JOINT HEARING OF THE APPROPRIATIONS COMMITTEE AND THE HEALTH AND HUMAN SERVICES COMMITTEE
November 29, 2011

[LR282]

The Committee on Appropriations and the Committee on Health and Human Services met at 9:00 a.m. on Tuesday, November 29, 2011, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a joint public hearing on LR282. Senators present: Lavon Heidemann, Chairperson; John Harms, Vice Chairperson; Tony Fulton; Tom Hansen; Heath Mello; John Nelson; Jeremy Nordquist; John Wightman; and Kathy Campbell, Chairperson; Mike Gloor, Vice Chairperson; Dave Bloomfield; Gwen Howard; Bob Krist; and Norm Wallman. Senators absent: Danielle Conrad, Tanya Cook, and R. Paul Lambert.

SENATOR HEIDEMANN: (Recorder malfunction)...get started. We got some members of the Appropriations Committee that are still in a Planning Committee meeting that will be joining us later, but we're going to go ahead and open the hearing on LR282. We'll begin with self-introductions starting from our right over here, as Senator Fulton sits down.

SENATOR FULTON: Self-introductions.

SENATOR HEIDEMANN: Self-introductions.

SENATOR FULTON: Tony Fulton, District 29 here in Lincoln.

SENATOR BLOOMFIELD: Dave Bloomfield, District 17, the northeast corner of the state.

SENATOR KRIST: Bob Krist, District 10, northwest Omaha and unincorporated parts of Douglas County, including Bennington.

SENATOR HOWARD: Gwen Howard, District 9, Omaha.

SENATOR CAMPBELL: Kathy Campbell, District 25, Lincoln and parts of Lancaster County.

SENATOR HEIDEMANN: Lavon Heidemann, District 1, southeast Nebraska.

SENATOR NELSON: John Nelson, District 6, central Omaha.

SENATOR HANSEN: Tom Hansen, District 42, Lincoln County.

SENATOR NORDQUIST: And Jeremy Nordquist, District 7, downtown and south Omaha.

SENATOR HEIDEMANN: And there are, like I said, some Appropriations member that will be joining us later, and I think Senator Gloor is also in that meeting. We also have Anne Fargen is Appropriations clerk, and Michelle Chaffee is also with us. Also out in the audience we have fiscal analysts Liz Hruska, Sandy Sostad, Kathy Tenopir, and I actually see Fiscal Director Mike Calvert is also with us. Our pages for today are Emily or Ben; if you need anything, they're always great help. At this time we ask that you please, if you have cell phones, to shut them off as not to be disruptive later. Testifier sheets are on the table or near the back doors. We ask that you fill out completely and put them on the box on the table when you testify. At the beginning of the testimony, we ask that you please spell and state your name. Nontestifier sheets near the back doors if you do not want to testify but would like to record your position, you only need to fill these out if you will not be publicly testifying. If you have printed materials to distribute, please give them to the page at the beginning of your testimony. We need 20 to 25 copies. If you don't have that, we can try to accommodate that. We will open now the public hearing on LR282. We're going to start with Jeff States with the Nebraska Investment Council. Welcome.

JEFFREY STATES: (Exhibit 1) Thank you, Senator Heidemann, Senator Campbell and members of the committee. My name is Jeffrey States, it's J-e-f-f-r-e-y S-t-a-t-e-s, and I am the Nebraska State Investment Officer working for the Nebraska Investment Council. On behalf of the council, I'd like to thank you and the Legislature for agreeing to have this hearing to review healthcare funding and, in particular, the Health Care Cash Fund and the trust funds that we're responsible for investing on behalf of the state. This past spring the Nebraska Investment Council began a review of all of the nonretirement assets that it invests to try and make sure that the investment guidelines that we were following with respect to each of those asset pools were appropriate for the mandate that was established under statute, and we also undertook an effort to reach out to constituents to understand their spending plans. In the case of this fund, the Legislature determined spending and so we had had some discussion last spring with various members of the Legislature about our findings as we began that review. If you turn to the first page of your handout, which I think each of you has at your place, what we generally refer to as the Health Care Endowment Fund, although that term isn't actually in the statute I do not believe, had assets as of the end of September 2011 of about $289 million. And the current asset allocation for the investments that we make there are 25 percent to fixed income, 5 percent to real estate, 5 percent to private equity, and 65 percent of the assets in public equities. It's a fairly aggressive asset allocation with about 75 percent of the assets then in equity or equity-like investments and fixed income. As you can see on the right-hand side a graph that shows a little bit of the performance over the last several years, that we've had a difficult decade and that kind of compounds the problem that we have as we look at this issue. Because while our performance objective from an asset allocation standpoint is to achieve an almost 8 percent return for these investments, as it is for a number of others, in reality we've seen a return that's been more like 4 over that period, so that we have a shortfall from an investment standpoint. Looking at the next slide, what we refer to as the Health Care Endowment Fund basically includes two groups of money. These are all created in the Health Care Funding Act, the Nebraska Medicaid Intergovernmental Trust, the Nebraska Tobacco Settlement Trust. Again, the council really only determines the asset

allocation and the investment of those funds, and the spending is determined by the Legislature, and the chart provides some history for the last few years with respect to the spending requirements. What's changed about these funds since this program was set up in the late '90s has been that initially we had contributions coming in for both Medicaid Intergovernmental Trust on an annual basis and for monies coming in to the Tobacco Settlement Trust. You probably know more specifically about when the Medicaid Intergovernmental Trust Funds stopped being received, but that was a change in the federal laws that kind of took that source of funding away, and at the point that happened the contributions then that were available on an annual basis for this program reverted to only being those dollars being received for the Tobacco Settlement Trust, which put us in the position of having the contributions on an annual basis being less than what was being appropriated. In the early years the combined receipts were above what was being appropriated and so we were able to make the transfers that were authorized for spending and have some funds to reinvest into the trust funds so that we were growing the asset base. In the late '90s, the asset base was somewhere in the neighborhood of $180 million to $200 million. It grew slowly. April of last year we saw that peak at about $353 million for the cycle. Right off, that shows you a little bit about the volatility of the investment markets when I can tell you that after we funded the transfer for this year that the balance, including the tobacco receipts that were received, was now $289 million. So we spent $22 million more, as is identified here, than was received, but because the markets also turned down since that point in time, we've actually seen the trust fund diminish by a lot more than that, so it went from $353 million to $289 million; $22 million of that is because of the spending, the rest of it was market results this last year. Unlike many of the other sources of revenue, we invest the assets and kind of give the constituency income we can generate. We try to understand their spending and match it. With respect to these funds, the statute gives the Investment Council and the State Investment Officer an additional responsibility which is to also advise you on an even-year basis as to whether the transfers that are being made are sustainable and also perpetual. In the most recent communication, which went last September, September 10 of 2010, rather, for the first time the letter said that the sum

of the projected total healthcare contributions and the total expected return is less than the annual transfer amount of $59.1 million in each of the forecasted future years. That was a change, because at least up until that point in time when you added investment returns off the corpus to the transfers that were coming in, they kind of matched what was going out. So we weren't...and what we've now seen happen is that we're needing to start to liquidate small amounts of the investment corpus that are in the two trust funds and (inaudible) have enough funding to match the transfer at the this point. On the next page the goals of the Investment Council, as established for the investment of these funds, are: one, to provide funds for the current spending needs; second, we try to invest the funds in a manner that would maintain its purchasing power, so grows the base consistent at least with inflation; and meet the requirement that's established in the Health Care Cash Fund section of the statute that says that this is supposed to be both sustainable and in perpetuity. The contributions from the Tobacco Settlement Trust, which come in kind of a lump sum, once a year, are invested of the period before we pay out in a short-term fixed-income portfolio. The bulk of the rest of the assets in the two trust funds are invested for growth and income by the council in equity and fixed-income portfolios. As I said, the spending this past year exceeded the contributions that were received for the Tobacco Trust by about $22 million, and based on the projections that we've been seeing from the State Budget Office, the Tobacco Trust contributions are expected to continue to decline going forward by a half a million or so a year. Hopefully, you'll receive that information as you need it from other sources, but that again sort of adds to the problem. The contribution that's the current income that's being used to help support the transfer is declining on its own base. We think that the current asset allocation is in alignment with the spending, if the spending is maintained at the current level. The asset allocation is fairly aggressive, with 75 percent equity and 25 percent fixed income. What we find is or have a concern is that that ultimately may mean though that the spending, at this level anyway, will not make or meet the requirements of that being...the transfers being sustainable ultimately for a long period of time and that the trust would not be perpetual because we're spending more than we're receiving. [LR282]

SENATOR HEIDEMANN: Is it because that we are so aggressively positioned in the way the economy and the market has been? Has this actually cost us in the last two to three years, four years? [LR282]

JEFFREY STATES: Yes. I would say that's...I mean that's a fair statement because with a more aggressive strategy and since the equity markets have been off, the 75 percent allocation has ended up beginning to cost us, primarily because we needed then to liquidate small portions in order to start to fund. I mean it cost us on a valuation basis, but if the principal was intact and we weren't invading it, we expected over time still to recover and to earn the 7.5 or 8 percent, based on what our consultants continue to tell us. But when you're in a down market, we're getting a little less income but, as important, we also then, because we're having to invade that corpus to fund a portion of the transfer, we're not getting any income to reinvest, because all the income that's currently being earned, even dividends and interest income, have to be...have to be transferred out to match the spending. [LR282]

SENATOR HEIDEMANN: So not only the market is hurting you; the amount of money that we're spending is hurting you also. [LR282]

JEFFREY STATES: Yeah, and it's because it's now exceeding the current annual income, whether it's investment income or contributions, and that just didn't happen until about two years ago. [LR282]

SENATOR HEIDEMANN: Senator Krist. [LR282]

SENATOR KRIST: I have a couple questions to this point. [LR282]

JEFFREY STATES: Uh-huh. [LR282]

SENATOR KRIST: The first one is trust, endowment, cash--we call it all kinds of different things. By law this can't be a trust fund or a different implication, different legal action would be required? [LR282]

JEFFREY STATES: I'm not an attorney so I can tell you that the statute that creates these calls both the Medicaid intergovernmental fund and the tobacco settlement funds trusts. [LR282]

SENATOR KRIST: Okay. [LR282]

JEFFREY STATES: But the statute creates that. I mean, I guess what I'm saying, endowment in the sense that they were a gift from someone that, you know, where the principal can't be expended. In this case, the trust is there to be managed on behalf of the state but... [LR282]

SENATOR KRIST: Okay. I'll pursue that with another question, line of questioning later. Then the other question is at what point legally are you required to raise the flag and say we are tapping into...I mean is this an annual report, a biennial report? Seems to me like by law... [LR282]

JEFFREY STATES: By statute, it's a biennial report. [LR282]

SENATOR KRIST: Okay, and by law you're supposed to let us know when it's not going to be around in perpetuity. [LR282]

JEFFREY STATES: That's right. [LR282]

SENATOR KRIST: When did we know that? [LR282]

JEFFREY STATES: I think the council felt like we knew it really the for the first time last

March when our consultant kind of gave us a deeper look into what we've been doing. The first indication that I had, and it was expressed but maybe not strongly enough, was in the September of 2010 communication when we indicated that we were now, for the first time, spending more than we were receiving. [LR282]

SENATOR KRIST: So in March we knew that it wasn't going to be around in perpetuity, and if you follow that line of reasoning, why are we investing it at the aggressive rate that we are if that's not in the best interest of the fund? [LR282]

JEFFREY STATES: Senator, I will get here in the projections that I ran for you,... [LR282]

SENATOR KRIST: Oh, okay. [LR282]

JEFFREY STATES: ...but I think, quite frankly, that's one of the reasons that the council wanted to visit with the Legislature that sets the spending. I think you're quite right. I think we've determined, from our perspective, that the policy that made sense when we weren't having to tap the corpus to try and be as aggressive as possible over time to grow that base, so that it would be sustainable and perpetual, saw the dynamic change in the last two years, partially because we aren't getting the Medicaid money any longer but also because of a downturn in the market which gave us less income, and it just kind of flipped. [LR282]

SENATOR KRIST: Okay. Thank you. [LR282]

SENATOR HEIDEMANN: Senator Nelson. [LR282]

SENATOR NELSON: Thank you, Senator Heidemann. Your first page where you show the policy allocation,... [LR282]

JEFFREY STATES: Yes, sir. [LR282]

SENATOR NELSON: ...and thank you for being here, by the way,...25 percent real estate, are those real estate investment trusts? Is that what those are or fixed...? [LR282]

JEFFREY STATES: If this says 25 percent real estate, I'm sorry. [LR282]

SENATOR FULTON: It's 5 percent. [LR282]

JEFFREY STATES: It should be 5 percent to real estate. The 25 percent is to traditional fixed income. [LR282]

SENATOR NELSON: Oh. Okay. [LR282]

JEFFREY STATES: The box doesn't match up quite right. [LR282]

SENATOR NELSON: All right. Okay. [LR282]

JEFFREY STATES: The orange block which says "OIP-Like Portfolio" is fixed income. [LR282]

SENATOR NELSON: And what...that's my next, "OIP-Like," I'm not... [LR282]

JEFFREY STATES: It's the state operating investment pool,... [LR282]

SENATOR NELSON: I'm sorry? [LR282]

JEFFREY STATES: ...and so it's being invested consistent with how we invest the monies for the state's operating funds. [LR282]

SENATOR NELSON: On the right-hand side, what were the benchmarks over those ten years, the... [LR282]

JEFFREY STATES: As you can see, the orange...the benchmark used during that period was 65 percent would have been S&P 500, I think in this period we're using an intermediate government corporate index for the fixed income because that's similar to the OIP. [LR282]

SENATOR NELSON: Okay. [LR282]

JEFFREY STATES: Those would be the two substantial things because the private equity and real estate are very new. [LR282]

SENATOR NELSON: And then finally, "Current asset allocation is in alignment with spending." What does that mean? [LR282]

JEFFREY STATES: Well, it means that in order for us to be able to, in some at least scenarios, be able to meet the ongoing spending of $59.1 million, which is currently being done, that we need to have a fairly aggressive strategy. [LR282]

SENATOR NELSON: The 75 percent, the aggressive... [LR282]

JEFFREY STATES: That's right. [LR282]

SENATOR NELSON: ...in equities. [LR282]

JEFFREY STATES: Yeah. [LR282]

SENATOR NELSON: Yeah. [LR282]

