MINUTES

MONTANA HOUSE OF REPRESENTATIVES
57th LEGISLATURE - REGULAR SESSION
JOINT APPROPRIATIONS SUBCOMMITTEE ON HEALTH & HUMAN SERVICES

Call to Order: By **CHAIRMAN DAVE LEWIS**, on January 9, 2001 at 8:00 A.M., in Room 152 Capitol.

ROLL CALL

Members Present:
Rep. Dave Lewis, Chairman (R)
Sen. John Cobb, Vice Chairman (R)
Rep. Edith Clark (R)
Rep. Joey Jayne (D)
Sen. Bob Keenan (R)
Sen. Mignon Waterman (D)

Members Excused: None.

Members Absent: None.

Staff Present: Robert V. Andersen, OBPP
Pat Gervais, Legislative Branch
Lois Steinbeck, Legislative Branch
Sydney Taber, Committee Secretary
Connie Welsh, OBPP

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing(s) & Date(s) Posted: Pharmacy Presentation by Dr. Tim Stratton; Child Support Enforcement - Overview and Issues
Executive Action: None.

{Tape : 1; Side : A; Approx. Time Counter : 4.0 - 6.4}
SEN. COBB requested a list of the cuts **Gail Gray, Director of the Department of Public Health and Human Services (DPHHS**) was proposing. **Director Gray** stated that she would get a list of the cuts and their consequences to Committee members.

Jim Smith, Montana Pharmacy Association, introduced **Dr. Tim Stratton, teacher and student advisor at the University of Montana, School of Pharmacy.** He also introduced **Lori Morin, the Assistant Dean of Students Affairs at the School of Pharmacy** and **Dr. David Forbes, Dean of the School of Pharmacy.**

{Tape : 1; Side : A; Approx. Time Counter : 6.4 - 48.7}
Dr. Stratton introduced Marcie Bough, a pharmacy student and the student representative on the Pharmacy Board, and outlined his presentation on prescription drug costs **EXHIBIT(jhh06a01).** He went over the Medicaid program's high cost of physician and hospital care nationwide in comparison to drug expenditures and explained that it is the rate of increase for drugs which has accelerated, while the rate of increase in physician and hospital care has somewhat stabilized.

He went over the drug distribution process and the process by which drugs get from the manufacturer to the pharmacy. Most commonly, manufacturers sell their drugs to wholesalers and the pharmacy purchases the drug from the wholesaler at a slight markup. There are also some manufacturers that sell drugs directly to the pharmacy, but they are becoming fewer and fewer since it is much more efficient for manufacturers to use distribution systems set up by wholesalers.

Dr. Stratton reviewed legislation pertaining to drugs. In 1906, Congress enacted the Pure Food and Drug Act, which said that drugs could no longer be adulterated. In 1938, the Federal Food, Drug, and Cosmetic Act was enacted, which said that drugs had to be proven safe. In 1962, the Kefauver-Harris amendments to the Federal Food, Drug, and Cosmetic Act said that a drug had to be proven effective.

Using the example of a specific drug, **Dr. Stratton** took the Committee through the approval process. First, a drug is tested on animals to demonstrate if it works. It then goes to phase I clinical trials on healthy human volunteers to determine the toxicity of the drug. In phase II clinical trials, the drug is tested on individuals who actually have the disease to determine if it will do what it is supposed to. The phase I and II studies are done on a very small sample of people, perhaps as few as a dozen individuals. If these two phases of testing are successful, it then goes to phase III double blind clinical. At this stage, as many as 2,000 people are tested. If phase III is successful, a new drug application is filed with the Food and Drug Administration (FDA).

The drug approval process is expensive, and it may take, on average, 12 years for a chemical compound to make it to market at

a cost of anywhere from $200 million to $500 million. The costs go not only for the drugs that make it to market, but also to those that do not.

