Committee Meeting

of

ASSEMBLY REGULATORY OVERSIGHT COMMITTEE

"Testimony from the Department of Human Services and the New Jersey Association of Mental Health Agencies regarding contract reform proposals"

LOCATION: Committee Room 8
State House Annex
Trenton, New Jersey

DATE: June 3, 2004
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman William D. Payne, Chair
Assemblyman Joseph Cryan, Vice Chair
Assemblyman Douglas H. Fisher
Assemblywoman Connie Myers

ALSO PRESENT:

James F. Vari
Office of Legislative Services
Committee Aide

Paul Sangillo
Assembly Majority
Committee Aide

Thea M. Sheridan
Assembly Republican
Committee Aide

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ASSEMBLYMAN WILLIAM D. PAYNE (Chair): Good morning, everyone. Welcome to the meeting of the Regulatory Oversight Committee.

As you know, we will be hearing testimony regarding proposed changes in contract reform, which the Department of Human Services is proposing. And we will also hear testimony from the New Jersey Association of Mental Health Agencies, as well as a representative from the Department of Human Services.

One of the things that we here in the State of New Jersey and elsewhere are concerned about is caring for those in our society who are least able to care for themselves. Hubert Humphrey once said, "A moral test of a government is how it treats those who are in the dawn of their life, the children; those who are in the twilight of life, the aged; and those who are in the shadows of life, the sick, the needy, and the handicapped."

We do, as a society, have a responsibility of caring for people in those categories. And one of the things that we're here, in government, to do is to see to it that we do, in fact, provide the very best for the citizens of the State of New Jersey, make corrections where they need to be made, to modify those things that need to be modified in order to improve the quality of life for all of our citizens.

Before we hear testimony, I would like to call the roll of our members. I'm very pleased to see Assemblywoman Myers with us.

Good morning.

ASSEMBLYWOMAN MYERS: On time. (laughter)

ASSEMBLYMAN PAYNE: Assemblyman Fisher

ASSEMBLYMAN FISHER: Good morning.

ASSEMBLYMAN PAYNE: And Vice Chairman Joe Cryan.

Assemblyman Rooney is unable to be with us.

MS. SHERIDAN (Committee Aide): No, he will be here. He's just late.

ASSEMBLYMAN PAYNE: Oh, he will be here.

You note -- make sure that I didn't say anything about being on time or late. His colleague mentioned the fact that he was--

I recently received a report from the New Jersey Psychiatric Association, in which they pointed out that undiagnosed and untreated or undertreated mental illness was named by former U.S. Surgeon General David Satcher, M.D. as the foremost public health problem in this country.

New Jersey is no exception. Our mental health system fails to serve the majority of seriously mentally ill persons. More psychiatrically ill juveniles and adults are homeless or incarcerated, at an enormous cost to our state in human, social, and economic terms, than are being treated in effective and less expensive facilities.

We have been informed that the Department of Human Services contracts with some 1,600, I believe -- 1,600 providers in the State of New Jersey -- mental health providers in the State of New Jersey, and that there has been established a contract reform task force in DHS, working out -- working to streamline the process of contracting with community-based agencies that provide the majority of services to the clients.

We're here today to hear testimony from the Department of Human Services regarding those reforms, and also to hear from, as I said before, the New Jersey Association of Mental Health Agencies.

And I will ask any of our Committee members if they have any opening comments or statements to make at this time. (no response)

If not, I will ask Mr. James Cooney, New Jersey Association of Mental Health Agencies, to please come forward and testify.

Mr. Cooney, give your name and your organization, etc., for the record, please.

J A M E S C O O N E Y: Certainly, sir.

My name is James Cooney, and I'm with Comprehensive Behavioral Healthcare. And I'm representing the New Jersey Association of Mental Health Agencies, today.

MR. VARI (Committee Aide): Do you want to just turn on the-- Do you have the red light on? (referring to PA microphone)

MR. COONEY: Is that good?

MR. VARI: That's better.

ASSEMBLYMAN PAYNE: You might do that again. (laughter)

MR. COONEY: Sure thing.

ASSEMBLYMAN PAYNE: That was just a practice run.

MR. COONEY: Okay.

My name is James Cooney. I'm with Comprehensive Behavioral Healthcare in Bergen County, and I'm representing the New Jersey Association of Mental Health Agencies this morning.

First of all, I'd like to say good morning to you, Chairman Payne and Vice Chairman Cryan, and distinguished Committee members: Assemblyman Fisher, Assemblywoman Myers; and when Assemblyman Rooney gets here, we'll welcome him also.

Debra Wentz, our Executive Director, would usually be speaking on behalf of NJAMHA. As some of you may know, she's been called away to, kind of, a significant family medical issue, and she's not able to be here today. So we wish her well.

I'm a little surprised, being the newest member of the board of NJAMHA, to be sitting here in the hot seat and taking her place, especially because we have such a distinguished group of agency chief executive directors sitting right behind me in support. So I thank them all for being here.

I think it's unfortunate for me that a few years ago Deb discovered my undergraduate degrees were in economics, and I can speak a little accounting. And, therefore, she kind of put me in charge of our Chief Financial Officer's practice group when we started it in 2001. So I sit here, today, before you.

During the past three years, the CFO practice group has been evaluating the financial position of NJAMHA's provider agencies and the financial problems facing our community mental health system. They have identified the current contracting methodology as the major threat to the system's financial stability and, consequently, the quality of consumer care provided by all mental health agencies.

Now, NJAMHA represents 125 non-profit community mental health agencies throughout New Jersey that have contracts with the State to help adults and children who are affected by mental illnesses, such as schizophrenia, bipolar disorder, and Attention Deficit Hyperactivity Disorder. Many of these residents also battle substance abuse problems and depression. Community mental healthcare providers often extend the helping hand to individuals with mental illness, that they may lead a safe and productive life. Our providers serve 382,000 adults with mental illness, and children with emotional and behavioral disorders annually, providing as many as one million clinical contacts per year. We represent 98 percent of the mental health treatment field in New Jersey. NJAMHA members are the safety net for mental health care and children's emotional and behavioral disorders.

Today, however, after years of underfunding and annually increasing demand, the community mental health system is dangling on the edge of a dangerous precipice. The system has endured years of stagnant funding. Meanwhile, costs and demand have skyrocketed, leaving the system reeling.