JEFFREY STATES: We need to see the fund grow, but what the pages a little bit farther on will show is that that more-aggressive strategy has a much wider probability bend obviously that we won't achieve it as well as an outcome that gets us there. [LR282]

SENATOR NELSON: Right. I understand. Thank you. [LR282]

SENATOR HEIDEMANN: Senator Fulton. [LR282]

SENATOR FULTON: Thank you, Mr. Chairman. Thank you for being here, Mr. States. My question I guess is you're not able...we have not been able to grow the corpus because the expenditures have outstripped the contributions, correct? [LR282]

JEFFREY STATES: We're not able to any longer. I think for the first probably seven or eight years we did grow the corpus of the fund. [LR282]

SENATOR FULTON: Okay. That's my question. At what point did expenditures outstrip contributions? [LR282]

JEFFREY STATES: I think it, from my understanding, it would be at the point when the Intergovernmental Trust for the Medicaid stopped coming in... [LR282]

SENATOR FULTON: Okay. [LR282]

JEFFREY STATES: ...and that was probably somewhere around 2007 or 2008, I believe. It predates me. I apologize for not having that. [LR282]

SENATOR FULTON: Okay. Thank you. [LR282]

SENATOR HEIDEMANN: Senator Nordquist. [LR282]

SENATOR NORDQUIST: Thank you, Mr. Chairman. Thank you, Director. How does this asset allocation compare to some of our other long-term obligations, like our defined benefit plan? [LR282]

JEFFREY STATES: It's actually slightly more aggressive. The asset allocation that we use for the defined benefit assets, including private equity in real estate, were 70 percent equity, 30 percent fixed income. [LR282]

SENATOR NORDQUIST: And I guess what would be...I mean what would be the rationale for not wanting to align, given both of those are, you know, long-term investments that we're focused on making sustainable and perpetual? Why would we not want to have those aligned? [LR282]

JEFFREY STATES: Quite frankly, I think today there probably isn't a good reason,... [LR282]

SENATOR NORDQUIST: Okay. [LR282]

JEFFREY STATES: ...and I said that's why I think what was initially established in the late '90s, where we had income coming in, in excess, to invest, the focus was meet the transfers and try and grow the corpus over time as much as possible, and I think that worked up until about 2007. The balances were increasing and then we got hit by the market and then...and the Medicaid money stopped coming in. [LR282]

SENATOR NORDQUIST: Thank you. [LR282]

SENATOR HEIDEMANN: Pretty much I think everybody that is going to show up is here from the Planning Committee. We have Senator Heath Mello from Omaha, Senator Mike Gloor from Grand Island, Senator John Harms from Scottsbluff, Senator John

Wightman from Lexington, and I think that was it that all showed up late. So thank you for letting us ask some questions. You can continue on. [LR282]

JEFFREY STATES: Absolutely. I made, for the benefit of the committee, that just flip back to the charts that are the alternatives that we asked our investment consultant to look at, to kind of give us a perspective of where we were at if we changed the asset allocation. You'll find a page that has big typing that says asset allocation scenarios. This used the most recent capital market assumptions from our investment consultant, Hewitt EnnisKnupp. The aggressive strategy that's identified there would be continuing with the 75/25 type response allocation, which would give you a nominal return on an annual basis of 7.7 percent. If we went to a more conservative allocation, which would be more a 60/40 split, the expected return, given their capital market assumptions, would be about 6.8 percent. If you turn to the next slide, which are a couple of the scenarios they did, the first slide really is our current policy: 75 equity, 25 percent fixed income, with distributions, in this case they used a flat amount, but being $25 million over the contributions that were being received on an annual basis. And what they found, if you look at the box below, was that based on simulations of running about 1,000 simulations and picking what would be the median outcome, the 500th midpoint, that in ten years said there are only 39.8 percent of the outcomes that would maintain the balance of the fund at December 10 of last year's asset base, which was $338.7 million. So in ten years roughly 40 percent of the outcomes that they ran in the simulations, using that aggressive, would leave us at the same dollar value we currently have or have a higher outcome, which means 60 percent of the outcomes would be less than that. [LR282]

SENATOR FULTON: Can I... [LR282]

SENATOR HEIDEMANN: Senator Fulton. [LR282]

SENATOR FULTON: Just a clarification. [LR282]

JEFFREY STATES: Sure. [LR282]

SENATOR FULTON: The asset allocation scenarios, the expected geometric return, over what horizon does that assume? Is that a 20-year...? [LR282]

JEFFREY STATES: Their capital market assumptions generally are 15 to 20 years, yeah. [LR282]

SENATOR FULTON: Okay. [LR282]

SENATOR HEIDEMANN: Senator Gloor. [LR282]

SENATOR GLOOR: Thank you, Mr. Chair. And clarification for me also: You actually used the term "midpoint" and then "median," and so I'm from a statistical... [LR282]

JEFFREY STATES: Well, I'm sorry, it's a 50 percent level, as I understand. They basically used the 50th outcome so, yeah. [LR282]

SENATOR GLOOR: Counting...counting front/back if... [LR282]

JEFFREY STATES: Yes. Yeah. [LR282]

SENATOR GLOOR: Okay. [LR282]

JEFFREY STATES: Front to back is the 500th... [LR282]

SENATOR GLOOR: So it's a median then. [LR282]

JEFFREY STATES: Yeah. [LR282]

SENATOR HEIDEMANN: Just out of curiosity, I mean right now we probably...it has cost us a little bit because we have been as aggressive as we have been with our investment, but would now really be the time to get conservative? [LR282]

JEFFREY STATES: Yeah, that's certainly a major dilemma, you're right. And I think one of the difficulties we have is that, you're correct from many perspectives, the equity markets seem to be positioned to have a good long-term potential for return. We have a lot of uncertainty with respect to the next three to five years and it's that uncertainty that at one level wants you to be more cautious, but, you're right, if you...pulling back at this time means if we get the recovery you don't participate on a full basis. So it's kind of a mixed bag, which could mean...but this is...you (inaudible) decide, you know, that we could maintain the more aggressive strategy but in order to enhance or help us make sure that we still preserve the corpus, the spending would still need to be lowered then. We need to take less out until we have it. That's a little bit like what the third slide back is, which says it's the current asset allocation but only has a distribution that exceeds what's coming in of about $10 million. I think it's the third one of the charts. It says $10 million was spending but has the aggressive asset allocation. In that realm of things, the consultant's projections indicated that we would then, in ten years, have a 75 percent chance of still having a corpus that's at least as big as what we currently have. Seventy-five percent of the outcomes were at that or higher. And so that, you know, and join me and say there's not as much money to spend but gives us a higher probability that the funds would be...would actually grow over a period of time. [LR282]

SENATOR KRIST: Senator Heidemann. [LR282]

SENATOR HEIDEMANN: Senator Krist. [LR282]

SENATOR KRIST: Thank you. To your point and to your question, two and a half years ago I was looking for money and I knew then that this fund wasn't going to be around in

perpetuity because we were spending more than we were making in the fund. At what point, first of all--and this is not a question for you, it's a question for us--at what point do we trigger the specialists to tell us that our funds are in trouble? Because I'm not sure that that information was given to us when it became an issue in March in 2007, whenever the money stopped coming in that made this fund realize or we would have realized that it wasn't going to be around in perpetuity. The second part of the investment strategy is we have an obligation to balance the budget so I think our obligation is here to help, in terms of perpetuity. There's only two ways to sustain this fund. Either we put money into it and it's by an investment strategy, which I don't believe you need to back off on now, if you want my personal opinion. I think now is the worst time to back off on it with the way the market is, but I'm not an analyst. Or you put money into it in another way and fund it. But in no uncertain terms do I think the level of spending can continue where we're at. So I add that at this particular point because I think it's not just the investment of the current money we have; we need to stop spending the corpus because as soon as we stop spending the corpus our fund appears to be healthy, healthier than it is today. And I've read ahead on your notes and I see that that's...so I'll... [LR282]

JEFFREY STATES: Yeah, that's kind of the conclusion, yes, sir. [LR282]

SENATOR KRIST: Right. Thanks. [LR282]

SENATOR HEIDEMANN: Senator Fulton. [LR282]

SENATOR FULTON: A point and then a question; the point, first point, the difference between the aggressive and conservative asset allocation scenarios, if it's a 15- to 20-year horizon, the difference being only a 7.7 percent to 6.9 percent difference return. [LR282]

JEFFREY STATES: Yeah, on an annualized basis that's what their modeling shows,

yes. [LR282]

SENATOR FULTON: So I mean if the question is whether we're...be more aggressive or more conservative, we're talking about the difference, our projected difference would be .9 percent of a corpus of $289 million, which is about $2.7 million a year. So I mean the difference between being conservative and aggressive isn't that much monetarily. Am I correct? [LR282]

JEFFREY STATES: You are to some extent. And what I would show you, if you look at the bottom part of the chart that does the distribution of the ranges, that in the more aggressive strategy, while you ended at about the same point as the next slide, which does the conservative spending as well as the conservative asset allocation, that the potential though is in the worst-case scenario you end up in ten years having $187 million or seeing the base diminished, whereas with the more conservative strategy you narrow that band so that the downside would be $232 million. So the trade-off is you don't get as much upside potential but you also... [LR282]

SENATOR FULTON: Right. [LR282]

JEFFREY STATES: ...bend your downside a little bit. [LR282]

SENATOR FULTON: Okay. Then the question I have also along these lines, do any of these projections, any of the numerics within here, this presentation, account for inflation? [LR282]

JEFFREY STATES: The capital market assumptions themselves do. I do not believe the dollars are though, so basically as I see it. So basically, when you're talking about the dollars being the same, they're in current dollars so there is no inflation adjustment. You can see that a little bit in the chart where they did just the value of the $10 million next to the expected market values as a real spending value. And so that number goes

down because that would be the impact of inflation. [LR282]

SENATOR FULTON: Okay. Thank you. [LR282]

SENATOR HEIDEMANN: Continue on. [LR282]

JEFFREY STATES: Well, Mr. Chairman, I think the reason I'm here at least from the council is because we found kind of a disconnect between what we were being asked to do with respect to investing assets in order to achieve and provide for the spending, and we could do that and I think probably where we failed a little bit in advising you was our letters regularly have gone out for ten years and we said for the next ten years it's perpetual and sustainable. I, quite frankly, can tell you I concluded this letter with that same statement and I felt like it was kind of weak advice to you. Up above we said, you know, we're spending more now for the first time than we ever have, both from income and...but we did feel and today it's true, you could maintain for the next ten years your current level of spending; you will not have a perpetual fund, though. And that's where we kind of I think probably weren't being honest when we were writing the letters in the past. And the hope was that that would never occur because we'd continue to have fairly good and strong equity markets because that would be what would correct the problem. So today I think we have less certainty that those good and strong equity markets, even though the fundamentals all seem to indicate that, are a certainty, and we know that the gap is bigger than what the current tobacco contributions are and they're going to continue to go down, which means more and more of the investment earnings need to be used to meet the current transfers and that also means that there's not reinvestment occurring and that's part of the problem. And so I think for the fund to be perpetual and sustainable, I think as Senator Krist already said, we need to hope we have better investment results and we'll work to achieve that, but to have a higher level of certainty to make it happen the spending, at least from this source of funds, needs to be lower because with a high level of certainty we know we can generate $10 million to $15 million probably on an annual basis. I'm probably more comfortable with the $10

million than I am with $15 million. If you look at, you know, traditional endowments, a 4 percent distribution on an annual basis, maybe as much as 5, is more of a common goal and we've got a requirement to spend more than that out of the corpus in order to make it sustainable. [LR282]

SENATOR HEIDEMANN: You had stated that the money coming in is in decline. Do we have the information that's going to tell us over the next ten years how that money is going to come in or how much it's going to decline? [LR282]

JEFFREY STATES: Mr. Chairman, I would assume your staff has the same projections that I've received which came from the State Budget Division that were their best estimate over how, through 2035, of what they thought we would receive. [LR282]

SENATOR HEIDEMANN: So we do have that information. [LR282]

JEFFREY STATES: If someone doesn't have it, yeah, we do have it, yes. [LR282]

SENATOR HEIDEMANN: Okay. [LR282]

JEFFREY STATES: And they had updated those just a few months ago. [LR282]

SENATOR HEIDEMANN: Any other questions? Seeing none, thank you very much. [LR282]

JEFFREY STATES: You're welcome. [LR282]

SENATOR HEIDEMANN: I'm sure you haven't heard the last from us yet. [LR282]

JEFFREY STATES: We'll be happy to respond. [LR282]

SENATOR HEIDEMANN: At this time, we have Liz Hruska from the Fiscal Office. After that, we're going to have former state senator Jim Jensen testify. After that, we are going to invite public testimony. Just to let you know, we do have to be wrapped up by noon so kind of pace yourself because...with that in mind. Out of curiosity, how many people want to publicly testify? Okay. We have an idea now. And sometimes as you testify we ask questions, so sometimes we lengthen things ourselves. So welcome, Liz. [LR282]

