



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #277

Limited-Term Employee Funding to Evaluate Value-Based Health Care Purchasing Initiatives (ETF)

[LFB 2005-07 Budget Summary: Page 153, #6]

CURRENT LAW

The Department of Employee Trust Funds (ETF) has base level limited-term employee (LTE) salary and fringe benefits funding of \$114,100 SEG annually in its administrative general program operations appropriation. This LTE funding is used to supplement existing agency staff to address the cyclical workload increases that the agency experiences during the year.

GOVERNOR

Provide \$23,400 SEG annually for LTE costs to assist in data collection related to the assessment of the long-term value, effectiveness, and quality of current and potential health care cost containment initiatives for state and local government employees and annuitants.

DISCUSSION POINTS

1. Under ETF's 2005-07 biennial budget submission, the Department requested the \$23,400 SEG annually for LTE salary, fringe benefit, and supplies and services funding that the Governor has recommended under the bill. However, this funding was only part of a broader initiative proposed by the agency. That initiative was not recommended by the Governor.

2. Under the agency's original request, ETF proposed that an existing SEG-funded annual appropriation for the costs of contracting for health insurance data collection and analysis services be converted to an "all moneys received" continuing appropriation and that the purposes of the appropriation be broadened. Under the proposal, the appropriation purpose would have been expanded to include contractual service payments relating to the administration of any of the

insurance programs offered through the Department where those payments are not otherwise funded from the appropriate accounts and reserves of the Public Employee Trust Fund.

3. This request was intended to provide ETF with access to sufficient funding resources to conduct ongoing evaluations of the long-term value, effectiveness and quality of existing and proposed health care cost-containment initiatives. The Department stated that the requested changes would "provide the flexibility needed for the Department to utilize its resources and purchase the most thorough assessments of program quality and long-term cost containment strategies." Originally ETF intended that the requested LTE funding be used to assist with on-site tasks, such as data collection, in connection with these major evaluations.

4. The first part of this paper reviews the elements of the agency's broader evaluation proposal that were denied by the Governor. Since the LTE funding recommended by the Governor was an element of the larger proposal that was not recommended, the second part of this paper provides the Committee with additional information concerning how the Department still intends to use these LTE funds.

5. *ETF's Proposal to Fund Evaluations of Public Employee Benefit Plans.* In 2004, the Department implemented both a three-tier health care coverage system and a new pharmacy benefits management program for state employees. The Department believes that while both initiatives have been innovative and successful in limiting cost growth after one year of operation, these efforts could be enhanced and additional cost-containment initiatives could be developed. However, ETF officials indicate that future planning in the area of managing public employee benefits programs will require objective, in-depth analysis to properly review and assess past program performance and make the most appropriate policy recommendations for future program changes.

6. ETF's budget request would have authorized the agency to contract for this type of analysis from various research specialists, depending on the characteristics of the matter being evaluated. Under a continuing appropriation, as originally requested by the Department, the agency could have conducted any such evaluation needed, without the constraint of an annual expenditure limitation. By contrast, expenditures under an annual appropriation are limited in each fiscal year to the amounts specifically provided in the appropriation schedule. The rationale for the agency's original request was that the types of studies envisioned by the Department would likely be complex in nature, would be difficult to cost out in advance, and would require a degree of funding flexibility that could not be accommodated under an annual appropriation.

7. The agency's budget request estimated that two or three major evaluation projects would likely be conducted each year. At an average cost of between \$50,000 and \$100,000 for each study, the agency envisioned expending approximately \$150,000 to \$300,000 annually. It was intended that the LTE funding could maximize the evaluation funding by having agency limited-term staff rather than the contract researchers undertake basic data- and analysis-related support activities. Even with such assistance, however, the actual cost of any one study could vary significantly from these average cost projections. The agency cited this as another factor in support

of the requested funding flexibility.

8. While these types of evaluation studies could also be funded under the agency's sum certain administrative appropriation, the agency viewed that approach as less desirable due to the difficulty in accurately budgeting in advance the annual funding needs for any particular study or series of studies.

9. In this instance, the Governor apparently did not agree that additional flexibility, as it relates to contract spending for evaluations and studies of the Department's employee benefit programs, was indicated. Presumably, it should not be impossible for the Department to determine adequate funding amounts that could then be requested under a sum certain appropriation. Any such budgeted amounts would provide a basis for doing at least some anticipated studies during a year. Further, additional funding could always be authorized under a s. 13.10 request to the Finance Committee in order to complete an evaluation.

10. *LTE Funding.* Although the Department's requested funding flexibility language was not recommended by the Governor, and AB 100 would not provide any additional funding to the agency for new program evaluation efforts, a total of \$23,400 SEG annually of new funding would still be provided for LTE salary costs to assist in on-site data collection and other activities. An argument could be made that this additional funding is now unnecessary because the bill does not provide the associated provisions that would have authorized the funding for the ongoing evaluations on the scale envisioned by the Department. For this reason, the Committee could delete the Governor's funding provision.

11. However, ETF officials indicate that the LTE resources provided under the bill could still be used in the agency's Division of Insurance Services. The additional LTE staffing could be assigned to the Division's current work assessing health care programs, although current assessment efforts would be more limited in scope than the studies the Department had originally hoped to conduct. Further, savings could still be identified even under an evaluation of a more limited nature. On this basis, the Committee may wish to approve the Governor's recommendation for LTE funding.

12. Alternatively, the LTE resources could be provided along with additional SEG funding from the Public Employee Trust Fund to conduct additional evaluations. Any such additional funding would be appropriated under the agency's sum certain administrative appropriation and could be set at the Department's projected minimum funding need for up to three studies annually (\$150,000).

13. If the Committee believes that additional employee benefit program evaluations would be a cost-effective use of additional appropriated funds, particularly in light of the potential of such studies to identify possible employer and employee cost-savings, the Committee may wish to provide one-time funding of \$150,000 SEG annually in the 2005-07 biennium under ETF's administrative appropriation. This level of funding would likely be sufficient to support one to three major studies each year.

14. If additional funding was necessary to support a more comprehensive study, the agency could return to the Finance Committee under s. 13.10 of the statutes either for a transfer of funds between fiscal years or for a funding supplementation. By providing the funding on a one-time basis, ETF, the administration, and the Legislature could then reassess the value of these studies during 2007-09 biennial budget deliberations to determine if ongoing resources should be provided.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$23,400 SEG annually for LTE salary costs to assist in data collection related to the assessment of the long-term value, effectiveness, and quality of current and potential health care cost containment initiatives for state and local government employees and annuitants.

2. *In addition to Alternative 1*, provide one-time funding of \$150,000 SEG annually to the ETF's sum certain administration appropriation to conduct ongoing evaluations of the long-term value, effectiveness, and quality of existing and proposed health care cost-containment initiatives

<u>Alternative 2</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	\$300,000

3. Delete the Governor's recommendation.

<u>Alternative 3</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	- \$46,800

Prepared by: Art Zimmerman