After approval, there is a phase IV clinical trial process, post marketing surveillance. Every drug on the market is in phase IV study; the FDA can pull that drug off the market for safety reasons at any time. The standards in this country are somewhat different than those in other countries, but other countries have generally adopted the FDA standards. For instance, Canada does not require placebo control; new drugs are tested against drugs already on the market for efficacy. The FDA does not consider this sufficient; a drug must always be tested against a placebo control. Drugs coming from another country that do not have this clinical trial process, must go through it to be marketed in this country, which adds to the cost. China would like to market herbal remedies in this country, but the FDA has refused to allow this until they have gone through all the required clinical testing. It is unlikely that the FDA will back down from that stand, so it will be very expensive to the Chinese to market here.

SEN. WATERMAN commented that since our country does not accept the research from other countries, it is our country's drug manufacturers that bear most of the cost and perhaps the United States is being too rigorous.

Ms. Lorin said that the United States is not interested in putting potentially unsafe drugs on the market; that there are enough problems with the tested drugs that have been released in this country. The public does not hear about the problems that other countries have with the drugs that are released.

Dr. Stratton observed that several years ago, the FDA streamlined the approval process, reducing the review time by several months. Possibly, as a result of that change in policy there has been a plethora of drugs that have been released, which have subsequently been pulled off the market because of safety concerns. Since the clinical trials use only as many as 1,000 people, if there is a side effect that shows in 1 of 50,000 people, that side effect is unlikely to show in the clinical trial. Once the drug is marketed and used by millions, the side effect may show up. Thus, streamlining the approval process is a tradeoff.

{Tape : 1; Side : B; Approx. Time Counter : 1.2 - 9.7}
Dr. Stratton reviewed the pricing for pharmaceuticals. The average prescription cost for all drugs to a cash customer in 1991 was $23.68, in 1991 that had gone up to $37.38. In 1998,

the average prescription price for older drugs on the market was $30.49; for new drugs the average cost was $71.49. **CHAIRMAN LEWIS** asked if there was a way to correlate that greater expense to hospital stay. **Dr. Stratton** responded that the more expensive newer drugs may be more effective, which can decrease costly hospitalization or institutionalization.

Between 1991 and 1998, the average price of generic drugs went from $10 to $15. The new brand name drugs are driving the price increases for prescription drugs. In Montana, the average cash prescription price is about $31, which is a little less than the national average. For prescriptions covered by insurance, it is about $37. Drugs covered by Medicaid cost over $40, which is reflected in the sicker population. Health status is driven by socio-economic status, regardless the healthcare system. Many of the drugs used in Medicaid are very expensive and are used to treat chronic conditions that afflict many Medicaid patients.

{Tape : 1; Side : B; Approx. Time Counter : 9.7 - 10.6}
SEN. COBB asked if anyone has looked at the Medicaid data to see why this is. **Dr. Stratton** said that he is unaware of a study, but that his information came from a pamphlet distributed by the National Association of Chain Drug Stores (NACDS).

{Tape : 1; Side : B; Approx. Time Counter : 10.6 - 48.6}
SEN. WATERMAN asked if there was a comparison of cost for the identical drug in the three payer categories. **Dr. Stratton** answered that he would go over this later in his presentation. There was further comment on the issue of drug rebates, Medicaid costs, quantity and the averaging factor.

Lois Steinbeck, Legislative Fiscal Division (LFD), commented that a childless adult on Medicaid would be aged, blind, or disabled. This population is probably sicker than the average adult population in the United States. **Dr. Stratton** affirmed that a quarter of the Medicaid population consumes two-thirds of the resources. Most people covered are single mothers and children, which is a pretty healthy population so about two-thirds of the Medicaid population uses about a quarter of the resources.

Dr. Stratton continued that for every dollar paid out by a cash paying customer on the average prescription, $.74 goes to the pharmaceutical manufacturer, $.03 goes to the wholesaler, and $.23 goes to the pharmacy. As drugs become more expensive, the pharmacy and wholesale margin is squeezed out on Medicaid prescriptions. Nonetheless, the prescription drug industry in this country is very lucrative.