LIZ HRUSKA: (Exhibit 2) Good morning. My name is Liz Hruska. I'm with the Legislative Fiscal Office and I'm used to sitting before each of these committees individually, but I was thinking back to the last time that I did it on a joint basis and it was with the creation of this Health Care Cash Fund and Senator Jensen was Chair of the Health and Human Services Committee and Senator Roger Wehrbein was Chair of Appropriations. So it's a pleasure to be here. The Health Care Cash Fund was created in 2001 and it was established, as I'm sure you're aware, to cover healthcare-related purposes and also to fund enforcement activities. As you have heard, there's two funding sources, the Medicaid intergovernmental transfer and the tobacco settlement funds. In statute, these funds are called trust funds but neither are in fact trust funds in that they are not governed by the conditions of a trust. At any point in time the Legislature can redirect or direct the funding from either one of these funds. The Medicaid intergovernmental transfer fund, as you've been told, no longer has a revenue source other than investment income. That was a loophole in federal law. Nebraska was the second state to take advantage of the loophole. It allowed us to overpay publicly owned nursing homes, and then in this state we recaptured the General Fund match and replaced that into the General Funds. The federal fund match was transferred to the Health Care Cash Fund, less an administrative fee that was paid to the publicly owned nursing homes that participated. And, let's see, tobacco settlement money is a settlement that Nebraska and 42 other states entered into with tobacco manufacturers and it is to repay states for the additional Medicaid costs due to smoking-related diseases. There's been some confusion over the years; information has been given to the senators that it's

supposed to be used for one purpose or another. Actually, the funds come unrestricted to the state. Some states have used it for capital construction projects or general operating. So what we've done is we created this mechanism to fund it for healthcare and enforcement activities. And as you've heard, the settlement agreement is to be paid in perpetuity. Whenever you see projections, they always go out to a certain point. And the report the State Investment Officer mentioned, drafted by Lyn Heaton of the Governor's Budget Office, is attached to the back of your report. That projects out to 2035 and he has two different scenarios, one assuming the full payment and the other is that some money may be withheld because of not performing due diligence regarding nonparticipating manufacturers, which is...there are requirements in the settlement--I'm not an expert in that area--of the states must enforce regarding tobacco companies that were not part of the Master Settlement Agreement. Next April Nebraska and 25 other states will enter into arbitration with the participating manufacturers and they are challenging our enforcement efforts in the year 2003 and potentially could lose between $6 million and $42 million, and these challenges are on a year-by-year basis. So 2003 is the first year; we could have subsequent years that are challenged. They have been holding back between $3 million and $5 million, putting it in a dispute account, so some of the penalties could be paid out of that account. At this point we just really don't know what will happen there. And the Health Care Cash Fund, as I'm sure you're aware, the Legislature determines the funding every year and then, based on the statutory amount of the transfer from the IGT fund and the tobacco settlement funds, the State Investment Officer makes the decision what amount to take from each fund that totals the statutory transfer. Over the years, the lowest transfer was in '04 of $47.8 million. In that year we had been funding the Tobacco Prevention and Control Program at $7 million a year, that was reduced by $4.7 million that year; and we also eliminated a healthcare grant program that was receiving $5 million a year. And the high was in '09, which was $59.9 million and, currently, we are doing $59.1 million in the next...current biennium. [LR282]

SENATOR HEIDEMANN: What was the low, $49 million? [LR282]

LIZ HRUSKA: $47.8 million. [LR282]

SENATOR HEIDEMANN: $47.8 million. What year was that? [LR282]

LIZ HRUSKA: 2004. [LR282]

SENATOR HEIDEMANN: Thank you. Senator Krist. [LR282]

SENATOR KRIST: Thank you, Chair. Are you going to get to the breakout of what is legally versus what is an optional appropriations in the fund? Is it my understanding... [LR282]

LIZ HRUSKA: Well, it's hard to say what is legal and what's optional. I mean there are a few things that are in statute, but the optional things would have...many of the optional things would have a General Fund impact in that they are base funding, such as with the Medicaid Program or funding for some programs that Sandy has. [LR282]

SENATOR KRIST: Though specifically biomedical research is a legal action that we have signed up to... [LR282]

LIZ HRUSKA: It's statutory. [LR282]

SENATOR KRIST: ...statutorily,... [LR282]

LIZ HRUSKA: Yes. [LR282]

SENATOR KRIST: ...everything else is, although it would have a General Fund impact, we control varying those amounts on a biennium basis? [LR282]

LIZ HRUSKA: Yes. Stem cell research actually is also statutorily based. We are...we made the transfer but we only appropriated $450,000 of the $500,000. So of the transfer amount, we're using $50,000 this year, we redirected $50,000 to kind of offset a General Fund obligation in another program. [LR282]

SENATOR KRIST: Okay. [LR282]

LIZ HRUSKA: So... [LR282]

SENATOR KRIST: And to your knowledge, with all of the others, when was the last time that we actually brought people in and had them justify the $3 million or the $7 million or the $10 million within the budget, particularly in particular areas? [LR282]

LIZ HRUSKA: It's been a while. It's probably prior to term limits totally taking effect. [LR282]

SENATOR KRIST: So the amount of money that's being taken out was almost a blank check each year to those people who had made that case either on the floor during...while the Legislature put this together or in a few years after that where they established their needs. [LR282]

LIZ HRUSKA: When we do the budget, we assume these programs to be at their current level of funding unless the agency comes in with a different proposal, as they did this past year when we were looking, you know, to reduce the budget. Then we make those issues or if senators have made proposals to either redirect certain funding or add funding. And we did make some cuts as we eliminated that healthcare grant program, which was initially funded at $5,000 a year, and that was determined by the Legislature to not be a priority versus all the other areas that we were looking at funding out of this. So, I mean, there is an assumption that the current level of funding is the start point, and we kind of do that with the state budget. We do have the 95/5 for that,

so we are looking at reductions there. We don't really have a 95/5 for this budget so, yeah, it hasn't been looked at maybe the same way as General Funds. And depending on, you know, what takes legislators' time, this fund is looked at more closely or less closely, you know, depending on what else is going on during the session. But it's been a while since we've had an actual hearing on this. [LR282]

SENATOR KRIST: Thank you. [LR282]

LIZ HRUSKA: So... [LR282]

SENATOR HEIDEMANN: Senator Gloor. [LR282]

SENATOR GLOOR: Thank you, Senator Heidemann. Liz, you made a comment that we're keeping $3 million to $5 million for dispute resolution. Is that in total or is that $3 million to $5 million per year? [LR282]

LIZ HRUSKA: It's per year. [LR282]

SENATOR GLOOR: Okay, good, because I think, as I believe I read in here, some of the withholds coming from the large tobacco manufacturers have been that much in recent years. So thank you. [LR282]

LIZ HRUSKA: Now I'll go through the programs that are funded by the Health Care Cash Fund. The Legislative Council in the current year is getting $75,000 and that money is controlled by the Health and Human Services Committee. It is designated for health-related research and for public policy development. The Attorney General and the Department of Revenue both get enforcement money. This is very critical money that we do kind of do our due diligence. We are being challenged on that right now. In this past session Senator Gloor had LB590, which increased the funding to the Department of Revenue for that purpose and hopefully maintaining the revenue flow to

the state. Tobacco Prevention and Control funds enforcement activity with the State Patrol, education programs to the general public and to school-age children. It also funds the "Quitline," and that funding has been probably the most variable of any program. It started at $7 million, this current year it's at $2.37 million. It's generally been between $2.5 million and $3 million. And that program can adjust their expenditures, adding more if there is more available, doing more outreach and public education, or contracting to a certain extent and doing less in that area. Their core though that they want to keep are the "Quitline" and certainly the enforcement activity. The respite care, there are six regional service areas and we fund a coordinator in that area and also $810,000 in direct aid to people receiving respite care services. The aid portion has been kept flat since the very beginning and the coordinator just had one increase quite a long time ago, I think in 2004-2005. So a lot of these programs that we are funding have not had inflationary type increases. The EMS technicians, that was a bill passed in 2002 that expanded the scope of practice for certain EMS technicians and we funded a part-time investigator, as the department projected there would be additional investigations due to the expansion of the scope of practice. Gambling assistance money was added in 2005 that was to be just temporary support. There was a constitutional amendment to use lottery funds and that amendment was defeated. The Legislature continued to fund it. I don't do gambling assistance money; my colleague Sandy Sostad does and she can probably answer any questions about that that you may have because I'm just...it's just not my subject area. Parkinson's disease registry, this was started in the 1980s. We are the only state that has such a registry. It does bring in research dollars. It was originally funded with General Funds and in 2001 the statute was changed to prohibit General Fund support but authorized cash funds, and they were able to obtain a grant from the Michael J. Fox Foundation that sustained them until 2009. In 2009 we started funding $26,000 a year for the registry. The behavioral health provider rate increases total $10 million and those were...that was a one-time rate increase in 2002 and 2003 for Medicaid behavioral health providers, the mental health and substance abuse regions, and juvenile justice and child welfare providers. And that is part of the base funding. If that was cut then those providers would take less

money or we would need to supplement that with General Funds. The mental health and substance abuse regions received $5.5 million for capacity and that money has remained flat since 2003. And $1 million also goes to the Office of Juvenile Services for substance abuse and mental health treatment of children in their custody. That amount has also remained flat from the beginning. Emergency protective services also got $1.5 million for capacity increases and that has remained at the same level since the beginning. Public health receives $5.5 million. That is distributed on a formula basis to the 18 local public health departments to provide core public health functions. Minority health receives $3.2 million and that is also distributed on a formula basis. Right now we are looking at how that money is distributed. I'm working with the FQHCs as far as their funding because of the census changes that have occurred. Children's Health Insurance Program originally received, in 1998, $25 million to fund the match for the CHIP Program. They didn't need that much money and so that money, that initial $25 million allocation, lasted them until 2004 and then in 2004 the Legislature made the decision to fund a flat $5 million a year towards the General Fund match. The General Fund match for CHIP exceeds that amount, so the General Fund picks up the balance. In the current biennium we are using some balances and some money, like from the stem cell research fund, to increase the amount paid towards the state match through the Health Care Cash Fund, but that is just a temporary measure. So in the chart you'll see that CHIP is funded at a higher amount than $5 million but that's because, again, we were looking to save General Funds where we could and so one-time funding is used to offset some General Fund costs. Medicaid smoking cessation was a bill passed in 2008 that made Medicaid smoking cessation a Medicaid-eligible activity and before we would reap the savings in Medicaid we needed to pay money out, so the A bill used money from the Health Care Cash Fund. Probably through my oversight, it should have been converted to a Medicaid expense after that but I think I forgot to do that and so now it is coming out of the Health Care Cash Fund, $450,000 a year. The autism treatment, the legislation that passed was to provide $1 million a year over...for five years and it required a private fund match, and the organization that was going to put up the match was the one that pursued the legislation. Then I think two years ago or a year and a half

ago they informed the Department of Health and Human Services that they wouldn't be putting up the match, so the money was never used. But $4 million was transferred and we are using in this biennium that $4 million again to offset the General Fund match for the CHIP Program. DD aid was increased to $5 million a year to address the waiting list in 2003, and that money has been...remained flat. Stem cell research was passed in 2008. We do transfer $500,000 out of the Health Care Cash Fund into a separate cash fund that goes towards grants to Nebraska institutions and researchers that do non-embryonic stem cell research. And the biomedical research is currently at $14 million. It started out at $10 million. The plan all along was to increase in $2 million increments to get up to $14 million and once we reached the $14 million that amount has stayed flat. The eligible institutions are University of Nebraska Medical Center, Creighton Medical Center, University of Nebraska at Lincoln, and Boys Town Research Hospital. Twenty-four percent of the available funds are split between UNMC and UNL; and sixteen percent between Creighton and Boys Town; and then sixty percent is distributed based on a formula based on their...the percentage of the grants they get from the National Institutes of Health. And $700,000 of this appropriation is also set aside for minority health. And the Poison Control Center at the University of Nebraska Medical Center receives $200,000 a year. The Poison Control Center was originally operated by Children's Hospital and then in 2003 they said they could no longer support it. It was transferred to UNMC and Creighton also helped with the support of it, and they used bioterrorism grants to initially fund it once it went to UNMC. When that...when the bioterrorism money was decreased and Creighton withdrew their support, they tried to obtain funding from hospitals and insurance companies, but that didn't materialize, so now we fund $200,000 a year from the Health Care Cash Funds. [LR282]

SENATOR KRIST: Chair? [LR282]

SENATOR HEIDEMANN: Senator Krist. [LR282]

SENATOR KRIST: Liz, if you would, the programs are listed. In our own committee, in

Health and Human Services, we found that when money is dumped into (Program) 347, sometimes we can't track where it goes or how it's spent. I see a lot of (Program) 33s, I see (Program) 347, I see (Program) 348. Can we track these in terms of who's spending this money in the General Fund in most cases? Is (Program) 347 an anomaly, as we've discussed in the past? [LR282]

LIZ HRUSKA: I think this is easier because it's cash funds and it's designated for certain purposes, so the money does go out. Like the behavioral health rate increases, that's just base funding for like child welfare and also it's base funding for Medicaid, the provider rates. And so when they pay those bills, they just draw down on the cash so this is a little different than how confusing child welfare has been funded. The child welfare is really probably more the anomaly than the other programs within 347, just because...just because...I don't know. They were looking for all kinds of money and how they set it up in the accounting system just made it difficult. But I don't...I don't see the same thing happening with these cash funds. [LR282]

SENATOR KRIST: These particular subprograms are accountable and you can track. [LR282]

LIZ HRUSKA: Right. [LR282]

SENATOR KRIST: Okay. [LR282]

LIZ HRUSKA: And cash funds are a very small portion of all of these programs that are listed so, I mean, it's more easily identifiable. And some are actually in separate programs by themselves. Like stem cell research and the biomedical research. Those are in separate programs so they can only use the funding for that and it's very easy to identify. [LR282]

SENATOR KRIST: Thank you. [LR282]

LIZ HRUSKA: Any other questions? I have a little bit more to go through but maybe this... [LR282]

SENATOR HEIDEMANN: Continue on. [LR282]

LIZ HRUSKA: In the back of your report I kind of separated out the programs from those that have been held flat, so there haven't been any inflationary increases; those that were increased are additions, new programs not initially funded in 2002 and 2003; and those with variable funding. And as I went through the description, I kind of pointed that out. A lot of these programs, if you eliminate the funding it might go to the General Fund. Some you could eliminate; they're relatively small programs such as the Parkinson's disease registry. At one time, you know, there was a restriction that they had to go and get outside funding. That's only $26,000 so it's not going to really shore up the sustainability of the funds, and that fund does bring in outside research dollars into the state because we are unique in having that registry. Also, I have two charts in the back and this...it shows the appropriation from 2002 to 2013 and I've highlighted the changes, year-to-year changes, either up or down. And I went to the appropriations rather than the expenditure. I started doing expenditures and...but after I thought about it, the appropriation really reflects the policy of the Legislature. The expenditures, sometimes they might, you know, drop off temporarily for one reason or another, and I just thought that would be kind of hard to explain going back historically. And if programs have underspent right now there's a mechanism in statute that any unobligated funds are recaptured by lowering the amount of the transfer into the next fiscal year. We also use unused funds, as we're doing in this current biennium, such as the autism funding that was transferred but not used to offset a General Fund obligation, in this case in the CHIP Program. We've also used it for some one-time items like capital construction and just kind of addressing maybe an individual time-limited need that was out there, such as a study. We have funded some studies from the balance. And then the second chart just shows the actual change from year to year, so I've used

2002 and 2003 as the base because that's when...that was the first biennium when the Health Care Cash Fund started, and then you can see the actual dollar amount changes year by year. And as I mentioned before, the briefing paper that Lyn Heaton in the Governor's Budget Office did regarding the projected payments going out to 2035, and a little bit of background on the nonparticipating manufacturers and the dispute there is also included in this report. [LR282]