And as significant as this funding issue is, it's not the problem that I'm here to speak about today, and it really is not the most important problem we're facing. Even as we desperately need the proposed 4 percent COLA, the real question today is how many of those dollars will the provider agencies be able to keep and use? And how much of the funding that you allocate each year for community mental health services stays in the community to support services to consumers?

Complicating the answer to those questions is the excessive micromanagement of provider agency contracts by the Department of Human Services and, in particular, the Division of Mental Health Services. This State likes to refer to their relationship with provider agencies as partnerships.

However, this micromanagement does not reflect a true partnership. Further, it tends to eliminate incentives for innovation, and it is financially short-sighted in that it drains the community system of needed capital, creates a financially unstable community mental health provider system, and results in lower-than-standard salary structures. Salary structures that fail to compete with the economy around us increase staff turnover; extend the time it takes to fill key clinical positions, reduce the number of experienced and high-quality staff available for hire; compromise the quality of services provided; and increase the opportunity for dramatic, life threatening incidents, such as homelessness, re-hospitalizations, incarceration, and suicide. As you all know, each one of those events comes at a vastly higher cost to state taxpayers.

We appreciate the Department's need to protect the public interest in ensuring that provider agencies are not misusing taxpayer dollars. Provider agencies also wish to protect the public interest. In fact, our futures are dependent on our ability to do so. We are nonprofit, community-based, mission-driven organizations that exist for no other purpose than to help people in need. Despite the chronic underfunding of the system, provider agencies continue to respond to the ever-increasing number of requests for help, and do so without regard to one's ability to pay.

I would like to recognize that there are also many good and honorable people working throughout the State, and particularly within the Department of Human Services and Division of Mental Health Services. I also recognize that what we are asking them to do is give up some of their historical control in the spirit of a true partnership.

Now, in the past, we have all heard the story of an abuse of contract money by a provider agency executive director. NJAMHA encourages the State to properly monitor the use of State funding and take effective action against anyone who would abuse the trust of the State, its taxpayers, and the consumers we are here to serve. Considering that there are hundreds of provider agencies throughout the state that have tirelessly been providing services for years, it is not right to base a restrictive State policy on an isolated incident. The State's contracting policy continues to restrict the abilities of provider agencies to operate as efficient businesses. This penalizes honest providers, and it is not a sound business practice, especially when it leads to significantly more money than necessary being spent on administration and oversight by both the community and the State.

More importantly, we have proposed the time and money spent on excessive micromanagement of line items could be better spent on a collaborative DMHS/NJAMHA program to develop best practices and performance goals that benefit consumers. This is a much better use of taxpayer dollars and reflects a commitment from both the State of New Jersey and provider agencies to work together to improve care for the thousands of New Jerseyans with a mental illness.

For more than a decade now, since 1991, the State has engaged the provider community in a variety of contract reform discussions and task forces. Our efforts in 1992 resulted in some small changes that have had little impact on providers' ability to use State contract dollars more efficiently in order to serve more mental health consumers. Unfortunately, the process took a step backwards in 1996, when the State instituted a more restrictive budget modification policy.

During his campaign for Governor in 2001, Governor McGreevey promised to create another task force to examine contract reform within the Department of Human Services. He did so shortly after taking office. And that task force met sporadically for a year, culminating last September in the issuing of a long list of recommendations. Some of those were very good. However, nearly nine months later, not a single recommendation has been implemented.

Around the same time, NJAMHA engaged then-DHS Commissioner Gwendolyn Harris in contract reform discussion. Commissioner Harris recognized that provider contracts, administered by the Division of Mental Health Services, contain some peculiarities not common in other DHS contracts, and appointed a committee from her staff to work with NJAMHA over a 60-day period to develop recommendations for reform of mental health provider contracts. That committee met in good faith on several occasions in October, November, and December, and tentatively reached agreement on several issues.

When the representative group from NJAMHA shared the outcome with its full Board of Directors, there was concern that the proposed agreement was not detailed enough to impact the fiscally depressed system in a meaningful way. Correspondence expressing what else was needed was sent to the DHS team in December. Then Commissioner Harris announced her resignation, the holiday season was upon us, and the process stopped.

The New Jersey DHS Commissioner, James Davy, has also pledged to work with providers on contract reform. He understands the need for a greatly abbreviated process that will improve efficiency and maximize the optimal use of scarce resources, saving New Jersey taxpayers money and providing quality services to as many people as possible. Commissioner Davy recognized this and instructed the team NJAMHA worked with last fall to restart the negotiations.

The NJAMHA and State teams have met and pledged to work cooperatively on finding a middle ground that gives providers more flexibility, while also allowing the State to perform its duty of protecting the public interest. However, to date, no progress to achieve the stated goals has resulted. In fact, some of the points agreed to previously were withdrawn by the State.

While NJAMHA firmly believes in the good faith efforts of the negotiating team, after more than a decade of meeting with groups without meaningful progress, the system is more weakened than ever. In fact, quite candidly, it is at a breaking point. The cost of all of the committees and task forces convened over the last 13 years could have been better spent on improving consumer care.

The bottom line is: the system needs more money. But despite the recent good news that New Jersey's economy is improving, an infusion of significant new dollars appears unlikely. NJAMHA's contract reform proposal would not cost the State a single new dollar. Rather, it would allow the dollars already allocated to the community mental health system by the State Legislature to remain there and be used to improve care. The immediate implementation of these reforms would be an important first step to establish a financially stable system of care that focuses our efforts on service outcomes, best practices, and staff training, not the micromanagement of budgets. These goals are in line with the Department's own core values.

Now, specifically, NJAMHA has proposed three things, and they are the following:

The first -- we would like to allow each provider agency to develop a fund for working capital. Now, it's a well-documented fact that lack of sufficient capital is the number one reason for the failure of new business ventures. Established businesses take great care to accumulate a sufficient working capital fund, usually defined as three months operating costs, to ensure their continued operations during difficult times and to finance development of new products or services.

NJAMHA has recommended that provider agencies be allowed to retain excess revenues and accrued expenses, and otherwise be funded to develop a working capital fund that is equal to 15 percent of the agencies' annual operating budget. That would be approximately six weeks worth of operating costs. The model for the NJAMHA proposal is the working capital formula the New Jersey Department of Education uses with nonprofit, special education providers with which it contracts.