Dr. Stratton went over the cost to Montana pharmacies of filling a prescription, including the cost of the drug, advertising, labels, vials, recording, technician time, computer equipment, and so forth. The average profit to a pharmacy is 4.5%. The NACDS claims that Medicaid prescriptions are dispensed at a loss in Montana. He said that he did not believe that figure, so he took the numbers that his own survey had come up with and calculated the average Medicaid prescription profit margin of not quite 3%. The average pharmacy in Montana is about in the middle of the profit range for Medicaid. The comparison that **Dr. Stratton** did was for cash payments so there was no credit risk factored in. Many pharmacies take a loss on the Medicaid drug co-pay.

Dr. Stratton reviewed the pricing mechanisms used by the pharmaceutical industries, which claims that market forces control pricing. There is evidence that pricing is based on what people will pay to relieve pain or symptoms, and the disparity in cost for people arises because the drug companies make deals. Managed care makes amazing deals with drug companies. In this state, Medicaid reimburses pharmacies the average wholesale price (AWP) minus 10% and mail order pharmacies are buying their drugs for wholesale less 50% or more so they can really undersell Medicaid. It is impossible to get the terms of the deals struck between pharmaceutical manufacturers and insurance companies, so nobody really knows. The best guesses is that wholesale less 50% is not uncommon.

The federal government investigated the reason that insurance companies are receiving better deals than it. It then stated that pharmaceutical companies must offer it the same deals as those made to the best insurance customer. Consequently, the manufacturers raised the prices to everyone else. As a result, federal hospitals were going broke because of the huge cost of drugs. At this point, the federal government then said it wanted the drug manufacturers to offer Medicaid the best price for the best customer, but they could cut their own deals with the Veterans' Administration (VA).

The Medicaid rebate program is reimbursed 15% of the average manufactured price (AMP) for innovator drugs or the difference between the 15% AMP and the best difference on deals struck with big purchasers, which is adjusted by the consumer price index for urban values (CPIU) yearly, based on the launch date of the drug. Using urban values is interesting because it is more expensive to live in rural areas. Montana is being disadvantaged by using the CPIU instead of using a rural-based CPI, which may not even exist. For generic drugs, the state receives an 11% rebate on units purchased. There is a tradeoff that the state pays for

these rebates. The state receives a rebate, but it may not restrict the drugs that it will cover from a manufacturer participating in the rebate program. A state may choose to exclude certain drugs, vitamins, non-prescription drugs, barbiturates, benzoldiazopenes, and other drugs which may have additional medical consequences to their use. A state may require prior authorization for certain drugs to be prescribed.

The bottom line with the Medicaid drug rebate program is that the money must be spent in order to receive the rebate. Montana is about $1 million below the average Medicaid rebate amount received.

{Tape : 2; Side : A; Approx. Time Counter : 0.3 - 21}
Dr. Stratton went over the differences in cost between generic, older, and new drugs. He suggested a policy decision for the state, which would require the use of generic drugs first. There was discussion on why so many drugs are sold. As people get older, they tend to use more prescriptions drugs. An increasing number of physicians in this country, mostly specialists, causes more prescriptions to be written and more procedures done.

Pharmaceutical companies are one of the industries driving the economy in this country, and they are big on developing new drugs. About 17% of pharmaceutical sales goes into research and development (R&D). Pharmaceuticals spend 34% on marketing and sales. As a result, people know about new drugs, and they demand them from the doctor or go to another doctor who will prescribe them. Because it works, the industry has been increasing this advertising.

The industry limits competition through patent holding, patents on processes, and changes in international trade agreements at the federal level. Patent holders also try to influence state law regulating prescribing forms and practice. In summary, the drivers in cost are innovator drugs, new drugs replacing old therapies, and increased utilization by the population as a whole. The tradeoff is that people can be kept out of hospitals and institutions, but the drugs are very expensive. It is important to look at the entire Medicaid budget in reviewing this.