SENATOR HEIDEMANN: Any questions? Senator Nelson. [LR282]

SENATOR NELSON: Thank you, Senator Heidemann. Liz, on the briefing paper there, in the text it says one of the changes was an adjustment in the volume adjustment. Could you explain what the volume adjustment...what does that mean? [LR282]

LIZ HRUSKA: It's the volume of tobacco products sold in the state. [LR282]

SENATOR NELSON: Not use. [LR282]

LIZ HRUSKA: Not use. It's the actual purchase. [LR282]

SENATOR NELSON: Okay. [LR282]

LIZ HRUSKA: The revenue from the tobacco products. [LR282]

SENATOR NELSON: More products, more tobacco products available? [LR282]

LIZ HRUSKA: Lyn Heaton probably could answer that more. That's part of the settlement agreement I never really got deeply into,... [LR282]

SENATOR NELSON: Right. [LR282]

LIZ HRUSKA: ...other than I know there is a volume adjustment. So if volume goes up, we would receive more payments. If it goes down, then the base amount that's in the settlement agreement is reduced. [LR282]

SENATOR NELSON: Okay. All right. Thank you. [LR282]

SENATOR HEIDEMANN: Senator Gloor. [LR282]

SENATOR GLOOR: Thank you, Senator Heidemann. I guess one of the learnings for me in this, Liz, is that these funds are used for capital projects. How is that determined? I mean is that part of a budget presentation that's brought forward to us? And who brings that forward? Do you know? [LR282]

LIZ HRUSKA: Well, it varies. It depends on what was proposed. We assisted with one of the research towers and that was a proposal, I'm probably not the best to address that and maybe somebody from the Med Center...I think it came from, you know, they had some private funding for this and they needed some additional funding. They looked at all sources. We did something at the regional center. I'm not really sure where that came from. I don't...really, that's not my subject area so I don't know if it came from the Governor's Office, if it came from the agency. And we also did a building at Corrections. Those really aren't my area so I wasn't involved in those specific issues. I just...in those cases I just tracked the funding. [LR282]

SENATOR GLOOR: Yeah, I'm just...we have a...I mean my recollection is we have a committee of the Legislature that gets involved in facilities and I think DAS or somebody has a responsibility to sit down and take a look at replacements of facilities that are aging over a time frame. I know we don't have funded depreciation but we have a process in place and I... [LR282]

LIZ HRUSKA: Right. [LR282]

SENATOR GLOOR: ...was just trying to decide if that gets brought forward externally or internally through our process. And it looks like... [LR282]

LIZ HRUSKA: And I can't...I very, very rarely have had a capital construction process. So Mike Calvert is here. He could probably address that. It's just...capital construction is just...my agencies rent space, for the most part, so it's not something that I get into. [LR282]

SENATOR GLOOR: Thank you. [LR282]

SENATOR HEIDEMANN: Any other questions? Seeing none, thanks, Liz. [LR282]

LIZ HRUSKA: Thank you. [LR282]

JIM JENSEN: Good morning. [LR282]

SENATOR HEIDEMANN: Welcome. [LR282]

JIM JENSEN: (Exhibit 3) Good to be here, I think. I have a prepared statement that certainly you can read. First of all, name is Jim Jensen, 10525 Mullen Road, Omaha, Nebraska, that's J-e-n-s-e-n. I was a state senator from 1995 to 2007, and was involved in the embryonic stage of these bills that you are discussing, and since I did play a part in it, I just thought I would come forward and perhaps give you some of the history of this really significant legislation. And matter of fact, looking back over the 12 years, this LB692 and LB1083, which concerned mental health, certainly were the highlights of my time here in the Legislature. In 1998...and by the way, all those years I was on the Health Committee and enjoyed my time there very much. Good to see Senator Howard, who also joined the committee, and Senator Nancy Thompson, who's in the...behind me here who also was part of that committee at one time. In 1998 Nebraska looked at the

possibility of taking intergovernmental transfer funds and developing a grant source for providers to build assisted-living units across Nebraska. This was done by Senator Wesely and Senator Landis, who worked on that, and there was a large amount of money that was available. And these assisted-living units certainly are less expensive than skilled nursing units and back then we did not have a lot of assisted-living units, and so there were grants that were set forth and monies expended, and actually the funding of 100 units were built. But there was a remainder at that time and we decided that to put that money into the Nebraska Health Care Funding Act to look at how we could fund things that we really felt, as the Health Committee, needed to be done to provide healthcare for our citizens. And so that was in 1998 and there was some talk back then about a tobacco settlement, but it wasn't until 2001 that we actually knew that we were going to get tobacco settlement dollars. And back then it was estimated that that would be $1,165,000,000, payable over the next 25 years. Now it was based on a lot of things, the amount of cigarettes that were purchased and so on and so forth, and so this looked like a once-in-a-lifetime opportunity to use those dollars. Now many other states used them in various ways. Some of them took actually a cash settlement, they had an outside source that determined that they would fund a state with a certain amount of cash. Some put it in their General Fund, some of them built roads. Some of them built buildings. Nebraska was only one of four states that set up a trust fund and we were the only one, in my recollection, that decided to put all of this into healthcare. Again, tobacco was one of the responsibilities...or responsible for many of the health issues across the nation and so to take those dollars and put them in healthcare seemed to be a reasonable thing to do. And so there were three bills that were brought forward in 2001--I, Senator Byars, I can't remember who had the other one--all concerning this issue and the Health Committee selected Senator Byars' bill with input on the other bills to go forward. Then when that was presented the Referencing Committee said this was an issue that really the Appropriations Committee should also look at, and so we had joint hearings and joint meetings with the Health Committee and the Appropriations Committee, with Senator Byars and Don Pederson at that time. And it is...I just want to applaud you for looking into this, the sustainability of the Nebraska

Health Care Funding Act. It's always good and responsible to examine all past legislation to see if it's really accomplishing what it was intended to do, and we in LB692...and I'd really encourage you to go back and take a look at that and to see what we were wrestling with at that time, and we were wrestling with the health needs of Nebraska and how to use these dollars. Back then Nebraska really didn't have a statewide public health service, a few counties had public health, many did not. And it was the passage of this that brought the state into...clear across the state, public health. We wrestled with the decision to make sure that the proceeds from a settlement for damages caused by the tobacco industry to the Nebraska citizens in the form of death and cost shifts to the state healthcare programs needed to stay in healthcare. We also decided to create a system of sustainable disbursements of proceeds in a fashion that would impact future generations of Nebraskans, providing targeted investments, not to new programs but to essential core services that the state had been struggling with. Clearly, the expenditures of these funds have created and sustained a statewide public health system that did not exist prior to passage of LB692. It jump-started a decade of growth in biomedical research that has subsequently grown to the research capabilities of higher education in Nebraska, and it has saved countless lives by providing critical emergency, residential, outpatient mental health services/substance abuse services that still remain a huge challenge to society today. But it also then provided an opportunity to create community opportunities for development-disabled individuals. It recognized and provided initial funding for respite services for family caregivers to seriously disabled relatives, and it targeted money to services to improve minority health challenges, which still are a major struggle today. For Nebraska's commitment to healthcare and its citizens, it is essential that the Health Care Trust Fund be sustainable, and if that requires a temporary reduction, I certainly feel that that is in order to maintain that long-term sustainability. I always have one caution, that anytime you open the Pandora's box be careful of what might want to jump into it, and I'm just saying that certainly we all have, as senators, we all had projects that we would like to see funded and we were always in the past, after the passage of this, restrictive as to what might come into that. I still feel that it is one of the greatest things that Nebraska has done for

its citizens and I certainly hope it can be maintained. Be glad to answer any questions from anyone. [LR282]

SENATOR HEIDEMANN: Senator Krist. [LR282]

SENATOR KRIST: Within the biomedical research area, I'm sure we're going to hear from someone,... [LR282]

JIM JENSEN: Sure. [LR282]

SENATOR KRIST: ...we get a report every year that tells us how that money has been spent and are able to evaluate it as time goes on in subsequent years or in previous years. When I first became involved with it, I was shocked that some of the studies may not have been, in my mind, money well spent, so we are trusting, in terms of biomedical research, that when we give them $14 million, when we appropriate $14 million, that that money is going to be spent in an appropriate way. I can assure you over my study or over my research that there's huge dividend return on biomedical, so don't take this as a slam. [LR282]

JIM JENSEN: Right. [LR282]

SENATOR KRIST: However, it's intriguing that in years of glut, in years of bounty, we found out that a female or male in an Indian tribe was more prone to be obese than others, a study that probably, as you read through it, to someone was very, very important. But as you have said, as we get to a point where we need to balance this budget and keep this thing around in perpetuity, we're going to have to put the entire program, in my mind, under a microscope. Realizing from...and I've read the volumes of debate on the floor when this happened, when you put the program together, and I wanted to have it here so that I could reference a couple of them to the rest of the committee. Knowing that biomedical research needs to be funded in a stable way,

knowing that all of these individual areas need to be funded or we're going to take money out of General Funds or we're going to provide less essential services, how would you suggest, being an author of this volume, that we proceed in terms of putting it all under a microscope? Obviously, doing what the federal government does and just cutting 10 percent off the top is not going to come to that end. [LR282]

JIM JENSEN: Yeah. Senator, you're absolutely right and actually in LB692 every other year, actually on even years, the Legislature was to get a report as to the dollars that were spent and then, yes, it's your responsibility to look at all that. And it becomes very, very difficult for a citizen legislator to read through all of those reams and determine, but that's what we...our responsibility is and, gee, that's probably the toughest thing about being a Legislature that actually the Nebraska citizens don't realize the impact there, and particularly for the tremendous amount of money that legislators get here in this state. (Laugh) But those are tough issues and the committees, Appropriations Committee for the funding, Health Committee, also needs to be responsible to ensure that the dollars that are spent are used wisely and there are times that perhaps something needs to be funded more, something needs to be funded less. But it is in statute. That becomes a little more difficult too but... [LR282]

SENATOR KRIST: When you review the programs, would you think it appropriate that before a particular function goes to the Appropriations Committee that they have to go through the Health and Human Services Committee to verify and validate that requirement? [LR282]

JIM JENSEN: Now we're getting into some policy. I absolutely do and I always felt that; that quite often we sat for hours at the Health Committee but we didn't ever get down to the dollars that were being spent and what was being received back, and that would require a change certainly in the Legislature and in our policies. But I think all committees should have that oversight, the funding oversight for what they're responsible for. [LR282]

SENATOR KRIST: Well, I certainly think it would be...it would make the Appropriations Committee's life easier if we were able to give them an oversight prior to arriving there. [LR282]

JIM JENSEN: Right. [LR282]

SENATOR KRIST: I think that's the way to do it, but that's my opinion. Thank you, Senator, for coming. [LR282]

JIM JENSEN: You bet. [LR282]

JIM JENSEN: Any other questions? [LR282]

SENATOR HEIDEMANN: Senator Gloor. [LR282]

SENATOR GLOOR: Thank you, Mr. Chairman. Senator Jensen, thank you for being here today. Thank you for your service to this body and to the state of Nebraska. One of the highlights of my previous career was when you brought the committee out to meet in my institution, not as a hearing but just to find out what was going on in acute healthcare (inaudible). [LR282]

JIM JENSEN: Some of my committee members sometimes referred to that as the death march across Nebraska. (Laughter) [LR282]

SENATOR GLOOR: Well,... [LR282]

JIM JENSEN: I really did feel that that was very important and... [LR282]

SENATOR GLOOR: I was glad we didn't bury anybody in Grand Island back in those

days. [LR282]

JIM JENSEN: Yeah. (Laugh) [LR282]

SENATOR GLOOR: This probably is a line of questioning along of Senator Krist's. As we try and sort through all this, reading your notes and the fact that the committee back when wrestled with decisions about where the proceeds should go, that they should stay in healthcare, and then it goes on to say and providing targeted investments, not to new programs but to essential core services that the state has been struggling with. Was there some effort made to try and define what healthcare was and what those essential core services were? Do you recall? [LR282]

JIM JENSEN: Not...no, not really. We looked at the services that we really felt the state needed and were underfunded. And back at that particular time there were quite a few and that's why you have what you have here. I've got the original fiscal note. I suppose you may have that also, as Liz read through those, but that is where we really...we did not want the dollars spent for roofs, roads, and really capital improvements but for programs. [LR282]

SENATOR GLOOR: Okay. Thank you. [LR282]

SENATOR CAMPBELL: Any questions? Senator, I just have one question for you and that is--and I think it's sort of in the same light--at that point the Health Committee would have looked at what you thought were the priorities in the state, and I think Senator Krist and Senator Gloor were getting at that. I know the Health Committee has talked about that. At this point in the state's history, do you see the priorities having changed over time? [LR282]

JIM JENSEN: Yes, I think they have changed and that is something I think the Health Committee can...you know, you know what those are better than I do, having been now

out for the number of years that I have. But, yeah, they always change. [LR282]

SENATOR CAMPBELL: And I think that's something that we're struggling with, knowing that some of the priorities have changed but yet we seem to have established, you know, every year, every year, every year the money stays the same in this fund and yet the needs increase. [LR282]

JIM JENSEN: Well, and unfortunately, there are entities out there who are relying on these dollars and if you pull them then what's the result of that too? So that makes it a lot more difficult. But the priorities do change, healthcare changes. Goodness, what we're doing today and what we did back in 1998, my wife is a nurse and she said, if I went back I'd be so dangerous that no one should hire me. (Laughter) But healthcare has changed and along with that I think our priorities have changed. [LR282]

SENATOR CAMPBELL: You know, one of the things that I've commented often in the last year, that I thought this original legislation was one of the most prudent decisions of the Legislature, and so I know I speak for a lot of people in commending all the senators who at that point in time saw into the future rather than just looking at the next four, eight, or ten years. [LR282]

JIM JENSEN: Thank you for that. And I think that's your responsibility now, is to look out as far as you can for that--my goodness, I would sure hate to see this drop off--and to continue into the future. But you do need to look and see what you see are those important priorities that should be established and go from there. [LR282]

SENATOR CAMPBELL: Thank you very much. Any other comments? Thank you, Senator, for coming today, much appreciate that history. [LR282]

JIM JENSEN: You bet. [LR282]

SENATOR CAMPBELL: Next testifier. Good morning. [LR282]

