, I have come to appreciate their hard work and commitment to promoting and protecting the health of the residents of New Jersey.

The Department provides vital health care and public health services to meet the needs of our communities and especially the most vulnerable.

Within the context of the state’s dire fiscal constraints, we have gone through the painful process of proposing budget cuts – cuts that are necessary to get our state out of critical condition and back on the road to fiscal health. This year more than ever, we have had to look at cuts that impact vital and valuable programs within the Department. We fully recognize that we will have to do more with less and in some cases we will simply do less.

In fact, the Department continues to assess its programs to determine more effective and efficient ways of conducting business. Employing strategies of reorganization, limited backfilling of vacant positions and other efficiencies, the Department has been able to reduce the workforce

by approximately 200 positions, or 9%, since the beginning of the Corzine administration.

In proposing spending reductions, we have worked to find the appropriate balance between fiscal constraints and the needs of vulnerable seniors, families of children with special needs, individuals with HIV/AIDS, the growing number of the uninsured, and our fragile health care delivery system.

And now, I appreciate this opportunity to present the Department of Health and Senior Services' proposed budget for the Fiscal Year 2009. The \$3.5 billion budget reflects a \$180 million reduction in state funds, or a 10.3 percent cut.

Let me give you some context about the Department's budget and the cuts we propose.

Nearly ninety percent (88%) of our state funding is spent on five very critical programs that affect the lives of virtually every New Jersey family — charity care, PAAD and Senior Gold, nursing homes, home and community-based senior programs, and the Early Intervention Program for children 0 to 3 with developmental delays. Therefore, in order to find substantial savings, we could not avoid cuts in these critical programs.

Yet while there are painful cuts in this budget that will impact the residents of the state, the Department's guiding principles were to protect the most vulnerable, preserve the social safety net and maximize federal funds.

I would like to briefly outline some of these cuts.

As you well know, one of the most important programs for our seniors is the Pharmaceutical Assistance to the Aged and Disabled Program (PAAD). It is one of the oldest and most generous prescription drug programs in the country.

As we looked to find savings within PAAD and its sister program, Senior Gold, we have attempted to spread the cuts among pharmacies, drug companies and recipients, so there is shared sacrifice and beneficiaries are not disproportionately impacted.

Specifically, as you know, PAAD beneficiaries currently pay \$5 per prescription. This co-payment has not been increased since 1992. The proposed budget would increase the PAAD co-payment for some beneficiaries to \$6 for generic drugs and \$7 for brand name drugs. It should be noted the lowest income beneficiaries—fully one-third of PAAD

recipients—will be unaffected by the co-payment increase because they already pay less than \$5 under Medicare Part D.

With regard to nursing homes, in keeping with the Governor's philosophy that we protect the most vulnerable, the proposed budget protects nursing homes with high Medicaid occupancy.

This budget also reflects increased choices for seniors, as we expand and improve our home and community-based services. As a result, we are facilitating a shift away from nursing homes toward community-based options through the Global budgeting process. In fact, over the last two years, more than 1,000 senior citizens have moved out of nursing homes and into the community. These home and community-based options are preferred by seniors and are more cost-effective.

And, as promised, as part of the Global Budget process, we have moved forward with the statewide fast-tracking of all home and community-based placement, pending determination of Medicaid eligibility.

In the area of Medical Day services, a program which offers medical, nursing, social, personal care and rehabilitative services in the community as an alternative to institutional care, the proposed reductions will not affect clients. Instead, we propose to bring reimbursement levels in line with other community based senior programs that the Department regulates.

Switching gears, I would like to talk briefly about hospitals. Just as the state faces an urgent need to put its fiscal house in order, hospitals face the same challenge to restructure their own finances for a stable future. Since January 2007, six hospitals have closed and two others have CNs to close pending.

Our shared financial problems require us to develop strategies to manage our limited resources and preserve access to health care services. The New Jersey Commission on Rationalizing Health Care Resources—known as the Reinhardt Commission—examined the forces that have led so many of the state's hospitals to close or file for bankruptcy. And it provided dozens of recommendations to improve the efficiency, accountability and transparency of the system.

Since the release of the Reinhardt report, the Department has reviewed and prioritized the recommendations and is working to advance them in several ways. We have met with representatives of hospital associations and employees, hospital boards throughout the state and other stakeholders to discuss the implementation of various recommendations.

As you may know, the Assembly Health and Senior Services Committee on Monday considered four bills to enhance accountability and transparency. They would require hospitals to hold at least one annual public meeting and all members of boards of trustees to undergo training on their responsibilities. A third bill would cap the amount hospitals can charge uninsured patients who earn up to 500% of the federal poverty level. A fourth bill in the package would ensure that the Department is better able to monitor the financial condition of hospitals rather than manage from crisis to crisis.

These bills constitute a critical component of the Department's implementation strategy and we look forward to working with the Assembly to move these bills forward.

Recently, I sent a letter to hospital CEO's that will require them—beginning in July—to supply additional and more timely financial data to improve the State's ability to monitor their fiscal status and intervene earlier in cases of distress.

As you know, the budget provides \$608 million in reimbursement to hospitals for charity care, a reduction of \$108 million. Consistent with the Reinhardt Commission, the charity care reimbursement formula was revised to target our limited funds to safety net hospitals. Simply put, hospitals providing the most charity care will see the smallest reduction in funding.

And, you should know that the proposed cuts to charity care were made with preserving federal matching funds in mind.

In addition, the revised formula will be based on 2007 claims data. This important reform ensures that the distribution most accurately reflects the current volume of charity care services being rendered by each hospital.

To help us preserve access to essential services in our communities, this budget proposes a \$35 million Health Care Stabilization Fund.

The Stabilization Fund was recommended by the Reinhardt Commission and is necessary to address immediate financial needs of health care providers to maintain access to care in the community. It will be used to ensure that the most vulnerable patients have continued access to care when hospitals are in distress or close.

We envision that institutions using these resources would be subject to strict and continuing requirements, and the funding would not be available to support ongoing operations. We will demand accountability and efficiency.

Creating this fund will require legislation, and I look forward to working with you on the details.

In recognition of the strain on health care facilities in our communities, I am pleased to report that funding for community health centers—the medical safety net for the uninsured and those on Medicaid and Medicare—remains stable at \$40 million. And we have again included an additional \$5 million to continue to expand capacity.

With regard to cancer research, funds were reduced by \$20 million; however \$50.5 million remains in the budget. The Cancer Institute of New Jersey, the state's only National Cancer Institute-designated Comprehensive Cancer Center, will still receive substantial state support. Additional cancer research grants will be awarded on a fair, competitive, peer-review process, in line with the policy decision of last year. We expect this new process to draw more federal dollars to New Jersey.

And, despite limited resources, the Department will continue its commitment to address autism. As the state with the highest reported autism rate in the country—1 in 94 according to the CDC—we have an obligation to continue our research, education and awareness and treatment efforts.

In addition, we are creating an autism registry and developing guidelines for evaluating children with autism.

I would like to close by acknowledging that many of the individual challenges that we face within the context of this budget are symptoms of a more global problem, the lack of access to health insurance for all New Jerseyans. While we may not be able to fully address this need during the upcoming year, I will commit to working with you to develop a solution.

Thank you for allowing me to present this year's proposed budget. I appreciate your interest in our programs and initiatives, and look forward to continuing our discussions during this budget process.

I am happy to answer your questions.