{Tape : 2; Side : A; Approx. Time Counter : 21 - 34.4}
SEN. WATERMAN asked if there was something that Montana could legally do to mirror the medical rebate program and require any pharmaceutical company selling drugs to government programs to offer the same rebate that they do in Medicaid. **Dr. Stratton** said that if there is no way to bring patients under the Medicaid umbrella, the states probably cannot do it. **SEN. WATERMAN** asked

if the federal government can do it, why can't the state. Is there a federal prohibition? **Dr. Stratton** said that he does not know this. **Dorothy Poulsen, Pharmacy Program Officer for DPHHS,** said that other states do receive supplemental rebates on their non-Medicaid programs. The biggest problem in Montana is that it does not have the population size to manipulate market share, which is how rebates are negotiated. It tried to do it with mental health, and a number of companies agreed to give rebates. **SEN. WATERMAN** asked if it can be done legally. **Ms. Poulsen** responded that it could be done, but without market share there is no incentive for drug companies to participate.

CHAIRMAN LEWIS mentioned that he had heard of some plan to form a buying pool for drugs. **Ms. Poulsen** said that she has suggested that Montana form a buying pool with other states in order to negotiate like any other market share. **CHAIRMAN LEWIS** suggested that **Ms. Steinbeck** research this issue.

{Tape : 2; Side : A; Approx. Time Counter : 34.4 -39.5}
REP. JAYNE asked **Dr. Stratton** to elaborate on the quality differences between generic and brand name drugs. He answered that drugs generally come out as generic versions after the original patent expires. In a generic drug other ingredients may be cheaper and different, but the active ingredient must be the same. Most generics are as good as the brand name product, but there are some drugs, for example, epilepsy, thyroid, and asthma drugs, which should not be switched back and forth once the patient has been started. These drugs are so much less expensive because they did not have to go through the phases of clinical trial; they need only demonstrate that the drug goes into the blood stream to the same extent as the brand name drug.

{Tape : 2; Side : A; Approx. Time Counter : 39.5 - 48.9}
Dr. Stratton continued with a challenge to make drugs available to low-income individuals without breaking the bank and without increasing financial pressures on pharmacies. The methods that other countries use to control drug prices are: negotiation of a price for every drug that comes out; limitations on how much they can make on a drug per year; and limitations and penalties on physician prescriptions.

CHAIRMAN LEWIS requested that **Dr. Stratton** provide the LFD staff with information on research in this area as it becomes available to him. He responded that he would be happy to offer what assistance he could. **SEN. WATERMAN** commented that physicians closed doors to sales reps in some states, possibly Maine, and said they would do their own research on what drugs to prescribe. She suggested that doctors could put tremendous pressure on drug companies if they were to threaten to not prescribe.

{Tape : 2; Side : B; Approx. Time Counter : 0.2 - 16}
Dr. Stratton responded that the industry argues that sales rep visits to not influence prescriptions; however, evidence indicates otherwise.

SEN. COBB asked if **Dr. Stratton** could give the Committee answers on controlling drug costs in the state mental hospital. **Dr. Stratton** said that people who end up in the mental institutions are people who have been managed outside with medications, but for some reason have stopped taking their medications and get into trouble. He suggested that pharmacists review the medications that patients are taking to help the physician determine which medications are no longer needed or whether a new more expensive drug will give greater benefit. He suggested that pharmacists be used more effectively than they are at present in the prison and mental health facilities. He is unfamiliar with what they do, so is not intending to disparage their work.

{Tape : 2; Side : B; Approx. Time Counter : 16 - 18.4}
Ms. Steinbeck distributed an article on mental health discussions from the Billings Gazette **EXHIBIT(jhh06a02)**. She also clarified that the big bill that changed county funding would also de-earmark the alcohol funds that went to the Addictive and Mental Disorders Division (AMDD)and were used to match Medicaid. They were not de-earmarked. Tomorrow, the Committee will be starting at 8:30 and will be examining the supplemental cost savings measures that DPHHS will be presenting.

{Tape : 2; Side : B; Approx. Time Counter : 19.9- 50.4}
MaryAnn Wellbank, Administrator of Child Support Enforcement Division (CSED), distributed her overview **EXHIBIT(jhh06a03)** and introduced her staff. She reviewed the mission and responsibilities of the Division, which is responsible to ensure that custodial parents receive their child support in a timely fashion and deal with employers, financial institutions, attorneys, judges, public officials, and the federal government.