The State has acknowledged the need of provider agencies for sufficient working capital, and they have suggested an operational incentives plan that combines the DMHS Revenue Incentive Policy with allowing provider agencies to retain a portion of their accruals, provided levels and quality of services were maintained. NJAMHA proposes that 100 percent of the operating budget revenues and accruals at year-end be retained by the provider agency, up to 15 percent of the provider agency's total budget. This would parallel the

DOE model. Additionally, NJAMHA enthusiastically agrees to work with the State to set thresholds for levels of services and develop a mutually agreeable set of outcome standards for all service programs.

Our second proposal is a change in the budget modification policy. NJAMHA has recommended ending DHS policies that micromanage provider agencies' budgets. Current budget modification policy requires that all provider agencies request permission from DMHS to move even small amounts of funding from one cost center to another, limiting a provider agency's ability to react quickly to ever-changing events. Within the Personnel Services cost center, even moving funds from one line to another requires DMHS's permission. Many of the changes in the cost of providing care are market driven and outside the control of the agencies. For example: medical and hospitalization insurance, professional liability insurance, and the cost of transportation. Our failure to properly anticipate cost changes in a timely fashion frequently results in the disallowing of expenditures during the final audit. NJAMHA has recommended that after the annual contract is approved and signed, that budget modification should be required only to request an increase in the contract ceiling, or to request to move an amount equal to or greater than 10 percent of the contract ceiling from one budget category to another.

The third proposal is to eliminate budget clusters. Now, many NJAMHA members provide multiple service programs, each of which is inexorably connected to the others. This arrangement allows the centers to provide for the efficient coordination of consumer care, as consumers move back and forth from more intensive to less intensive services, and vice-versa, as well as to benefit from economies of scale. NJAMHA believes the DMHS policy of separating certain programs into clusters for the purpose of budget review is artificial, is antithetical to the positive effects of economies of scale, is costly to the centers and the State and, through a complicated system of catch-22s, reduces funding for community mental health services at a time when additional funding is most desperately needed. This cluster policy is eroding the quality of care and at the same time is causing serious reductions in the levels of services provided.

DMHS has demonstrated some flexibility regarding this issue. Although no formal policy statement has been issued, DMHS has promised to reduce the number of budget clusters currently in effect. DMHS has also stated that when new revenue initiatives are rolled out, they need to track revenues for a period of time to develop an understanding of the impact of the initiative on program funding. Two years was the verbally agreed upon period of time, but, again, this was discussion only.

As I mentioned earlier, provider agencies have been working, in good faith, with the State on contract reform for more than 13 years. In that time, providers have struggled under these burdensome regulations and received Cost of Living Adjustments in the range of 1.5 percent per year, with several years of no increases, including the current year that we're in. Despite this, provider agencies have endured, thanks mainly to the commitment of people in their communities who have donated money to fund a variety of initiatives. However, agency fundraising efforts have come under attack recently, because many donors feel they are paying for the same service twice, once with their tax dollars, and again with their donation. At this time, they're telling us they do not wish to fund services they feel the State is obligated to provide.

The contract reform measures outlined above which, again, would not cost the State a single new dollar, combined with an adequate COLA each year that keeps pace with the national Consumer Price Index, would pull provider agencies out of the crisis it is currently experiencing and prevent catastrophic events in the future.

I'd like to thank you for your time this morning and the opportunity to speak with you. And I'd be happy to answer any questions you might have. (applause)

ASSEMBLYMAN PAYNE: Thank you, Mr. Cooney.

Do any of the Committee members have questions for Mr. Cooney?

ASSEMBLYMAN CRYAN: I do.

ASSEMBLYMAN PAYNE: Mr. Cryan.

ASSEMBLYMAN CRYAN: Thanks.

I won't applaud, but well done.

MR. COONEY: Thank you.

ASSEMBLYMAN CRYAN: I do have some questions. And what I really want to go over is the proposals on Page 4, I think, probably more than anything else.

I'll admit, I don't understand budget clustering. I read it, and I still don't understand. The idea is-- I mean, one of the constant complaints about mental health services, and all the good work people provide, is that it's very segmented. And as a result, it's very hard-- One agency provides one service, one provides the other, and in so many cases they seem to coincide.

Can you-- Budget clustering does exactly what? I notice it's in the-- This is the proposals off the (indiscernible) that's in here. It basically says it gives more flexibility in regards to budget line items. But tell me about clusters first, before we do budget modification. What does that mean?

MR. COONEY: You know, our contracts are called a Consolidated Funding Application. And in that funding application, there are multiple columns for most of our provider agencies. Some agencies are -- all agencies are different sizes, obviously. Some are very large, some are smaller. But most of the agencies have many different columns representing each of the programs. Some of those columns, we can move dollars around in and provide for more cost in one program than another, based upon what's happening in our community.

ASSEMBLYMAN CRYAN: Within the same agency.

MR. COONEY: Within the same agency, exactly.

But there are some columns that have been clustered out and are separate. And you cannot move funds around between that column and another column.

So, for example, if we have -- this year in particular -- the Adult Residential Services Program is a separate cluster. We cannot move costs of services in that column and health -- the cost of services in another column, nor can we move the revenues that we receive under that -- those service programs from that column to another. So, in other words, we have very little flexibility. If we should do very poorly, if there's a greater demand in one area, and we actually shift resources to that-- We can't move revenue around in order to make ends meet at the end of the year.

ASSEMBLYMAN CRYAN: What's the difference between that and a budget modification?

MR. COONEY: A budget modification is the procedure by which we must request permission to change the way we're going to spend our funds during the course of the year. We sign an initial contract, but, of course, as the year goes on, things do change. This year, in particular, we got a 16 percent increase in our agency in the cost of medical insurance. Our professional liability insurance went up. Gasoline prices are going up right now, as we're speaking. We transport clients every single day. The cost of transportation is changing. We need to, sometimes, move resources around in order to meet those needs so we can balance our budget by year-end.

ASSEMBLYMAN CRYAN: So you get a pile of money?

MR. COONEY: In order to do that, we have to get permission from the State.

ASSEMBLYMAN CRYAN: In other words-- So you get a pot of-- We give you a dollar--

MR. COONEY: Right.

ASSEMBLYMAN CRYAN: --for argument's sake. And gas, instead of being five cents, now needs to be ten. You have to go in and ask for that?

MR. COONEY: There are certain -- very small limitations to which we can move money. If we go outside of those limitations, we have to get permission to move that money around.

In the personnel services line -- cost center -- to move from one line item to another, we have to ask permission every time. In other areas, we have a little bit more flexibility.