DON WESELY: Madam Chairman, members of the committee, my name is Don Wesely. The hat I wear today is former legislator and former Chair of the Health and Human Services Committee and a colleague of Senator Jensen. I don't think he realized I was behind him and I just came to echo what he had to say to you and to thank you for the time you're taking this morning to look at this issue. This is really an important issue. It's a perpetual fund, the intent being to be there for generations into the future, not to be spent down. But times have changed and some tough decisions have to be made. As Senator Jensen talked about, we did originally think when...let me back up a minute. In 1998, that was my last session as a legislator and Chair of the committee, along with the Vice Chair of the committee, Senator Jensen, and here's an example of how government should work. I was considered a liberal Democrat, now I'm a nonpartisan lobbyist, (laughter) and Senator Jensen would have been thought of as more a conservative Republican. But we talked about the potential of money coming in on the tobacco settlement and the intergovernmental transfer concept and we knew eventually the federal government was going to stop the intergovernmental transfer so we knew it wasn't going to be perpetual and we didn't know whether the tobacco settlement would...how long that would go and how it would work out. But we decided let's set up a framework back in 1998 so the money goes into healthcare, and, sure enough, in a few years that's exactly what happened, and Senator Jensen followed up, passed the framework legislation to implement it in 2001. But the thought at that time was that we'd eventually get to about $1 billion, so if you get to $1 billion you can think about $50 million a year in an endowment. So that's kind of where the concept was and that's where we ended up, you know, $50 million a year. Well, we're not going to get to $1 billion, so the question is, well, what do we do now? And the time you're taking this morning, the discussion you're having is very important because as you listen to the projects that are being funded by this, they're all very significant. They all make a difference. Even like Parkinson's registry, a small amount that was mentioned there, what a big issue, what a big problem in the state of Nebraska. I was involved with that

legislation too. We are the number one state in the country for Parkinson's. That's why we're the only state with the registry, because we have the biggest problem and we need to do something about it. So you can start with the smallest amount and go to the largest amount, the research and all of it is justified, so the question is, well, what do we do now? I will tell you, when we started one of the impetuses for me was that we could not find funding for public health and mental health. We just...we were 49th in the country on state spending for mental health and public health, and that was my priorities, and you'll see a lot of these programs are tied into public health and mental health and that's why, because we were last...well, we were ahead of Mississippi in both cases but that was it. So that was the reason it was a priority for us. I just want to go back again: This is an important fund, it has done a lot of good. I'm very proud of what we've been able to do in the state of Nebraska and I'm so glad you're taking the time to work on this. And again, I thank Senator Jensen for his leadership and follow-up, and for this Legislature protecting that fund over the years. The other states, as was mentioned, sent it into roads funding and one-time money that's gone now, and we did not do that. We put it into a fund and saved it and focused on healthcare, and that's the way it should stay. That's it, very brief. Thank you. [LR282]

SENATOR HEIDEMANN: Thank you. Questions? Seeing none,...welcome. [LR282]

JENNIFER LARSEN: (Exhibits 4-5) Thank you. Good morning. I'm Jennifer Larsen, J-e-n-n-i-f-e-r, Larsen, L-a-r-s-e-n. Chairman Campbell and members of the Health and Human Services Committee, as well as Chairman Heidemann and members of the Appropriations Committee, I am here as the vice chancellor for research at University of Nebraska Medical Center and representing the four institutions that receive tobacco settlement funds to conduct biomedical research, that being Creighton, University of Nebraska-Lincoln, Boys Town, and UNMC, and there are representatives of those institutions behind me in the room today. And I would like to specifically discuss the impact of LR282 on the lives of Nebraskans and Nebraska's economy. I have handed out my remarks that kind of go into a little bit more detail but trying to be succinct

because I note a lot of people testifying today. I'd first like to share some examples of how these funds have already had or may impact the health of Nebraskans. University of Nebraska-Lincoln has expanded its Center for Virology, which is a federally funded center focused on viral infections, both common and uncommon. Creighton University investigators are focusing on vascular disease using new gene therapy techniques that are leading to clinical trials. At UNMC we've established a Center for Agricultural Safety and Health aimed at preventing disease or injury related to farm owners and agricultural workers. Boys Town is working on changes in the retina to prevent blindness in an uncommon but strategy that might be useful in other kinds of diseases as well. UNMC investigators are developing a vaccine for Parkinson's disease. We talked about the importance of that to this state and it is getting ready for clinical trials. The Creighton University Hereditary Cancer Registry has supported investigation at UNMC and Creighton for looking at new biomarkers of cancer. The Center for Staphylococcal Research, including the antibiotic-resistant MRSA, is one of the funded centers out of this work which not only is looking at how we can prevent this infection but also develop new materials that would be resistant to the infections. And UNL and UNMC have creatively been working together to try and establish new types of products that could be helpful to the Nebraska economy as well as in healthcare. So these funds have had a direct impact on the growth of Nebraska's economy. While it's not the prime reason for having research, the economic impact in fact has been tremendous. In 2010, you may be aware that Dr. Ernie Goss of Creighton evaluated the return on investment from the funds distributed 2002 to 2010, and the overall calculated return was 8 to 1. But that return on investment is actually increasing and so this year, in fact in the report that should be coming to you shortly, it was 14.8 to 1 for UNMC and 9 to 1 for Creighton, for example. Importantly, those recruited investigators not only bring their grants to this state, which funds jobs here in the state, but they also bring their innovations, which can lead to products and businesses that hire staff as well. And for all these reasons we ask that you preserve the current level of these funds. We fully appreciate that Nebraska, like the U.S. as a whole, should reevaluate its programs to be sure that they achieve the impact that was hoped at the beginning. This program has not only had an outstanding

impact but a consistently positive return on investment. In fact, the tobacco settlement fund, I like to think of it as our seed corn. Using this fund and investment, we have already harvested new grants and a crop of very energetic and productive investigators and inventors. Reducing or diverting the seed corn from this program will diminish its momentum for expanding research programs and jobs for Nebraska, including higher paying jobs, both now and in the future. And as part of the materials that I submitted to you, I wanted to submit for the record a letter of support for this program from Senator Mike Johanns, who was Governor when he and the Legislature launched the program. I would also like to speak briefly in favor of continuing the separately funded adult stem cell research program. Everyone agrees that adult stem cell research is one of the leading edge technologies for addressing health problems. This competitive grant program available to Nebraska institutions conducting biomedical research helps us recruit stem cell investigators to the state and assists our investigators to address important healthcare problems in new ways. A few examples of projects that were funded, including just understanding stem cells themselves and how they could be applied in disease states and particularly some direct application to animal models of Parkinson's disease, blindness, emphysema, and at Creighton, cochlear injury and repair. Stem cell research is a very rapidly evolving research area and an area of research critical to the future of healthcare in Nebraska, and this program allows investigators to obtain the preliminary data they need in order to be successful in obtaining outside grants. And with that, I would like to say thank you and I'd be more than happy to answer any questions, if I could. [LR282]

SENATOR HEIDEMANN: Are there any questions? Senator Nelson. [LR282]

JENNIFER LARSEN: Uh-huh. [LR282]

SENATOR NELSON: Thank you for coming today. The $14 million, how is that...does that go into a pool? How is that allocated among the four institutions here of Creighton, Boys Town,... [LR282]

JENNIFER LARSEN: I think we... [LR282]

SENATOR NELSON: Will we hear about that? [LR282]

JENNIFER LARSEN: It was just part of the previous testimony that there's a formula that is based partly on fixed percentages and partly variable based on the NIH funding that that institution received in the prior year. So there's a combination of fixed distribution and variable based on their success in getting outside grants with the idea that that would go to the institutions that are increasingly successful in obtaining NIH grants. [LR282]

SENATOR NELSON: Do each of those institutions have projects or goals that they want to use particular money for or do they get the money and then they decide what it's going to be spent for? [LR282]

JENNIFER LARSEN: I can't completely speak to how each of the universities use it, but I can certainly speak to how UNMC does it. And I would say the majority of the funds are used to recruit extramurally funded investigators from outside the state to come, bring their dollars to the state and establish the kinds of innovative research that we're talking about. So it's not directly supporting their research. It's to lure them to Nebraska because we oftentimes have to replace their laboratories to get them to come to the state. [LR282]

SENATOR NELSON: What is the lure? I mean what's the money spent for. I mean what do we... [LR282]

JENNIFER LARSEN: Travel expenses,... [LR282]

SENATOR NELSON: Travel. [LR282]

JENNIFER LARSEN: ...setting up their laboratories. We have to sometimes replace the equipment, that they had at their other state, here in Nebraska so they can start their research. So there's a fund kind of to get them moved here, their laboratory, and established here in Nebraska. [LR282]

SENATOR NELSON: Does that go toward their salaries or their income? [LR282]

JENNIFER LARSEN: In some cases there may be some initial that goes towards their salaries as well. For the minority or health disparities kinds of grants, those tend to be a little bit more focused on programs and/or specific research projects. [LR282]

SENATOR NELSON: All right. Thank you. [LR282]

JENNIFER LARSEN: Uh-huh. [LR282]

SENATOR HEIDEMANN: Senator Campbell. [LR282]

SENATOR CAMPBELL: Dr. Larsen, thank you for your testimony and an overview. How...since UNO and UNMC, we'll just stay with that rather than the other institutions, but have you tracked over time the ratio of this money, and I understand the economy input, but the ratio of this money to the amount of grants coming in? Because every year I open the paper and I'm so impressed with the institutions that are in the state, all of them, for bringing in more and more research dollars. [LR282]

JENNIFER LARSEN: Right. [LR282]

SENATOR CAMPBELL: So this amount of money in relation to all of that would be in a decreasing ratio, would it not? [LR282]

JENNIFER LARSEN: It would. As I mentioned, the return on investment really is based on that. It's how much is spent, say, for the recruitment of that investigator and then how is it...or a research program, and then how has it brought in new research dollars, so $14.8, essentially $15 to $1, so for every $1 of investment sort of a return of $15 new research dollars. [LR282]

SENATOR CAMPBELL: But at the beginning, when the institutions were not bringing in as much grant money, this money would have been more critical perhaps than now with the increasing amount that's brought in. Is it that in the grants that you are now receiving an increasing amount, very impressive and thankfully so, but is there not money there to recruit people? And is this money that just cannot be replaced in another way, I guess is to the heart of that question? [LR282]

JENNIFER LARSEN: I think the question, maybe to reverse it somewhat, is to say that if the return continues to be $15 to $1, then that benefit to the economy would be lost. So while there are other monies to recruit but having that additional money is, in part, why we are able to see such a huge increase in the grant income because we can, again, bring in these funded investigators from other states and bring their grants with them. [LR282]

SENATOR HEIDEMANN: Senator Harms. [LR282]

SENATOR HARMS: Thank you for coming. I noticed in the information you gave us that the University of Nebraska Medical Center is investigating a vaccine for Parkinson's disease. [LR282]

JENNIFER LARSEN: Correct. [LR282]

SENATOR HARMS: How do we still...do we still rank near the top in the nation on Parkinson's? [LR282]

JENNIFER LARSEN: We do. It's partly related to the fact of the average age of our state compared to some other states. We don't know exactly why Parkinson's appears to be more of a problem in Nebraska but, yes. [LR282]

SENATOR HARMS: That was the other question I was going to ask. In their review, in their research, have they determined any...have any thoughts or ideas why other than just the age? [LR282]

JENNIFER LARSEN: No, but the research that has led to this vaccine shows clearly that it is a result of inflammation in the brain and...but what...if there's environmental factors, those kinds of things, that is an increasing interest of investigators at UNMC to look at if there are environmental kinds of factors that lead to disease in a variety of different ways. [LR282]

SENATOR HARMS: Genetically, have they found any research that indicates that it might follow genetic lines? [LR282]

JENNIFER LARSEN: We do not have evidence of that at this point. [LR282]

SENATOR HARMS: Thank you. [LR282]

SENATOR HEIDEMANN: I got a question. Just looking at what we have before us, I think we have...we can either kick the can down the road a little bit or we have some tough decisions to make, and just...I'm going to ask you this and maybe I might ask some others. It might not be fair. But would you rather have $14 million for 20 years or $12 million forever? [LR282]

JENNIFER LARSEN: I think it isn't fair (laughter) to make that decision. You know, I think one of the...I've heard some of the discussion about how could we do this and I

think the question is, is there a middle ground that, while we have decreased return on the investments that fund this program currently, is this a temporary shortfall that could rise as the economy comes back? And I think it's sort of saying, is it all or nothing, and I don't know all the...I don't have all the details like you do perhaps in terms of making those decisions, but I think that as we evaluate programs, again, you have to look at what that return on investment is because that is part of what's going to fund our future economy, which again is going to have ripple effects in other aspects of programs for Nebraska. [LR282]

SENATOR HEIDEMANN: If we did make a determination that we need to slow down either temporarily or maybe a little bit longer than that, how much lead time...and I've talked to people from the university that you just can't cut this like this because we've already planned somewhat for this money. How much lead time would you need, say, if we did cut it back to $12 million so that we wouldn't hurt what you have going right now? Can you give us any kind of indication? [LR282]

JENNIFER LARSEN: It probably would depend on how much you cut. Certainly the way we have invested this money that we have commitments to these investigators over a period of time, so it's actually out five years. [LR282]

SENATOR HEIDEMANN: So if we just said today we're going to cut, you're going to have to come up with that money someplace else because you've somewhat committed to it already. [LR282]

JENNIFER LARSEN: Correct. [LR282]

SENATOR HEIDEMANN: Okay. Senator Krist. [LR282]

SENATOR KRIST: Along those same lines--thank you, Chair--I've talked with each one of the institutions and I understand how critical it is that your funding be predictable in

terms of your investment into our economy and into our medical future. Would it be...let me give you a scenario. Would it be inconceivable, you think, and maybe you can't answer this but I'm sure somebody behind you can, would it be inconceivable that at the beginning of or at the end of the previous biennium we would call into the Health and Human Services Committee each one of the institutions and say this is what we're thinking about doing and this would be the lead time for not the next biennium but the biennium after so we can look at a budget that would start to get a handle on this? And by that I mean you're looking in year one, past year two and three, into the beginning of year four for a reasonable budget in how we would continue. Could you see that process fitting into what you would think would be a board decision or an institutional decision that would be projecting out that kind of research? [LR282]

JENNIFER LARSEN: I think the more lead time the better. Is that kind of what you're implying, that we'd be talking about a...? [LR282]