CSED is created under Title IV-D of the Social Security Act, and is known as the state Title IV-D program. Title IV-D sets forth the responsibilities and federal funding of the agency. Funding for CSED is normally 66% federal and 34% state, except genetic testing, which is 90% federal and 10% state. Compliance with Title IV-D of the Social Security Act is a requirement for states to receive Temporary Assistance to Needy Families (TANF)Block Grant funds.

The Division is currently handling 38,000 IV-D and 2,000 non-IV-D cases. The non-IV-D cases are not enforced or managed in any way by the Division, but the money that comes through those cases is

passed through by Division. In FY99, the Division collected $50 million in child support with $28 of the $50 million collected by income withholding.

SEN. COBB asked what kind of growth rate that was. **Ms. Wellbank** responded that in the past five years, collections have grown from $26 million to $50 million.

Ms. Wellbank went over the services the division provides including: location of absent parents; location of assets; establishment and acknowledgment of paternity; development of child support guidelines; financial and medical support order establishment; financial and medical support order enforcement; review and adjustment of support orders; and collection and distribution of payments.

SEN. WATERMAN expressed concerns that attorneys will not take divorce cases of low-income people with children because of the complexity of the standards. **Ms. Wellbank** explained that Montana considers both parents' income in determining child support payments. The Division has done a study on simplification of the guidelines, but while people want a simpler formula, they also want to retain all the factors which make the formula more complex. CSED has not found a way to make it simple while retaining those factors.

{Tape : 2; Side : B; Approx. Time Counter : 50.4 - 58.}
REP. JAYNE asked if the Division uses court orders for guidelines. **Ms. Wellbank** answered that it does enforce the order as written.

Ms. Wellbank reviewed the process used in CSED to ensure that children receive regular and consistent support. Wages are subject to garnishment, which is the most efficient means of ensuring support. Not all those whose wages are subject to garnishment are delinquent. Support is enforced through an administrative process, which ensures due process.

{Tape : 3; Side : A; Approx. Time Counter : 0.3 - 10.5}
Ms. Wellbank discussed the modification of orders, and **REP. JAYNE** asked what the Division's stand is on tribal orders. **Ms. Wellbank** said that CSED retains the authority to review and modify orders from other states but she is unsure about tribal orders, but believes that the state has the right to modify tribal orders. **REP. JAYNE** asked questions regarding tribal members and collection. **Ms. Wellbank** responded that if the obligated parent works for a tribal employer CSED does not have jurisdiction for income with holding by tribal employers, so the only way to enforce collection from parents when they are

delinquent is through the driver's license suspension, or federal or state tax offset. The Division is working closely with some tribes in order to prosecute cases, but it remains a difficult issue.

There was further discussion over the issue of modification of court orders and garnishment in CSED cases, particularly in regard to the Seubert decision and legislation to "fix" the decision.

SEN. COBB asked if there were any government to government agreements with the tribes on the issue. **Ms. Wellbank** stated that there has been discussion, but there are, as yet, no agreements.

{Tape : 3; Side : A; Approx. Time Counter : 10.5 - 14.6}
REP. JAYNE asked if everyone is eligible for CSED services, and **Ms. Wellbank** replied that any person who applies and is a single parent with children is eligible for services.

The division's computer system is designed to comply with federal law, which is specific about the priority for distribution of payments. **Ms. Wellbank** explained the distribution method, and then went over the caseload, and its status. The goal is to get all the cases into enforcement so that the money can be collected.

{Tape : 3; Side : A; Approx. Time Counter : 14.6 - 32.7}
REP. JAYNE asked if there is a fee that the Division receives for collection. **Ms. Wellbank** answered that at one time, the Legislature had instructed CSED to collect a fee, but the Legislature determined that this was not a good idea and has since taken away that authority. CSED does charge a sliding scale application fee dependent on income. There are some other fees involved in the process, for instance, a fee for paternity testing.