But what we're saying to the State is that, we've been doing this for years. We know things change. We would like the ability to run our businesses as efficiently as we can and be as innovative as we possibly can. We don't need to be spending a lot of time and money doing budget modifications throughout the year to make sure that everything is in line so when year-end comes, your auditors don't come in and say, "Okay, you didn't spend this exactly right. Therefore, we're taking this money back."

Right now, it's possible for us to finish a year and have lost money on our overall operations -- have the auditors come in and say, "You didn't get permission to move this money around. Therefore, we're going to take some money back from your State contract. Oh, and by the way, you overcollected your revenues in another area, and we're going to take half of that back, as well."

ASSEMBLYMAN CRYAN: I'm going to ask you about the revenues in a second.

One of the things I was struck at, though, was-- Both the example you used here, which is health insurance at 16 percent, and gas, which is up -- what, 57 cents? So it's up 33 percent.

MR. COONEY: It's up every day.

ASSEMBLYMAN CRYAN: It's up 33 percent or something. But, yet, your only asking for a 10 percent figure in the budget modification. I was rather struck at the figure. Why 10 percent?

MR. COONEY: We're trying to be reasonable, first of all. And there are plenty of us who say, "You sign a contract with us. Let us use the money how we need to use it in order to make things work at the end of the year." And we shouldn't have to have to ask permission to change anything around.

We know that the State has been doing this for years, and they have a responsibility to protect the taxpayers in the state. So we want to work with them and try to be cooperative. If we can move 10 percent of our contract ceiling dollars between costs -- without going back and saying to them, "This is what we're doing," we feel we can save us money, we can save them money. Because there has to be people who prepare this budget modification. They have to review this budget modification. And we'd be able to have more flexibility to meet ever-changing needs.

ASSEMBLYMAN CRYAN: So you don't get analyzed-- When you break out a budget -- my theoretical dollar, you say, "Here's 20 cents. It's going to go here. Five cents here." And you get measured on each line item.

MR. COONEY: Our budgets are extremely detailed.

ASSEMBLYMAN CRYAN: Right.

MR. COONEY: It's line item by line item. And all the line items are in clusters. There are about seven different clusters.

ASSEMBLYMAN CRYAN: So now--

MR. COONEY: Excuse me, there are seven different budget categories, cost centers.

ASSEMBLYMAN CRYAN: So you get managed on each line item. In essence, what you get if it's-- My example -- if there's seven line items off the dollar, you really have seven budgets.

MR. COONEY: We may have 10 cents in every one of them.

ASSEMBLYMAN CRYAN: And you really get managed on all seven. And the ones where there's excess -- this is why we're talking about the excess earnings thing -- what you really want to do is retain that where you have an opportunity. If gas prices ever went down, for example--

MR. COONEY: Sure.

ASSEMBLYMAN CRYAN: --and you want to hold it-- If I get it right, what you want to do is say, “Okay, I have some excess earnings here. I managed my budget properly. Let me develop a working capital fund of 15 percent of my budget for next year so I can have something in reserve for when it goes up the 33 percent,” and that sort of thing. Is that basically the message here?

MR. COONEY: It is exactly the message, yes.

ASSEMBLYMAN CRYAN: And how long is the-- I know the complaint is micromanaging. And I find it ironic. So often we talk about less -- this is the agency that gets criticized for not managing enough in some areas. So it’s really-- They’ve got it coming and going, in fairness. (laughter)

MR. COONEY: I’ve got to tell you, my colleague behind me, Alan Kaufman, does an extremely good job of managing the budget.

ASSEMBLYMAN CRYAN: Oh, yes, he’s good.

MR. COONEY: Very responsible.

ASSEMBLYMAN CRYAN: Yes, he’s great.

Well done, by the way. Did you get that Alan? (laughter)

MR. COONEY: That’s not meant as too much of a joke. It’s really, seriously, true. Alan does an extremely good job.

ASSEMBLYMAN CRYAN: I understand.

How long is the process of approval for clustering, for budget modification approval? If you want to move the money, how long does that process actually take?

MR. COONEY: What we're told is that the State will respond to us within 30 days.

ASSEMBLYMAN CRYAN: Is that real, or is it--

MR. COONEY: No, it's not real.

ASSEMBLYMAN CRYAN: It's 30 days in DEP, too. Is it real, or is it--

MR. COONEY: It's not real.

ASSEMBLYMAN CRYAN: Okay.

MR. COONEY: It's hit and miss. It depends.

ASSEMBLYMAN CRYAN: What's real? It's not a shock. What's real?

MR. COONEY: There may be a phone call within 30 days that talks about the budget modification request. But it could be any amount of time after that before we receive anything in writing.

ASSEMBLYMAN CRYAN: I know others have questions, so let me just close with the COLAs, which I found--

By the way, congratulations in both the beginning and the end with the COLAs. Well done. (laughter) Very well done. Didn't miss that.

MR. COONEY: And I'm not here to talk about COLAs today.

ASSEMBLYMAN CRYAN: No, but I just noticed it was your opening and your closing. It was very well done.

What I do want to talk about for a little bit with the COLA is -- and I'm wrestling with it, and I know some others are, as well -- is the legitimate concerns of the agencies that provide the services -- that the COLA not be used solely for salary increases because of -- guess -- health insurance, all the things that come with running this type of good work that you do.

Yet, there's significant argument -- I can tell you, within our chambers -- as to whether or not it should be dedicated to that, because we have talked about the clear need for a salary increase, as well. I don't want to ask you about the merits of that. What I want to ask you about is the application of that -- as to how it would go down to-- I don't want to ask you whether it's right or wrong. But suppose we did three in one. Suppose we said -- or any sort of breakdown -- where we said, "We want you to use 3 percent for a salary increase -- or 1 percent. When you get that as part of this discussion today -- as part of a budget management process -- is that not feasible for you to manage in a-- How problematic is that to manage as part of your agency's overall efforts?

MR. COONEY: I think I understand your question.

ASSEMBLYMAN CRYAN: You're probably the only one.

MR. COONEY: And I want to tell you that I know I'm not here to speak about COLAs today. However, they are very important to us, and we are in desperate need here.

We're also here talking about flexibility. And to the degree that you would dictate three to one, or whatever you would dictate, it reduces our flexibility. And that's what we're really asking for in my testimony today.

We've been around for a long time. We are not-for-profit, we're mission-driven, we're community-based. We want to help people, and we want as much flexibility as we can get right now in order to do that the right way. And we're struggling with it, because we have a lot of problems. So we need the COLA. We'd need 4 percent. It's a start, it's a great start. If we get three and one, it would be certainly helpful. We'd prefer to have 4 percent unfettered.