SENATOR KRIST: Well, I'm actually trying to talk along the structure, as actually structuring a potential fix, if you will, to our short-term and long-term problem, and that is we talk around how much time you need, we talk around how much you invest in the future, but what I'm suggesting is that this coming year, which is this year that we're in, this short session, we would call in each of the people who were getting money from the process, including biomedical, and say, justify your position in this budget structure, because our goal is to lose $4 million, $5 million, and we need to make these cuts, which would give you...and we're doing that not in the next biennium, so not in years, as I said, not in 2013-14 but in the next cycle down the road. And I guess it's not a fair question, again, to you because I don't want to put you on the spot, but I would think that that's something that the institutions should come back and tell us because it's not sustainable and we want it around in perpetuity, so I'm asking Senator Heidemann's question in a different way, would you rather have $12 million every year or $14 million for the next ten, so... [LR282]

JENNIFER LARSEN: And I guess I would come back and say that if you were talking about delaying that decision, we would also have a few more years to see what happens in the economy and return... [LR282]

SENATOR KRIST: Certainly. [LR282]

JENNIFER LARSEN: ...on the investment as well. So again, pushing it out gives that middle ground a chance to see what's going to happen with the economy. [LR282]

SENATOR KRIST: Thank you. [LR282]

SENATOR HEIDEMANN: Senator Harms. [LR282]

SENATOR HARMS: Thank you, Dr. Larsen, for coming again today. In looking at the bullet point that you've identified that this money has been spent for, is there a possibility you could give us just a brief synopsis later of what progress we made in each of these categories? In other words, I'm interesting in knowing how successful we've been and where we really are with that research. And then secondly, if we're going to have to make the difficult decisions along this line, I don't really know, I sure wouldn't feel very comfortable in saying that we should cut the agricultural safety or deal with the vaccine for Parkinson's disease. So I guess we're going to have to turn to the university and say, if we're going to have to cut this amount out, what would you prioritize for us the things you want to fund and things that we could probably let slip away? Because I think we're going to need your help and your assistance to do this. [LR282]

JENNIFER LARSEN: Uh-huh. [LR282]

SENATOR HARMS: I know those are hard decisions... [LR282]

JENNIFER LARSEN: Uh-huh. [LR282]

SENATOR HARMS: ...that will be up to us, I mean both Health and Human Services and our Committee on Appropriations, and to look at that carefully. But I think that would be really helpful. [LR282]

JENNIFER LARSEN: Uh-huh. So just to make sure that we understand that, at least in terms of the UNMC projects, these or...this is the research that investigators are doing, we have used the money to bring them to the state and then they have their own funded research. But I will be happy... [LR282]

SENATOR HARMS: I understand that,... [LR282]

JENNIFER LARSEN: Yeah. [LR282]

SENATOR HARMS: ...but I'm just interested in knowing just... [LR282]

JENNIFER LARSEN: Yeah, what have we got out of it? [LR282]

SENATOR HARMS: ...what kind of progress have you made in laymen's terms. [LR282]

JENNIFER LARSEN: Yes, absolutely. [LR282]

SENATOR LARSEN: Because I know we can get pretty lost in that pretty quickly, so... [LR282]

JENNIFER LARSEN: Yeah. Well, for example, the Center for Virology actually is a collaborative center of UNL and UNMC and Creighton, I think as well, and some of the things that have come out of it, obviously HIV/AIDS is a national kind of problem and the team that is working on that has led to actually again developing a vaccine that might be

helpful for treatment and devising a new kind of treatment; rather than having to take multiple pills all at the same day, that it could be a smaller number of pills and the medication can get into the brain and prevent the neurologic consequences of HIV, for example. [LR282]

SENATOR HARMS: I'm fairly familiar with the University of Nebraska Medical Center... [LR282]

JENNIFER LARSEN: Uh-huh. [LR282]

SENATOR HARMS: ...because I have taken several tours, and I have to tell you that I've been really impressed with what I've seen there. They have attracted some of the brightest researchers, you might call them investigators but... [LR282]

JENNIFER LARSEN: Uh-huh. [LR282]

SENATOR HARMS: ...the brightest researcher I think I've ever spoken to, and I left with a lot of enthusiasm and I'm not sure that this great state really understands how valuable the University of Nebraska Medical Center is to the state. And where I live, we're so far away we have a tendency to go more to the Colorado base, but we have such a better research and hospital here that somehow I wish we could get our public to fully understand that. [LR282]

JENNIFER LARSEN: Uh-huh. [LR282]

SENATOR HARMS: Because you've just done some phenomenal work and what I see happening in the future with research in cancer and some of the other sorts of things you're doing is just outstanding and I applaud you. I'd hate to see us hurt that in any form or manner, but I know it will eventually come down to priorities. [LR282]

JENNIFER LARSEN: Uh-huh. [LR282]

SENATOR HARMS: So thank you very much. [LR282]

JENNIFER LARSEN: Yeah. Yeah. [LR282]

SENATOR HEIDEMANN: Any other questions? Seeing none, thank you for testifying today. [LR282]

JENNIFER LARSEN: Thank you. [LR282]

SENATOR HEIDEMANN: Welcome. [LR282]

ANDREA SKOLKIN: (Exhibit 6) Thank you. Good morning, Senator Campbell, Senator Heidemann, members of the committees, plural. My name is Andrea Skolkin, A-n-d-r-e-a, Skolkin, S-k-o-l-k-i-n, and I am the chair of the newly formed Health Center Association of Nebraska, which represents the interest of the six federally qualified health centers in Nebraska. I'm also the chief executive officer of OneWorld Community Health Centers in south Omaha in the Livestock Exchange Building. Federally qualified health centers are community-based organizations that provide comprehensive primary care and preventive care that includes medical, dental, behavioral health, pharmacy, and a number of support services to people of all ages and backgrounds, according to their ability to pay. In 2010 the six health centers in Nebraska were the healthcare home for 63,330 patients, providing care through 238,433 visits. Ninety-three percent of our patients had incomes under 200 percent of poverty, and fifty-seven percent of them were uninsured. We save valuable tax and private dollars by keeping people out of emergency rooms, helping the working poor and their families to be healthy, stay employed, and prevent costly services that can occur when people don't get primary preventive care, and we drive the cost of healthcare down. In 2001 the Legislature established the Health Care Cash Fund with Nebraska's portion of the tobacco

settlement. Funds were specifically set aside for minority health services and OneWorld and Charles Drew Community Health Centers received a specific allocation of the Health Care Cash Fund dollars for reducing health disparities in ethnic and racial minority populations in Congressional District 2. During that time, the two health centers have more than doubled the number of minority patients cared for from 9,972 in 2002 to 23,343 in 2010, and we are now the largest providers of primary care for these populations in Omaha. It was because of that concentration that the Legislature designated our centers to ramp up to serve the ever-growing needs of this underserved population, and you can see by the numbers in fact we have done that. But as you're also aware, Nebraska's racial and ethnic minority population has been growing over the past decade and we have been fortunate to increase the number of community health centers in this state to attempt to meet this increasing demand for care for low-income and underserved populations. Nebraska's other four health centers now serve 13,000 racial and ethnic minority patients and provide care at 21 sites. Like the Omaha-based centers, the majority of their patients are also living in poverty and are uninsured. Under current law, they have partnered with health departments for grants to serve these populations. However, all would prefer that the dollars be available, as those for Congressional District 2, on a more predictable basis and to be used for direct services. Just to give you a small example of the impact of the dollars from September 2008 to last August, just at our health center alone, which we use the funds to support care for chronic diseases, patients with cardiovascular disease at our health center increased by 51 percent to over 2,000 patients. We are looking to you, as health centers across the state of Nebraska, to sustain our important work and help our vulnerable patients and residents of the state of Nebraska, a majority of whom are women and children. Because we are federally qualified health centers, we're held to very high standards which result in high quality but affordable healthcare. We use a sliding fee, which means that all of our patients contribute to the cost of their care based on what they can afford. We are good stewards of state dollars, running efficient and effective clinics. We are your experts in providing primary care for underserved patients with complex issues and needs. Research shows from our national association about one-third of all business to

hospital emergency rooms each year are nonurgent or treatable in primary care settings. A 2006 report estimated that the annual wasted expenditures on avoidable ER visits in Nebraska was $94 million. In addition to this valuable component and prevention of ER visits, we inject $39 million in operating expenditures directly into local communities, generating 464 full-time jobs and 256 jobs in other industries, for an overall economic impact of $67 million in 2010 alone. But most importantly, our community health centers make Nebraska a better place to live, ensuring for all of us that the most vulnerable among us have access to primary care. In closing, I'd like to thank the members of the Health and Human Services and the Appropriations Committees for your commitment to ensuring the health of all Nebraskans, and we request that in your consideration of the Health Care Cash Fund that you remember the needs of low-income, vulnerable minority patients seen at the six federally qualified health centers in Nebraska. And thank you again for the opportunity to be here. [LR282]

SENATOR HEIDEMANN: When you consider funding, how much of your funding comes from the federal government? [LR282]

ANDREA SKOLKIN: Each health center is slightly different in terms of percentage, but overall it's about 20 percent. [LR282]

SENATOR HEIDEMANN: Do you see that funding over the last five years or maybe into the future a little bit, if you can tell us that, where do you see that funding going, where has it been? [LR282]

ANDREA SKOLKIN: Into the future, the future is bleak in terms of additional funding coming to community health centers in Nebraska, so as you're well aware of the whole federal budget discussion, we see that that money will remain flat or, in fact, a small recision in the funds. In the... historically, however, we have received funds in Nebraska but that was for...really for new starts for health centers and some expansion of services. [LR282]

SENATOR HEIDEMANN: Thank you. Any other questions? Senator Nelson. [LR282]

SENATOR NELSON: Thank you for coming, Andrea. "Healthcare home for 63,330 patients," are those repeat patients or is that the total number of people, individuals, that you have seen in a year? [LR282]

ANDREA SKOLKIN: Thank you, Senator. Those are unduplicated individuals, not repeat. [LR282]

SENATOR NELSON: Do you have quite a number of elderly that come, in addition to minorities? [LR282]

ANDREA SKOLKIN: The primary audience of community health centers really has been working age adults; however, there is a small population of older adults, not a large population though. [LR282]

SENATOR NELSON: Do you provide care for homeless individuals? We have a lot of those in Omaha and I'm just wondering if they find their way to your facility. [LR282]

ANDREA SKOLKIN: Yes. In fact, health centers are the home for many homeless throughout the state, in Omaha especially, services provided to homeless individuals. Specifically, we provide care within our health center but the Charles Drew Health Center in north Omaha, where the majority of the homeless shelters are, provides healthcare to the homeless. Uh-huh. [LR282]

SENATOR NELSON: All right. Thank you. [LR282]

SENATOR HEIDEMANN: You talked about a sliding fee scale. Do they all contribute something or does it actually get to be free for some? [LR282]

ANDREA SKOLKIN: All patients are supposed to contribute to the cost of their care, but by federal law we cannot turn someone away if there is no ability to pay. So indeed, we have bad debt like every other healthcare institution and there are some people that we provide healthcare for that don't pay. But by and large, our patients pay. [LR282]

SENATOR HEIDEMANN: Thank you. Senator Howard. [LR282]

SENATOR HOWARD: Thank you, Mr. Chairperson. I've always felt that your facility, and I wrote a note to myself, does the greatest amount of good with the least amount of fanfare, which I just really appreciated the outreach and the work that you do. In your presentation, you hit upon something that I hadn't thought about in a long time, but when I was doing case management one of the problems that I saw every day was that people would use the emergency room as their medical home basically. They didn't see any problem with going to the emergency room, it really was more convenient for them, because they weren't paying the bill. They were on assistance. And for you to be able to encourage and have that population shift over to your facility saves everybody and it's better for the patient because they establish an actual medical home. So I really appreciate that. That's something that I saw for years and I saw this as an uncorrected problem that costs everyone that was involved, the taxpayer and the patient. So that is such a plus that you can shift those folks over to your facility. The other thing I think it's important to stress is that you really are pretty much full service. You've got the dental clinic, you've got the pharmacy. I mean it's so comprehensive for people. You've got the emergency clinic, the minute clinic kind of concept. I think this is really the way that people should shift their medical attention. [LR282]

ANDREA SKOLKIN: Thank you, Senator, but I also want to be sure that you know that across the state, while we provide great services, the same types of services are also provided through all the Nebraska federally qualified health centers, and it does not stop the spigot, if you will, at the emergency room but it is certainly a help. [LR282]

SENATOR HOWARD: Thank you. [LR282]

SENATOR HEIDEMANN: Senator Fulton. [LR282]

SENATOR FULTON: Thank you, Mr. Chairman. A question on your funding, and I don't know if this is reflective of all of the centers across Nebraska, but 20 percent...you indicated about 20 percent is federal funding. Do you have an idea of the percentage of private sector or charitable contributions? And then to that end, comment on whether that has been dwindling, as has been the case in other charitable organizations I'm familiar with. [LR282]

ANDREA SKOLKIN: Thank you, Senator. That's probably even a more difficult question because resources are uneven across the state, I would say, from foundations or corporate giving and ability to give, so it's probably hard to make that statement. [LR282]

SENATOR FULTON: Well, maybe just for...you know... [LR282]

ANDREA SKOLKIN: I would say maybe, you know, 5 to 10 percent comes from the community or philanthropy, if I had to use a broad statement. [LR282]

SENATOR FULTON: And has that number increased, decreased? Has there been a...on your... [LR282]

ANDREA SKOLKIN: That number is flat. Though try as we may to reach out and ask for more money, that number is really flat. And in the economy, there's been some decreases. I think in the Omaha area we've been able to maintain but in greater Nebraska those amounts have decreased. [LR282]

SENATOR HEIDEMANN: Is that...do you have any other questions? That's it? [LR282]

SENATOR FULTON: That's it, yeah. Thank you. [LR282]

SENATOR HEIDEMANN: Out of curiosity, if you're at 20 percent federal funded, how much percentagewise funding do you get from the state? [LR282]

ANDREA SKOLKIN: Again, each health center is slightly different, ranging from 16 to 23 percent, I would say, from the state. Patients, their contributions are about 40 percent of our budget, but that also includes Medicaid reimbursement. So our sliding fees and our third-party reimbursement is lumped together in that 40 percent. [LR282]