CHAIRMAN LEWIS what the caseload growth rate was since 75% of the caseload is in enforcement. **Ms. Wellbank** answered that it has remained stable over the last four years and affirmed that the bulk of the caseload is in location and establishment of paternity. **CHAIRMAN LEWIS** asked what impact the smaller caseload has on her staffing needs. **Ms. Wellbank** answered that CSED is always doing more since there are more federal mandates: modifications, collections, and case management.

Ms. Wellbank reviewed those who receive the services and the conditions of those services. If a custodial parent is on TANF and CSED collects the child support payment, the custodial parent

must turn over the child support payment to the state. The assignment under federal law can be permanent, conditional, or temporary, and is complicated. When federal taxes are intercepted for delinquent support on families formerly on TANF, that money must also be turned over to the state and federal government.

Ms. Wellbank explained how the CSED provides services. It does analysis of cases to determine if it has jurisdiction; if it does not have jurisdiction, it refers the case to other states for collection. Some of those cases get lost in the system, and CSED has no control, but is limited to monitoring those cases. There are interstate referrals, as well, and CSED has success in that area. She went over SB 28, which will change the definition of payer to allow the Division to send withholding orders to employers in other states.

CSED is funded with state special and federal revenue. State special revenue makes up 34% of the CSED budget, which is generated through retention of a portion of collections of child support. When a family applies for TANF benefits, it must assign its rights to child support to the state. CSED retains all child support collected for families while they are on TANF, up to the amount of TANF that they received in their lifetime.

{Tape : 3; Side : A; Approx. Time Counter : 32.7 - 37.8}
SEN. COBB asked if the state still keeps arrearage when the tribal governments run their own TANF programs. **Ms. Wellbank** answered that when a family leaves CSED and no longer has a current case, if there is arrearage assigned to the state, it will still try to collect it. With a tribal entity, if the tribe has its own child support program and the payment is current, the family always receives priority for current support.

CSED retains federal tax offsets from former TANF families up to the amount of TANF funded assistance the family received over its lifetime. The federal tax offsets go to the state and federal government first, even if the family is still owed arrears. In most cases, families off welfare are receiving their money first, with the exception of the tax offsets. The money that is collected to reimburse TANF is split between the state and Performance standard money also goes into the state special revenue.

{Tape : 3; Side : A; Approx. Time Counter : 37.8 - 49.4}
REP. JAYNE asked **Ms. Wellbank** if the Department has identified the payer and the amount that is in arrearage, and how much is it anticipating receiving? **Ms. Wellbank** stated that about $180 million in past due support is owed, some of which will never be

collected. **REP. JAYNE** asked if this were TANF monies. **Ms. Wellbank** said that is called unreimbursed public assistance. The division does not have that number at this moment. The Division is in the process of reconciling all its records, so may have that figure in future. **REP. JAYNE** commented that it would be interesting to see how many payers have been identified and how much public assistance they or their children have received, and how much government assistance is out there that has not been collected.

Ms. Wellbank commented that this goes with the pitch she has for system enhancements. Right now, the Division is so bogged down with the federal requirements to comply that the system can hardly kick out management reports or other information that would be beneficial.

Ms. Wellbank stated that the Division projects $6 million in performance incentives over the 2003 biennium, which will go into state special revenue. There are five current performance incentives, and a sixth is being developed in the area of medical support enforcement. The five incentives include: the percentage of cases in which the CSED has established paternity in a one-year period; the percentage of cases in the CSED caseload with support orders; the percentage of collections of current support; the number of cases with collections against arrears; and the cost effectiveness of CSED, total collections over total expenditures. There is a formula to determine the base on a three-year average. The regulatory language reads that a state must expend the whole amount of incentive payments received under this to supplement and not supplant other funds used by the state to carry out IV-D program activities.

Additionally, the federal incentive funds available to states are capped by the federal government. There is $421 million federal funds appropriated and it is possible that if every state met 100% of the incentive measures, there would not be enough funding for all states to receive the payment the state was eligible to receive. As a condition for eligibility for incentives, Montana must have reliable data. It took a year for CSED to bring its computer program in compliance with the federal requirements. CSED recently passed the data reliability audit, but it was a long difficult process.