I've got to tell you something. The request for the COLA, and the drive for the COLA, didn't start with the gasoline price increases. It didn't start with the medical insurance increases. It started with the issue of staff. It is getting harder and harder for us to replace our staff with new people. We go to the schools, and there are fewer and fewer students who say, "I want to spend my career in mental health services, or human services." They want to be bankers, they want to be stockbrokers. This is what we really need. There's no one out there for us to recruit right now.

ASSEMBLYMAN CRYAN: I don't think anybody's (indiscernible) the merits of the 4 percent.

Two other quick questions. Is every contract annual with the providers? So even -- I'm watching heads nod back-- Every contract-- So even the ones that have been here 10, 15, 20 or longer -- you guys get an annual contract.

MR. COONEY: I've been doing this for 30 years, and I've had 30 one-year contracts.

ASSEMBLYMAN CRYAN: Who was it, Walter Alston, used to do that with the Dodgers? (laughter)

MR. COONEY: He was my hero. Twenty-one years as a manager, 21 straight one-year contracts.

ASSEMBLYMAN CRYAN: And I know we'll hear from Alan on that. I assume you need multi-year contracting to do some sort of working capital fund. It would make no sense, if you don't have a contract, to do that? Is that right?

MR. COONEY: We have talked about multi-year contracting. That was one of the recommendations that was discussed with the initial contract reform task force that Governor McGreevey had begun, that finished up last September.

There are some issues with that. What we've heard back from the Department of Human Services with that-- They were thinking about multi-year contracting, but they thought they would have to put that out to bid every three years, which is really, kind of, like saying, "Okay, we'll give you a three-year contract, but there's no guarantee we're going to come back and give it to you ever again." It's, kind of, like--

ASSEMBLYMAN CRYAN: And do you know -- last question.

MR. COONEY: We're looking for more stability, not less.

ASSEMBLYMAN CRYAN: Are there agencies, in the provider field, that have closed? What I want to understand is the multi-year thing, because I think it goes to-- I mean, your first thing was on working capital. Your first recommendation here was about working capital.

MR. COONEY: Yes.

ASSEMBLYMAN CRYAN: It seems to me, at least logically, you need multi-year contracting to do that.

The opposite end of that question is, do you know -- and I'll ask Alan the same when he gets here -- of providers that have closed, not due to lack of -- due to mismanagement, in any sort of way, that we should be aware of as a legislative body?

MR. COONEY: We actually discussed this in our committee negotiations not too long ago. And one of the things that the Division of Mental Health Services actually acknowledged was that over the last several years, a number of agencies have gone out of business. The typical way they do that is, they merge with another organization.

ASSEMBLYMAN CRYAN: So that's what you're finding. So we're not finding that provider that's open-one-day-and-closed-the-next type of thing.

MR. COONEY: Hopefully not. And I think, to the Division's credit, they work very hard at preventing that from happening. Imagine the impact on consumers.

ASSEMBLYMAN CRYAN: Well, that goes to the micromanagement issue. If they're micromanaging, and we're not losing providers, it's a tangled web, I guess, to some respect.

I appreciate it. I'm sorry. Thanks for your time though.

MR. COONEY: Thank you.

ASSEMBLYMAN PAYNE: Thank you very much, Mr. Cryan.

Do we have questions from either member of the Committee?

Mr. Fisher.

ASSEMBLYMAN FISHER: Thank you, Mr. Chairman.

Just a quick question concerning the 30 days. You said that many times you're supposed to have a response in 30 days, sometimes you get a call.

When that doesn't happen -- and I'm sure there are times when you're still waiting for the answer to how you can shift those funds-- Give me some-- What are the impacts of that?

MR. COONEY: We have a very good relationship with some of the people who work in the Division of Mental Health Services. And we'll call them, and we'll talk with them on the phone. And, basically, we rely upon the good faith words that they issue to us. And they say, "Yes, you can do this," and we go ahead and do it.

The problem with that is, if for some reason that didn't happen, and we didn't get that in writing by year-end, we could be on the hook for that -- whatever those changes were.

ASSEMBLYMAN FISHER: But I asked that because, at least in terms of this, it's not as though we're talking about some epidemic of crisis proportion where services can't be provided because the funds haven't -- because the micromanaging that you speak to has bogged it down so that we're losing -- people are losing service. And I don't mean to suggest that it's not important. I'm just trying to get a line on--

MR. COONEY: I understand.

I guess really what I'm saying is that, we do as much as we possibly can to avoid the reduction of services. And we work as cooperatively as we can with the Division operatives in order to make this thing work. What we're asking for is-- What we're recognizing is that it costs a lot of money for my staff to be on top of these issues, and for their staff to be reviewing these issues. And that money could be better spent setting up standards, and best practices training, staff training, and otherwise improving and increasing services.

ASSEMBLYMAN FISHER: So it's not a question that there are many that are denied or anything. It's just staff time. I mean, it takes a lot of hours.

MR. COONEY: I, personally, have not had one denied recently. I know that other agencies have. It's not that it happens a lot. And I know that we have had issues where we had just missed things. Costs have come up that we didn't anticipate. And at year-end, the audit comes in and that wasn't covered, and we've lost money there. Other agencies have experienced that, as well.

ASSEMBLYMAN FISHER: And how about the setting up of this capital fund -- or working capital fund? You still have to go through the-- Even once you set that up-- I mean, obviously, that's money that's been taken from one place and put into this more general type of category. Do you still have to go through that same process, or are you suggesting that you wouldn't have to?

MR. COONEY: I think what we're looking for is a good deal more flexibility in our budget process and our expenditure process. And what we're looking for is the ability to save revenues that we earn to put into a working capital fund, and to save expenses that we accrue because we found more effective ways of delivering services, or more efficient ways of delivering services, and put them into a working capital fund up to a certain limit. We're not asking for millions and millions of dollars per agency. What we're asking for is 15 percent of the operating budget, which would take us for about six weeks without any additional funding.

ASSEMBLYMAN FISHER: Just so I understand, once that money is there, you can decide that you want to do something quite different from what it was initially allocated for. And give me some examples of that.

MR. COONEY: Sure. I would think that the limits on how that money could be used would be dictated by the agency's mission. And all of us are incorporated as agencies that are here to serve the needs of the mental health population of New Jersey.