SENATOR HEIDEMANN: Any other questions? Senator Bloomfield. [LR282]

SENATOR BLOOMFIELD: Thank you, Chair. I'm going to go a step further than they did with hard questions. Get your crystal ball out. If what we refer to as "ObamaCare" survives, is that going to help you a little bit or is that... [LR282]

ANDREA SKOLKIN: As probably everyone would say, undetermined at this point in time. As that healthcare rolls out what health centers are trying to prepare for is the addition of more Medicaid patients as Medicaid eligibility rises. Additionally, we still believe that there's a number of patients, in the thousands in our state, that probably won't be able to participate in the health exchange or it will still be unaffordable, the healthcare premium, even with some buy-downs. So we're not seeing...and nationally being touted that way, that business is going to decrease; quite in fact it's going to increase. And when we look at the demographics for the state of Nebraska, which are rapidly changing, particularly in some smaller rural communities, the need for supports for minority population are only going to grow. [LR282]

SENATOR BLOOMFIELD: Okay. Thank you. [LR282]

SENATOR HEIDEMANN: Any other questions? Seeing none, thank you for testifying today. [LR282]

ANDREA SKOLKIN: Thank you. [LR282]

SENATOR HEIDEMANN: Welcome. [LR282]

C.J. JOHNSON: (Exhibit 7) Good morning, Senator Campbell, Senator Heidemann, members of the Appropriations Committee and Health and Human Services Committee. My name is C.J. Johnson, C.J. J-o-h-n-s-o-n. I'm the regional administrator with Region V Systems and I'm here on behalf of all the regional behavioral health authorities. The regional behavioral health authorities are responsible for the development and coordination of publicly funded behavioral health services within the behavioral health regions, pursuant to rules and regulations adopted and promulgated by the Department of Health and Human Services, including but not limited to administration and management of the regional behavioral health authority; integration and coordination of the public behavioral health system within the behavioral health regions; comprehensive planning for the provision of an appropriate array of community-based behavioral health services and continuum of care for the regions; submission for approval by the division of an annual budget, and a proposed plan for the funding and administration of publicly funded behavioral health services within the regions; submission of annual reports and other reports as required by the division; initiation and oversight of contracts for the provision of publicly funded behavioral health services; and coordination within the division in conducting audits of publicly funded behavioral health programs and services. The Nebraska Health Care Funding Act, as passed in 2001, provided the six regional behavioral health authorities with approximately $10.5 million annually for addressing rate increases, expansion of behavioral health services and the emergency protective custody system. This funding was intended to support the eventual implementation of LB1083, as we heard from former Senator Jensen earlier, otherwise

known as the Nebraska Behavioral Health Services Act that eventually passed in 2004. The initial healthcare funds allocated to the behavioral health regions had six priorities, as established by the Governor and the Legislature at that time. These priorities were: to decrease the number of postcommitment days; to decrease the number of emergency protective custody situations; to decrease the number of days consumers were served in inappropriate levels of care; to decrease the number of commitments to regional centers for substance abuse; to increase the service capacity available to special populations, including those who are in the criminal justice system; and to ensure services are equitably provided in all counties within each region based on need. I have provided you a chart towards the back. There's two different charts that are available to you. One is a listing of all the various services that have been impacted directly by the Health Care Cash Funds, and then the last five pages--I know, Senator Krist, you had asked this earlier, can we account for our dollars--the last five pages have each region and how that funding is broken down, line by line, service by service, and how we're utilizing that. Over 60 services have been impacted by the Health Care Cash Funds across the state. These services address both mental health and substance abuse services, as well as children and adult services. This funding was critical in providing the foundation for LB1083, allowing the funds from the Behavioral Health Reform Act to further expand services and provide community-based treatment options for hundreds of individuals residing in state regional hospitals. With the ongoing funding from Health Care Cash Funds in conjunction with funding through behavioral health reform, each of the regional behavioral health authorities have been able to continue to modify the public behavioral health service delivery to address current system needs in the ever-changing landscape in the behavioral health field. The regional administrators would like to thank the joint Health and Human Services and Appropriations Committee for its thoughtful interest in the Health Care Cash Funds Act since its passage over a decade ago. The funding continues to support critical components of the public behavioral health system following the implementation of LB1083 and the Behavioral Health Reform Act, resulting in thousands of individuals being able to receive community-based treatment rather than receive treatment in

state-operated hospitals. I'm more than willing to answer any questions. [LR282]

SENATOR HEIDEMANN: Senator Krist. [LR282]

SENATOR KRIST: Very briefly, this is a great breakdown and I appreciate you being good stewards and accountable for the funds. Is this something that you report on an annual basis to anyone by law or would you...would this be an issue that had to go through Health and Human Services and account for the money on a regular basis? [LR282]

C.J. JOHNSON: We report this to anybody that asks us at any time and we get regular requests for how our funding is being spent, so... [LR282]

SENATOR KRIST: Perfect. Thank you very much. [LR282]

C.J. JOHNSON: Yep. [LR282]

SENATOR HEIDEMANN: Any other questions? Senator Campbell. [LR282]

SENATOR CAMPBELL: Real quickly, C.J., what percentage of the money that's coming from here would be a part of the total budget of the regions? [LR282]

C.J. JOHNSON: For example, Region V, we receive about $17.2 million and we receive $3 million out of the Health Care Cash Fund, so whatever percentage that is. I'm looking over...do that in my head real quick, I can't do it. Let's see, what would that be? Help me out. Yeah. We're all looking. [LR282]

SENATOR CAMPBELL: Okay. Thank you. But that just...and so it's inputted in the $17.3 million, is what you're saying. [LR282]

C.J. JOHNSON: Yes. And it would be about 6 percent. [LR282]

SENATOR HEIDEMANN: Senator Gloor. [LR282]

SENATOR GLOOR: That was my question. Thank you. [LR282]

SENATOR HEIDEMANN: Any other questions? Seeing none, thank you for coming in and testifying today. [LR282]

C.J. JOHNSON: Thank you. [LR282]

DAVID HOLMQUIST: Senator Heidemann, Senator Campbell, members of the Health and Human Services Committee and the Appropriations Committee, my name is David Holmquist, D-a-v-i-d H-o-l-m-q-u-i-s-t. I am a registered lobbyist. I represent the American Cancer Society and the American Cancer Society's Cancer Action Network. I thank you for holding this hearing and it's my pleasure to appear today before you. I thought I'd begin with a bit of an historical review over the...about the Tobacco Master Settlement Agreement, but that seems to have been covered so I won't spend any more time doing that. I did want to commend Senator Jensen and the other senators who served in the Unicameral between 1998 and 2004 when all of these issues were being discussed. They assured that MSA funds were utilized for healthcare and the purposes intended, at least in the spirit of the Master Settlement Agreement. As you know, the Health Care Cash Fund was created through LB692 and the allocation of funds included all those issues you've heard about this morning with the exception of the Tobacco Control Fund. That was added by the Legislature within the last couple of years. Also want to commend the work that's being done with all of the agencies that are being funded through this program, particularly the biomedical research piece. I'm not sure you're aware but Nebraska last year received about $99 million in funding from the NIH. That translates into 4,300 jobs in Nebraska and I think that makes a huge financial...positive financial impact on the state. And as you've heard before, in some

measure those millions of dollars that are coming into the state are as a result, in part at least, of the funding from the Health Care Cash Fund. Also, behavioral health is another critical, important component, as are the public health departments and the public health infrastructure in the state. I'll speak directly to the Tobacco Control Cash Fund. Originally, prior to the passage of LB692, the Legislature passed a bill that was an education bill and as a part of an amendment to that bill they appropriated $21 million to the Tobacco Free Nebraska Program within the Department of Health and Human Services. That was $7 million a year for three years. Part of that money was raided, if you will, during an economic downturn, so they actually expended about $16 million over that three years. At the end of that three-year funding cycle, the funds for Tobacco Free Nebraska were slashed from $7 million a year to $450,000 a year. That lasted for two years, and in the intervening time those funds have fluctuated between $1.5 million and $3 million. The overall goal of Tobacco Free Nebraska is to reduce consumption, thereby reducing human costs related to death and disease and financial costs both to individuals and to the state to pay for the health consequences of tobacco consumption. As I've mentioned, the fund has been a fluctuating fund but even with those fluctuations let me give you just a few bullet points about successes. The baseline outcomes associated with the program include the use of tobacco by high school students was reduced from a self-reported 39 percent of high school students in 1999 to the current 15 percent of high school students who report having smoked within the last 30 days. This compares to a national rate of 19.5 percent. Excellent work has been done and continues to be done. The number of adult smokers reduced from 22 percent to 17.2 percent, and we would compare that nationally to the adult smoking rate of 20.6 percent. The real costs of tobacco use in Nebraska, to you as legislators, in terms of appropriating funds, are the annual tobacco-related Medicaid costs in Nebraska are $134 million. The annual Nebraska healthcare costs caused by smoking, exclusive of Medicaid money, is $537 million, and this is money that may not come out of our tax coffers but is certainly money that comes out of our pockets in terms of having to pay for insurance claims, help pay for insurance claims for those who have smoked or chewed tobacco, has to do with reduced productivity and so forth. And the overall lost

productivity in Nebraska is over $500 million annually. This is from people who have to report, report into work and say, I can't come in today because I have a respiratory problem, or something of that sort or in a hospital having had a heart attack as a result of tobacco use. So what I'd like to I guess iterate most importantly is that any measure the Legislature can take to sustain the Health Care Cash Fund will lead to cost savings for the state of Nebraska and perhaps some increases in the economy, and ultimately will reduce human suffering and save lives, and those are...that's the extent of my prepared statement but I thank you for the opportunity to appear today and I'd be happy to take any questions you might have. [LR282]

SENATOR HEIDEMANN: Thank you for coming in and testifying today. Are there any questions? Seeing none, thank you. [LR282]

DAVID HOLMQUIST: Thank you. [LR282]

SCOTT DUGAN: (Exhibit 8) Senator Campbell, Senator Heidemann, members of the committees, my name is Scott Dugan, S-c-o-t-t D-u-g-a-n. I am president and CEO of Mid-Plains Center for Behavioral Healthcare located in Grand Island, Nebraska, but I am here today as the president of the Nebraska Association of Behavioral Health Organizations. I've got a prepared statement that I'm handing out to you. In the interest of time, much of that has already been iterated and spoken by previous speakers, so there's just a few things that have come up I think that are important that would be important to our membership. We have 48 behavioral health facilities across the state of Nebraska that are represented in our organization and, of course, the vast majority participate in the regional behavioral health system to which C.J. Johnson was just speaking to, the importance that the funds that you're looking at play in keeping that system sustainable. As organizations, we all struggle, just as the state struggles, just as cities struggle to maintain a budget. I would encourage you to look at the true costs of any decisions to change this fund. You know, we support maintaining the funding at the current level for any of these programs. I don't believe that there's anything in here that

anyone would point out as this was silly to spend this money. They all were reasonable and justifiable. We have to make some tough decisions. There are, of course, the questions of cuts. You know, we've had that question come up. I'm not afraid to answer it. If you tell me, I want sustainable at lesser level or maintain the current level for a shorter period of time, I'm going to sustain the lesser level in perpetuity. I believe that that makes the most sense, given those two scenarios. I don't think those are the only two scenarios available, but given those two...but the reality on that is we're not in an age of doing more with less. We are now all in an age of doing less with less. So if we get less in our systems we will have to do less, and ultimately there will be a larger cost in both dollars and in society, in our communities. These funds shored up a struggling behavioral health system that core services could not be maintained, core services. These are the counseling sessions with your licensed clinicians. These are the psychiatric sessions, the psychological testing. These core services were struggling until this funding mechanism came along, shored that up and made it a sustainable piece. Without that, the changes that LB1083 brought about in 2004 and the years following would not have been as successful as they have been. They would not, plain and simple, without these funds. So as you look forward and try and figure out the best way to sustain these funds, make sure that the entire impact is looked at because we will have to do less if there is less given in any of these areas. We do appreciate everything that you do do and the support that you've given both the behavioral health industry and the other medical and health-related industries, both in the past and currently. And we would...we offered to challenge...we're ready to stand up to the challenge to help find good solutions for this. I heard it mentioned but haven't...I hope it really gets some good discussion. Maybe we need to figure out new ways of adding more funds to this. We lost the transfer funds at one point and that's been part of the reason that we are outspending the additions to the fund. Well, maybe there's ways to add more money into the fund going forward, even separate from the investment income. That's an option and I think that's another scenario that needs to be looked at: What would it take and how much would that be? So I appreciate the time and, as I said, the statement there just really reiterates everything and the important work that's

been done with the funds here. And I'd be happy to answer any questions. [LR282]

SENATOR HEIDEMANN: Senator Hansen. [LR282]

SENATOR HANSEN: Thank you. Thank you for coming today. Has your behavioral health group ever looked at any type of private funding source or combination of sources through anything? [LR282]

SCOTT DUGAN: We do. In fact, many of our organizations that are part of our association have foundations or they do lots of fund-raising efforts to maintain their organizations. You know, over all the organizations, majority of them, are nonprofit organizations so they have that philanthropic piece of their operations already. These are services. This money is going to the services for those indigent uninsured that are the state's responsibility to maintain, and it's keeping them out of higher cost services in a lot of cases. [LR282]

SENATOR HANSEN: Thank you. [LR282]

SENATOR HEIDEMANN: Senator Gloor. [LR282]

SENATOR GLOOR: Thank you, Senator Heidemann. Scott, thanks for being here today. I ask this question not as a commentary but to probably emphasize the degree of vulnerability that your entity and I'm sure others like you across the state are at. You've been left holding the bag as a result of the privatization of child welfare for a considerable amount of money. What is that dollar amount right now that you're still at some degree of challenge to try and recoup in someway? [LR282]

SCOTT DUGAN: Overall in the state of Nebraska, providers like myself in total are $3.5 million, at this point, we will not recover, and those are services delivered to wards of the state of Nebraska. [LR282]

SENATOR GLOOR: What was the shortfall for Mid-Plains specifically? Do you remember? [LR282]

SCOTT DUGAN: Specifically for my entity? [LR282]

SENATOR GLOOR: Yeah. [LR282]

SCOTT DUGAN: $140,000. [LR282]

SENATOR GLOOR: And where did you get that $140,000? Because some of that were dollars that you actually had to pay to subcontractors you had. [LR282]