{Tape : 3; Side : A; Approx. Time Counter : 49.4 - 51.1}
REP. JAYNE asked if the Division establishes paternity only when there are public funds being used. It is accept that this in the best interest of the child, but does the Division ever establish paternity just to get the money back?

{Tape : 3; Side : B; Approx. Time Counter : 0.3 - 9}
Ms. Wellbank responded that paternity is established in Montana for children whose parents are together at the time of birth and requesting public assistance. **REP. JAYNE** asked if parents do not want to establish paternity, but leave it at status quo, does the Department bother them? **Ms. Wellbank** said that it does not, unless they apply for assistance; and then CSED gives them all the services, whether or not they wish to receive them. If the parents were not interested in acknowledging it, there would be a hearing to compel genetic testing. **REP. JAYNE** commented that possibly this establishment is not in the best interest of the child, but is to benefit the state, by getting monies back. **Ms. Wellbank** responded that the state has adopted public policy that as a general rule it is in the best interest of the child to establish paternity.

SEN. WATERMAN asked if the genetic testing program in the hospital is voluntary? **Ms. Wellbank** responded that it is. **SEN. WATERMAN** said that if it were really the noble cause of everybody knowing their family history, it would be required and every child born would need its paternity established. **Ms. Wellbank** said that it is voluntary and does not become involuntary until someone applies for public assistance.

REP. JAYNE commented on a case in which the father felt compelled to sign paperwork in the hospital because he felt that people in authority were saying he should establish paternity. **Ms. Wellbank** explained that CSED periodically attempts to reeducate the hospital because this is not intended to be a strong-arm tactic.

Ms. Wellbank went over the paternity establishment percentages, the method used to determine it, and determination of the incentive received as a result. There is no backlog, but there are cases in which the mother does not know the complete name of the father.

There was further discussion of paternity establishment.

{Tape : 3; Side : B; Approx. Time Counter : 9 - 24.3}
SEN. COBB mentioned that since TANF is where most of the money comes in from when a lot of people get off TANF, then CSED ends up with less money to run the Division. **Ms. Wellbank** said he is correct, since CSED is no longer keeping that portion of welfare and is not paying back public assistance first as it once did.

Ms. Wellbank continued with her explanations of incentives and the calculation used to determine the incentive received.

She went over the current support incentive, which is at 57%, and qualifies the state for about $167,000. In response to a question from **SEN. COBB** whether the tribal cases are included in this, **Ms. Wellbank** replied that they are. Because the federal tax offset and the state offset is available to tribal cases, CSED must count them.

The cost effectiveness performance percentage is 3.6%, which makes the state eligible for about $131,000. **SEN. COBB** asked how this is compared to the last few years. **Ms. Wellbank** said that she would provide historical information to the Committee on this. **SEN. WATERMAN** asked where Montana ranks nationally on cost effectiveness. **Ms. Wellbank** responded that she does not have this information.

{Tape : 3; Side : B; Approx. Time Counter : 24.3 - 47.2}
Ms. Wellbank explained the complex algorithm applied to ensure that each child support collection goes to the proper place and gave examples of its use. The complicated federally mandated distribution scheme requires states to track current, former, and never, assistance families as this determines how support is disseminated. In the caseload of approximately 37,000 cases, only 23.7% have never been on assistance; 15.7% are currently receiving TANF benefits and over 60% were formerly on assistance. These numbers differ from FAIM because CSED counts cases differently.

Ms. Wellbank reviewed the various tools that the Division has used to increase collections despite active cases remaining at a fairly constant level: automation; the ability of case workers to dig deeper into the cases; more cases in an enforcement status; new hire reporting; and license suspension.

She went over the cost avoidance of Medicaid. One of CSED's responsibilities is to establish medical support coverage for children. The division establishes the obligation for one parent to provide health insurance for children. Because CSED has been able to establish medical support through private insurers, it has saved the state $1.5 million in Medicaid. **SEN. WATERMAN** asked if CSED assists families in applying for CHIP. **Ms. Wellbank** answered that there are brochures available in the office and a mailing was sent out once, but she does not know how many families have actually been referred to CHIP.