ASSEMBLYMAN FISHER: So each time--

MR. COONEY: It would still be used within the context of the--

ASSEMBLYMAN FISHER: Oh, I'm sure of that.

So every year there's a contract, and every year you present the cost of what it would be to provide the service. Some years you fare somewhat better, and other years you find yourselves really scraping the bottom. And it is quite possible that you could offset this by using that money.

MR. COONEY: That would be correct, yes.

ASSEMBLYMAN FISHER: Thank you.

ASSEMBLYMAN PAYNE: Thank you.

Thank you, Mr. Cooney.

Any other questions at this moment? (no response)

If not, I'd like to thank you.

And I'll ask Mr. Kaufman to please come forward.

MR. COONEY: Thank you all for your time. (applause)

ASSEMBLYMAN PAYNE: Thank you.

ALAN G. KAUFMAN: Good morning, Mr. Chairman, members of the Committee.

My name is Alan Kaufman, and I am the Director of the Division of Mental Health Services, in the Department of Human Services.

Thank you, also, for the opportunity to speak with you this morning and to talk about the contract reform issues that Jim Cooney eloquently described.

As you're aware, of course, the Department of Human Services has been in discussions with the New Jersey Association of Mental Health Agencies, concerning its community contracting procedures and, frankly, our mutual desire to reform the existing policies so as to better support their efforts in providing critical services to our consumers.

The Department has also embarked on much larger efforts than that referenced by the Association, which includes comprehensive, system-wide improvements affecting all of our purchase of service contracts and our funding awards.

Although we understand the frustration that the process has not been proceeding as fast as agencies would prefer, and, frankly, as fast as I would prefer either, I must emphasize, on behalf of Commissioner Davy, that we are very much committed to needed contract reform -- minimizing unnecessary administrative activities, promoting healthy competition among providers, and providing as much flexibility as possible so that maximum resources can be devoted to direct services for our consumers.

We in the Department fully recognize that our contract providers, no only in mental health but those funded through our other Divisions as well, are very much our partners in meeting the needs of our citizens, and that they are very much faced with substantial and growing challenges of rapidly rising costs, along with even greater increasing demands.

The Department has also established a number of active task forces and subcommittees developing recommendations for purchasing collaboratives, insurance pools, and other approaches that could potentially reduce operating costs to contract provider agencies, and that would allow funding to be maximized in other areas. Moreover, the Commissioner has directed that a work group of Department staff and the provider community be convened to identify any unfunded mandates that might be eliminated or reduced. Towards that end, a letter was recently sent to all contract providers, across all divisions serving people with disabilities, requesting that they identify any regulations, procedures, or other requirements that place an unnecessary or excessively burdensome demand on them.

While we are serious about eliminating unnecessary requirements from our contract partners -- and that we will explore all responses to determine whether we can afford to make the requested changes -- we also know that we are charged with the responsibility of assuring proper stewardship over substantial dollars entrusted to us by you in the Legislature, and in assuring that we in the Department, together with our contract vendors, are not only fully accountable for those dollars, but that services are available and provided to those most in need.

Across the Department, we administer over 1,500 contracts, totaling more than $1.5 billion. One-third of our contracted dollars encompass just over 200 provider organizations that contract with more than one division within our Department. In the Division of Mental Health Services, alone, we contract with

120 agencies for over 700 separate programs, totaling $240 million in direct State funding. In addition, those contracts include another $180 million of Medicaid, Medicare, insurance, and client fees collected by those providers from consumers who have such insurance coverage or who possess a capability to contribute to their care. More than any other division, providers that contract with the Division of Mental Health Services also contract with other divisions within the Department.

The interplay of third-party revenues from insurance, with funding appropriated by the Legislature, and the cross-divisional contracting relationships admittedly makes our contracting system necessarily complex. Those contracts clearly must meet the very real needs of providers in supporting their staff and other rising costs, but they also must support a structure where the number of insured and non-insured consumers seeking services can easily change during that same year, with concomitant changes to revenues that will be received by those agencies.

Overall, we believe the contracting system has been effective and that it has allowed a stable array of core services, admittedly stretched in a number of areas, to be available in all 21 counties. At the same time, however, we also believe that changes can definitely be made in our contracting policies that would improve existing procedures, and we're committed to working with all of our providers to do so. But, because a significant number of providers contract with more than one division within the Department, all of our contract procedures must apply fairly across all divisions. Therefore, changes made to the contract system must be made thoughtfully.

In current decisions -- or discussions with the Association of Mental Health Agencies, four separate areas are being considered for possible reform -- and which Jim Cooney talked about -- and for which the Association has made proposals. They include liberalizing the budget modification policy, allowing increased movement of funds across different contract programs -- that's the clusters -- retention of a portion of unspent funds for working capital, and also allowing short-term interest expenses to be paid with State dollars. In addition, we are also discussing performance contracting and our desire, over time, to move more toward contracting based on agreed upon outcomes as opposed to line-item budgeting.

These are complex issues and, although I believe we are close on one or two of the areas, we have not yet come to conceptual agreement on all of them. Once we are closer, it will then be necessary to involve other divisions, together with representation from their provider communities, to also join our efforts. We are aware that provider agencies in the Department span very large to very small organizations and, as a result, their financial capacities vary markedly from one another. Involvement of the wider provider community is therefore believed essential to assure that our contract procedures meet the overall needs of all of our Department's consumers and that they are uniformly applied where necessary.

Again, Mr. Chairman, I want to thank you and the Committee members for allowing me to testify this morning and to represent the Department. You can be assured that we are indeed committed to working closely with our community partners in every way possible, but that we also take seriously our financial responsibilities to you for the substantial funds entrusted to our care.

Mr. Chairman, I would be pleased to answer any other questions you may have.

ASSEMBLYMAN PAYNE: Thank you, Mr. Kaufman, for that very concise testimony.

One of the things that you do stress is the financial responsibilities that you, your Department, and we as legislators have, to be the proper stewards of funds that are allocated to your Department.

One of the things that I think we need to keep in mind is that although we must be very, very careful about the funds that we do allocate for various services, I trust that we will make sure that this is not at the risk of diminishing services -- the human side of this. I am, as a member of the Budget Committee, keenly aware of the revenue situation that we have here in the State of New Jersey. But also being active in some of the other Committees, I'm aware of the needs, the human needs of people; and also many of the areas that obviously need to have some correction, some improvement, so that those people that I talked to early on will, in fact, be served in the manner in which they should, in a humane manner.