SCOTT DUGAN: All those dollars, yes, those were paid to foster parents, paid for treatment services that our providers have provided, in the form of salaries and benefits. We, like many other entities, had to use any equity that we had been able to build as an organization. We run businesses. I have 100 employees that I'm responsible for that pay taxes and our business model requires some equity. We've dipped into a significant portion of that. And seeing cuts come forward or potentials for cuts in areas where, you know, rates and funding are already at a break point, you know, this discussion on the back of a 2 percent Medicaid rate cut that occurred last session, rates have been stagnant and dropping for decades. This shored them up but, by far, my costs as well as any of the organizations doing this work, our costs continue to rise just like every other business and our reimbursement rates and funding continues to decrease. That goes back to we're going to do less with less because that's the only way to even stay open. [LR282]

SENATOR GLOOR: Thanks for that reminder of the history of your vulnerability. Thank you. [LR282]

SENATOR HEIDEMANN: Any other questions? Seeing...Senator Campbell. [LR282]

SENATOR CAMPBELL: I just want to make a quick comment that a number of your members are also facing interesting discussions with regard to residential treatment care for youth,... [LR282]

SCOTT DUGAN: Sure. [LR282]

SENATOR CAMPBELL: ...which would also come into play and impact the financial position you're in. [LR282]

SCOTT DUGAN: Yeah. Just looking at the ever-changing situation we've had in the last two years, not only in child welfare but with Medicaid fund services, behavioral health, just the overall landscape, we've seen significant numbers of programs closing and there are less in residential treatment, in particular, with the changes over the last year. We have less services available in this state for those folks that need that level of care. [LR282]

SENATOR CAMPBELL: Thank you. [LR282]

SENATOR HEIDEMANN: Thank you for coming in and testifying today. Welcome. [LR282]

JONAH DEPPE: (Exhibit 9) Good morning. Thank you for giving us this opportunity. My name is Jonah Deppe, J-o-n-a-h D-e-p-p-e, and I represent the National Alliance on Mental Illness for Nebraska. We are a grass-roots organization who advocate, educate, and support persons with a mental illness and their families. The testimony that I'm giving today I'm giving for Timothy Cuddigan, who is our president of our board, and NAMI Nebraska is requesting that, in your careful review and assessment of the implementation of the Nebraska Health Care Funding Act, that the use of these funds

for healthcare and behavioral healthcare are important to the persons who are experiencing the mental illness and/or substance abuse, especially in all the cuts that we've been having lately and you've heard about here today. The persons who experience a mental illness have a life span that is 25 years less than others, mostly due to the other health conditions they experience, and the various medications they use to control their mental illness cause serious health problems, such as heart disease and diabetes. Plus, they need ongoing monitoring of their physical health status to control or treat these physical health problems. Also, many persons who experience a mental illness are also addicted to the use of tobacco, which has results that are detrimental to their health. Therefore, it is important to provide programs to control the use of tobacco. Children are being identified at an earlier age with mental illness or developmental disability, including autism, and continued support of the Children's Health Insurance Act, including Health Check, early periodic screening, diagnosis and treatment, and the CHIP Program are important to provide appropriate services at an earlier age, thereby reducing the costs and the need for services in the adult population. While Medicaid becomes the provider of services for children recently, the need increases for earlier identification and availability of services. While noting that the increase for services for mental health and physical health for persons who are now experiencing these illnesses can decrease the funds available for other programs being funded from the Health Care Cash Fund, NAMI Nebraska recognizes the importance of other services, such as minority health and public health. NAMI Nebraska would like your committee to consider...or committees to consider the importance of identifying other possible continued funding for the cash fund to keep it going. And thank you for the opportunity. [LR282]

SENATOR HEIDEMANN: Thank you for coming in and testifying today. Are there any questions? Seeing none, thank you. [LR282]

JONAH DEPPE: Okay. Thank you. [LR282]

KAY OESTMANN: Good morning. [LR282]

SENATOR HEIDEMANN: Welcome, Kay. [LR282]

KAY OESTMANN: (Exhibits 10-11) Senator Campbell, Senator Heidemann, and senators of the Appropriations and Health and Human Services Committee, my name is Kay Oestmann, K-a-y O-e-s-t-m-a-n-n, and I'm president of Friends of Public Health. Local health departments in Nebraska were established as district departments as a result of LB692 and funded through the Health Care Cash Fund in 2001. And I think Senator Jensen and Senator Wesely did a very good job of describing how that came about. Since that time we've grown from 18 health departments covering 22 counties to a statewide system with 21 departments that cover all 93 counties. In your second handout that's not my testimony, if you turn the page, the first page, it shows all the district health departments that we have and where they're located. These departments provide scientifically based programs dependent on local health needs and priorities, determined through a regular, comprehensive, community health planning process. The departments have assumed a key leadership role in the coordination and planning of health services, and have been successful in bringing together local organizations to address the public health needs the communities have identified. We have formed partnerships, task forces, and coalitions to leverage funds to address the unique public health needs in our communities. Whether it's high rates of cancer, smoking, diabetes, or heart disease; low birth rates; fluoridation of water; lack of adequate dental, medical, or childcare; needs for bilingual interpretation; injury prevention; automobile crashes/seat belt usage; underage tobacco and alcohol use; addressing meth in our communities; domestic violence; or disease outbreaks; or environmental hazards, public health has had a presence in Nebraska. The local health departments are the leaders in developing healthy communities across the entire state. Local health departments have made tremendous progress in the development of a seamless public health system in Nebraska. The local departments have developed a statewide assessment that enables us not only to identify potential barriers to good health but also to compare this data

throughout the state. We have incorporated local health data with that that's captured by the Department of Health and Human Services to better enable health planning in our districts. With this process, we are able to gather and adjust in-time data so that it is representative of the population of the state, district, or of our county. We then are able to assure that the health needs are addressed and services appropriately developed in our districts. This information is used in planning health and prevention-related activities at the local level so that available resources are directed effectively. We have also developed measures or guidelines that will make us accountable as public health departments. All departments contribute to the statewide surveillance activities, which include national recalls such as eggs, ground beef, peanut butter, alfalfa sprouts, and most recently cantaloupe. Local health departments are responsible for disease investigations in their districts. When there are large outbreaks or disasters, we can depend on our partners in public health to assist us. We gather case data on infectious disease such as mumps, measles, meningitis, tuberculosis, pertussis--translation, whooping cough, and H1N1 flu. We follow up with cases reported to us by the state, as well as local hospitals, physicians, clinics, nursing homes, day cares, and schools. Public health throughout Nebraska has partnered with existing agencies to develop plans for bioterrorism and other threats, including pandemic flu. Public health has been present to assist our communities during natural health disasters, including wild fires, ice storms, tornadoes, and the recent flooding. The departments are governed by a board of health, as directed in statutes. Members of the boards include physicians, dentists, county commissioners, and community members. Local health departments provide an annual report to the Health and Human Services Committee of the Legislature. Our reports are sent to the Office of Public Health and then it's compiled and sent to Health and Human Services, and this shows the use of our funds and the activities that are accomplished in each community. By statute, the departments also publish an annual report for their communities and each of you should have probably been approached by one of your health directors and given that report. If not, they're on our Web sites, and that answers Senator Krist's question, even though he's not here. Through the funding provided by the Legislature and dedicated to public health

practitioners, Nebraska now has a public health system that's developed healthy communities across the state. In your handout, the supplemental handout, there's a few things that came from our last annual report. A few things that I'd kind of like to highlight is that our health departments have partnered to develop two new federally qualified health centers in Norfolk and Lincoln, and the funding there exceeded $650,000. Two health departments have developed planning...are working planning grants to develop FQHCs. We've initiated home visitation programs in two districts and one of those was mine and we were able to get $200,000 for that and this program is being instituted now out in the Panhandle. PHONE, Public Health Nursing and Outreach Education (sic) is...improves access to Medicaid and Kids Connection clients. We follow up, all health departments except one, follow up on newly signed-up children that are Medicaid clients and encourage them to go out and get their health checks done. We also follow up on inappropriate emergency room visits by this group. We have a contract with the hospitals to send us the information and then we call and see why they went to the emergency room and offer education as to what they can do the next time so that they don't need to go to the emergency room. It's a case management type thing where we offer examples of how they can get transportation or what they can do to better create a medical home for these children. All of our departments that have this program are paying the 25 percent that's necessary for the match, for the federal match. We have...of course, you've all heard of Douglas County's wonderful grant, the federal grant that they got that's worth $5.7 million to promote health and prevent chronic disease. Many of the health departments are working with dental health to provide services for a lot of underserved children in our state for dental health. We either administer or see to it that immunizations are carried out in our districts and wonderful laws that have been passed by the Legislature in regard to immunizations and in regard to the necessary necessity of being immunized prior to school, prior to day care. Article in the Lincoln Journal Star this morning where we're in the lowest percentage of states that don't have immunizations, our kids are immunized. It goes all the way up to, you know, high percentages where they aren't immunized, but Nebraska is out ahead of the immunizations for school-age children, so thank you for that. Lincoln-Lancaster County

Health Department has investigated nine major outbreaks of gastrointestinal illness that originated in childcare centers, and it's estimated that by doing this they saved, in work time lost in healthcare, between $500,000 and $1 million just through their surveillance projects for that. Douglas County is following up on STDs and the highest chlamydia rates in the...they're higher nationally and their working on that and they use funding from LB692 to work with their STI treatments. I'm going to stop there, because you can all read, and ask if there's any questions. Thank you for doing this. I think that we all appreciate the fact that we've been able to come here and tell you what we're doing with the money and how important it is that you continue to fund the Health Care Cash Fund. [LR282]

SENATOR HEIDEMANN: What percentage of funding do you get for the state to run? [LR282]

KAY OESTMANN: From Health Care Cash Fund or from... [LR282]

SENATOR HEIDEMANN: All state funding... [LR282]

KAY OESTMANN: All state funding. [LR282]

SENATOR HEIDEMANN: ...because I know there's... [LR282]

KAY OESTMANN: Our funding, a lot of our funding is federal dollars that's passed through Health and Human Services, so our state funding is from the Health Care Cash Fund and then we have funding from LB1060, which is the surveillance money. It's a line-item budget...but that's pretty much our state money. [LR282]

SENATOR HEIDEMANN: Percentagewise, you wouldn't have any idea what that would be? [LR282]

KAY OESTMANN: It would vary according to department, because the formula that the district health departments are set up on is a population-based infrastructure, according to the number of counties that you have in your district, the number of population, and then there's a per capita funding formula for everybody. That way, when we...I was one of the persons that worked on the Health Care Cash Fund when the bill was crafted, so the idea was that the counties could form district health departments. You had to have 50,000 people in your county to be freestanding. You could have 35,000 and be a district health department. You had to have at least three contiguous counties. Everybody 50,000 and above got $100,000 a year, 100,000 to...50,000 to 100,000 you get $125,000, and above that $150,000. That's base infrastructure. Then there were senators sitting there from Omaha and Lincoln who had funded health departments for 50 years, 100 years, and they're saying how do I go to my constituents and say we're going to fund these health departments and they've been paying taxes on this all these years? So that's where the per capita funding came from. Last year the per capita funding was $2 per person in your district, so you get essentially two different funding sources from the Health Care Cash Fund and it's according to how many counties you have in your district and how many people are in it, and then you get money for each person that is in your district. Did I confuse everybody? (Laugh) It's, you know, it's something that a lot of us... [LR282]

SENATOR HEIDEMANN: Our level of confusion is at a higher plane now. (Laughter) You did a good job. [LR282]

KAY OESTMANN: It's in the bill. [LR282]

SENATOR HEIDEMANN: Are there any other questions? [LR282]

KAY OESTMANN: They're afraid to ask after I went off on that. [LR282]

SENATOR HEIDEMANN: Thanks for coming in today, Kay. [LR282]

KAY OESTMANN: Thank you so much. [LR282]

CHRISTINE STEWART: (Exhibit 12) I see we're closing in on time so I'll keep this very brief. [LR282]

SENATOR HEIDEMANN: Thank you very much. [LR282]

CHRISTINE STEWART: You bet. Christine Stewart, C-h-r-i-s-t-i-n-e, Stewart, S-t-e-w-a-r-t, and I am one of the coordinators for the Nebraska Respite Network. I'm also the cochair for the Nebraska Respite Coalition. And I would have hoped Senator Byars could make it here because this is kind of his baby. Unfortunately, he isn't able to join us. And I think we've all realized that family care-giving issues will impact us all during our lifetime, so I'm not going to get into that, also how important it is for us to provide short breaks for our family caregivers so that they will continue caring for their loved one at home, putting off premature out-of-home placement where the person ends up on Medicaid within roughly two years. Also, I'd like to point out that for an awful lot of our family caregivers, they're working outside the home trying to make ends meet. Fifty percent of our family caregivers are working full- or part-time jobs. And interesting, almost a quarter of the providers on the Nebraska respite database are also family caregivers. They're taking the skills they learn in caring for their own loved one, helping other families out and making an income. The respite subsidy was established off of families that meet the criteria, up to $125 a month in reimbursement for the respite they choose. The program was designed to serve 540 families. In fiscal year 2010, the program served 793 families. Even by providing some financial assistance, it's very difficult for our family caregivers to take the break that they need, and that's why it's important with the Nebraska Respite Network to work with families, to help with education and awareness opportunities so that they build their own personal networks of family members, friends, in-home agencies, facilities that they trust to care for the loved one when the crisis occurs. And I've heard a lot of big numbers thrown around so

I'm a little embarrassed; however, this is important money to us. During 2010, along with the respite subsidy, the Nebraska Respite Network has acted as a link between funders wanting to get money to family caregivers and to the family caregivers in need of that help, and we were able to secure $140,000 in community and federal grants for emergency and short-term respite during 2010. So that was wonderfully helpful for our family caregivers. Basically, we're a little program that's trying to do great things and I think we have succeeded over the last 11 years. Nebraska, I just came back from the National Respite Conference, we're still considered the model and you all should be proud of the support and, of course, always thinking of Senator Byars at this time and what he put forward towards this effort. Thank you so much for your time. I don't know how you guys do this day in and day out, to tell you the truth. (Laugh) Thank you. [LR282]

SENATOR HEIDEMANN: Thank you for coming in. Are there any questions? Seeing none, thank you. [LR282]

CHRISTINE STEWART: Thank you. [LR282]

SENATOR HEIDEMANN: Is anyone else wishing to testify? Seeing none, we will close the public hearing on LR282. Thank you very much. [LR282]