Ms. Wellbank went over the System for Enforcement and Recovery of Child Support (SEARCHS), which is the computer system devised to track cases in the system. She reviewed its functions and the efficiencies that it has created for the Division. It interfaces with state and federal systems, tracks collections and

distributions, and creates management reports. This system performs far more transactions per worker than The Economic Assistance Management System (TEAMS) and the system is bigger than TEAMS, but does not have as many support staff.

She reviewed the integration and interface of SEARCHS. The system is huge, but with the continuing federal requirements and necessary improvements, CSED has been unable to program many of the desirable things into SEARCHS. **CHAIRMAN LEWIS** asked if TRW handles the maintenance contract. **Ms. Wellbank** said that CSED uses the mainframe for SEARCHS, TEAMS, and CAPS and several smaller ones, but TRW manages the contract. To a query from **CHAIRMAN LEWIS** whether the total facilities maintenance of the three is $10 million per year, **Ms. Wellbank** replied that it is; however, CSED could not do what it does without the automated system. She commented that every time something new is required, CSED must train case workers and program the system. Since the facilities maintenance contract for SEARCHS is in the $3 million range on an annual basis, **CHAIRMAN LEWIS** asked if CSED had contemplated bringing it in-house. **Ms. Wellbank** answered that while CSED is a user of the system, that is in Operations and Technology Division, and **Mike Billings** has evaluated all sorts of alternatives to contracting.

Ms. Wellbank went over the changes that have been made in the system to update it to handle the tasks assigned.

{Tape : 4; Side : A; Approx. Time Counter : 0.4 - 11.8}
Ms. Wellbank continued with an assessment of the consequences of not having an automated system. She went over the budget request for increases support for enhancement of SEARCHS. **SEN. WATERMAN** asked how they do programing changes with TRW. **Ms. Wellbank** answered that they put in requests for program changes, and CSED does have the ability to prioritize its requests. SEARCHS does have its own programmers and does not compete with TEAMS for programers. **SEN. COBB** asked if the programmers work for TRW or us. **Ms. Wellbank** answered that they work for TRW, but that CSED sets the priorities. It is not TRW that is holding up the programming; it is the fact that CSED has many federal mandates so that it never gets to other things it needs to do.

Ms. Wellbank said that with a limited budget there is only so much that can be done, but are some efficiencies are being looked into. **SEN. WATERMAN** said that workers are spending 25% or 30% of time working with the Child and Adult Protective Services(CAPS) system; she does not know what the issue is, but hears the complaints. **CHAIRMAN LEWIS** concurred that this is an issue that should be investigated.

In conclusion, **Ms. Wellbank** summarized CSED legislation including: SB 28, which allows CSED to modify and review support orders; SB 38, which implements a new medical support order requirement; and SB 171, the omnibus bill that includes provision to allow CSED to send direct withholding orders to out-of-state employers. She also updated the Committee on the Fish, Wildlife, and Parks social security number issue. After the last special session, the Division applied for an exemption from this requirement. It requested an exemption for Montana resident adults, out-of-state adults, and for Montana youth under 16, so that these groups could provide driver's license information rather than social security numbers. The exemption is being denied, but did leave an opening for youth under 16. She is optimistic that youth under 16 will be exempted.

REP. JAYNE asked questions on the IV-D cases. She also asked **Ms. Wellbank** how often support orders require obligors to seek employment. **Ms. Wellbank** responded that court orders rarely include this requirement. **Terressa McDaniel, Office of Administrative Law Judge**, responded that it is rarely done, but may occur in license suspension cases.

Information on the Montana Medicaid Program was also submitted **EXHIBIT(jhh06a04)**.

ADJOURNMENT

Adjournment: 11:40 A.M.

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REP. DAVE LEWIS, Chairman

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SYDNEY TABER, Secretary

DL/ST

EXHIBIT(jhh06aad)