So I think that we need to be very, very careful that we balance our zeal to monitor very, very closely the funds that we do allocate to people. We must never, ever lose sight of the fact that there are those out there who, in fact, depend on and need the services that these agencies do provide.

MR. KAUFMAN: We agree with you.

ASSEMBLYMAN PAYNE: I would hope that there-- You mentioned that there are numerous agencies that you contract with. I think the number is 120 agencies, 1,500 contracts, and some 700 different programs. One of the things I would expect -- or hope that, while we're reviewing these contract provisions, that we also will be looking extremely carefully at manners in which we could truly partner and truly coordinate these programs that we're talking about. I don't know, but it would seem to me that with that number, there might be some cases of duplicity or duplication.

And let me ask you, are we looking as carefully at, perhaps, coordinating some of the services, some of the departments, some of the agencies, as we are at monitoring closely the moneys that are being expended by these agencies?

MR. KAUFMAN: Yes, Mr. Chairman.

I want to, certainly, indicate that we also want to be very careful to make sure that we're dealing in human services issues; we're not doing widgets, obviously. And we agree with you that we have to balance these kinds of areas.

Our contracting procedures, at the moment, basically-- While we competitively bid all of the programs -- and we have for the last 15 years or so -- basically, we renew most of those contracts from year to year because of the relationships that have been established between the providers and the individual consumers.

And, in effect, there is not a lot of duplication in geographical areas. And we've been basically using the State's dollars to spread these programs across the state rather than to support multiple programs in various areas of the state. So a lot of attention is being placed on not just the quality of services--

And we agree with the Association, we want to move more to outcome-based rather than line-item budgeting. We'd prefer to watch the process less and watch the outcomes more. But we're not really duplicating very much, and we are spending a lot of time with those efforts to try to support those programs that are already existing.

Now, at the same time, I have to share with you that, that sometimes makes it difficult for us -- at the same time -- to try to open up the competition to new providers or smaller providers in areas, who very much have the ability and desire to provide those services. And we are trying to determine some kind of way of balancing, a way of including providers -- particularly small, minority-owned business providers and others -- to join the provider network, in a way. So we're trying to figure out how to balance all of these without under -- making weaker the infrastructure that is out there, into the community, that all of our citizens have come to rely upon.

ASSEMBLYMAN PAYNE: There are evaluations that are required, frequently for instance, in some areas in the psychiatric evaluations -- required, I think, two times a year for clients not on medication, and psychiatric evaluations required every three months for clients on medication, etc. Are you reviewing these kinds of operational details in this review of the contracts, as well? In other words, are we looking more closely? I think the Department, sometimes, has been accused of micromanaging. Do you share that view, as well, and do you think that it's necessary to conduct the number of evaluations in some of these areas, as being proposed?

MR. KAUFMAN: I think, in all fairness, I actually believe that some of the proposals that we're discussing with the New Jersey Association have merit, that despite the fact that-- Most of -- almost all of the modification requests go through; I think that's strong evidence that we probably need to look at why we're having these requests -- if they're being approved, and if they're moving forward.

So we do believe -- I certainly believe that there is more flexibility that is possible. I also know, however, that our division in mental health is a little different than some of the other divisions, in terms of the services that they provide and how, and we do have to have a more uniformed system across the Department. So it's a balance between those kinds of frameworks.

But to answer your question specifically, I do believe that there is more flexibility that is possible. I think we're close in a couple of these areas where we can give more flexibility and, at the same time, assuring that we are proper stewards. Where there may be programs or contracts that we may have concerns about, there should be a way for us to discriminate between those that we have some concerns, and maybe we need to be tighter on, and those that we don't. That can change over time.

I think there is some flexibility. I think the Department believes so, and I think we're fairly close. Our intention, of course, as I have testified, was to come to some conclusion with the Association on what we think we can do and what we can't, and how to do those flexibility. And then we need to work with other stakeholders, and other providers, and other divisions to assure that we have some kind of commonality so we don't have -- particularly when we have-- Most of the agencies in mental health are also contracting with other divisions within the Department. So there are a number of agencies that are also providing services to people with developmental disabilities, or children with emotional disturbances, or those with substance abuse, or other frameworks. So we have to be sure that all of our procedures are in alignment, or we really will confuse not only ourselves, but the providers upon whom we rely.

ASSEMBLYMAN PAYNE: Right. And certainly the end result is stakeholders -- those persons who are beneficiaries of these services that we provide. They are the ones that I want to make sure we keep a focus on. They are the ones that we are trying to see to it that we provide for them in the manner in which they should be provided in. So that means that both the Department and providers will have to keep their eye focused on that end result of providing the kinds of services that our citizens deserve.

Thank you.

Assemblywoman Myers.

ASSEMBLYWOMAN MYERS: Thank you.

Good morning.

MR. KAUFMAN: Good morning.

ASSEMBLYWOMAN MYERS: I think your office has been some help with some issues at Hagedorn, and I want to personally thank you for your help there.

MR. KAUFMAN: My pleasure. Thank you.

ASSEMBLYWOMAN MYERS: I'm a little confused as to why this issue is coming before this Committee at this time. Have the contracting reforms been agreed on between the Association and the Department?

MR. KAUFMAN: No, they haven't, Assemblywoman, not yet. I think they're coming here because there's a legitimate frustration that I, sort of, understand. The issues discussing contract reform have had various interactions. I think they've had a lot of serious thought and a lot of attention paid to them, particularly in the last several years, but there's been some changes: change in the Commissioner, certainly stresses that the Department has found itself moving in, in other areas, that have taken our eye away from that ball, etc.

I think, recently, we've come to -- we're starting to come very close. I think we're within maybe a couple of months, or maybe less, in terms of agreement with what we can do and what we think we cannot do with the Association. And I think they probably came here because of -- it's taking longer than any of us would like.

ASSEMBLYWOMAN MYERS: And the reforms, once they are agreed on, have to go to OMB -- the contracting reforms -- for approval?

MR. KAUFMAN: Well, it depends which of them are. Not all -- probably not -- but some of these would. And what our process would be is to, because of the uniqueness of mental health agencies, which contract differently--

It's sort of helpful to understand that we contract in a way -- the services that we provide -- unlike, for example, the Division of Developmental Disabilities or the Division of Youth and Family Services -- are not a service for a specific consumer. They don't contract -- I don't contract for services for Alan Kaufman. In effect, what we contract for are programs of services for eligible classes of consumers in a community, much like a public health clinic would. We're funding services so that anyone who meets the eligibility would be able to go in, and that's where all these third-party revenues become so critically important.

So our process is to come to some agreement within the Department and with the Association of Mental Health Agencies -- what would work and provide flexibility in how far we can go with the mental health areas, and how they might relate to other divisions. And then we need to bring in the other divisions, in effect, and their stakeholders to make sure that we're not having any unintended outcomes. And then on those proposals that we can move forward with, or modify, or however we move to -- that need OMB's approval, it would go there next. Not all might.

ASSEMBLYWOMAN MYERS: Well, clearly, this is not going to be ready for the FY 2005 budget.

MR. KAUFMAN: I would say, Assemblywoman, that I'm actually optimistic. I don't think it will be ready by July 1. However, some of the areas being proposed could potentially apply to Fiscal Year '05, because the contract would have started. But, in effect, some of the areas they're asking for -- is increased flexibility, for example on modifications and things -- they would not have to start in the next contract. Some of these could start within the existing contract. And then there's always the potential that, depending upon what they are, some could apply to the closeout of the current fiscal year, which will occur in the next four months or so. So there is some applicability, depending upon what the areas are and to what agreement we can come, that balances the very things the Chairman is talking about: the need for services to be sure to get to that consumer and family members; but also protects us, in terms of our stewardship -- our joint stewardship -- but at the same time also accepts our provider association and agencies in as supportive an environment as we can give them.

ASSEMBLYMAN PAYNE: Thank you.

ASSEMBLYWOMAN MYERS: I'd still like to know what the time frame is. It still seems rather open-ended.

ASSEMBLYMAN PAYNE: Well, you see, the purpose of this hearing -- what this hearing is serving, is to be a facilitator, really, to move it along. You pointed out that there were some who were concerned about -- this was taking a bit long. And I think the fact that we're having this hearing will help to accelerate that and bring it to closure much, much sooner than it might normally have been. So I think, in that regard, we are serving a pretty important function. I would like to have hearings on a number of areas where they're taking quite a long time to resolve some things.

Thank you for that answer.

MR. KAUFMAN: My pleasure.

ASSEMBLYMAN PAYNE: Assemblyman Fisher.

ASSEMBLYMAN FISHER: I just wanted to go back to these requests, moving from one fund to another, concerning what -- the micromanaging. And yet it's been, from what I can gather, very -- even you have stated very few were ever turned down. It always, for the most part, takes place. You have a good working relationship with all those agencies. You have a phenomenal bit of oversight where, if they were in violation of any of those -- compact, almost -- that they probably wouldn't get the contract next year.

So, if those requests aren't made, and there is an excess within one-- Is this like Medicaid, where there's a screen? I mean, it's almost like screens, where they -- there's too much in one fund and-- I guess what I'm asking you is, does that money get returned?

MR. KAUFMAN: It could, ultimately--

Let me talk about what actually happens. The way-- Let me go back to clusters a little bit and describe my perception of that.

There used to be, a number of years ago, where the division would contract, with agencies, separate contracts. We would have a contract for this, a contract for that. Some included multiple programs, some were new. And we attempted to actually move all of those into a single contract. Mr. Cooney mentioned a consolidated funding application, or a contract. And so we moved all those separate contracts together. And what we created was clusters, contracts within contracts, in many ways.

So when it comes to a budget mod, what happens is, an agency who has a need to move anything beyond-- There's a certain limit that you don't have to ask any permission, certain percentages of increases, etc. When you go above that area, you need to ask us, "Can we move these areas," because you're changing the particular contract. We try to do that within 30 days. You can also approve that in letters that should occur. And there's clearly verbal aspects that are certainly done. So the money can be moved from one contract to another.

If it got to the end, and an audit were ultimately dealt with, an auditor would go out and find variations. "You overspent this category by $3,000, you underspent this--" whatever it happens to be, we would then get that audit report. We have the ability of then going into the audit and waving audit findings if, in fact, there is a legitimate reason why things have gone over -- certain things happened, certain things did not. We don't always waive it, because we may not be able to do that. But within certain limits, we can waive it. To the extent that we don't waive it, and there's a collection, then that money could end up going back to Treasury and then get reappropriated in the following year.

ASSEMBLYMAN FISHER: And as a percent of the total operations in cases like this, what would you say does get returned? I mean, I guess what I'm trying to find out is, does this fiscally benefit you?

MR. KAUFMAN: No.

ASSEMBLYMAN FISHER: Does it, in fact, allow for money to be returned that could otherwise have either gone into this capital thing or--

MR. KAUFMAN: I think, an estimation, Assemblyman-- The amount that might get returned might be in the area of about somewhere less than half of 1 percent of the funds appropriated to the division -- would ever get back.

ASSEMBLYMAN FISHER: So all this is taking place for possibly a half of 1 percent. And if you were to globally look at the whole thing, I would question how much time you must be spending within these agencies to do this, to find out that the most that you could recoup, let's say, is -- obviously your budget is big-- But I hope that they would re-look at that, because now that this issue has come forward, I think that-- It sounds to me, from a business side, that it has a lot of merit.

MR. KAUFMAN: We don't disagree. We think there's an increased flexibility that's possible, that could save time on the part of the mental health agencies that are going through this and, frankly, some of our time that goes through this, as well, which is, sort of, the challenge -- has to do with how we balance that with all the other small providers, and some of the other frameworks that go on.

ASSEMBLYMAN FISHER: Thank you.

MR. KAUFMAN: Thank you.

ASSEMBLYMAN PAYNE: Thank you, Mr. Fisher.

Mr. Cryan.

ASSEMBLYMAN CRYAN: Real quick. In the budget hearings, we heard where -- and this is the example I'm going to give you -- the Department of Education is going to certify teachers that come out of Kean University, because they're satisfied that their teaching program does it, and those kids pass.

Here, under Chairman Payne's leadership last year, we heard DEP talk about the certification of engineering firms because it made sense. And their reports were going to be taken.

How come we don't certify these folks, give them a budget, and move on if we've got a long history, in a lot of cases? You talked about 120 agencies for 700 separate programs, 240 million. Half of 1 percent sounds like we're losing a lot of money in budget mods. Why not just do it-- Why not look for certifications, especially across the Department, where instead of just being mental services, where they're in four or five different areas of your very complex agency-- Why not just certify them and move on where you have a history? We're taking that approach in other departments.

MR. KAUFMAN: Assemblyman, we do license all of these agencies to--

ASSEMBLYMAN CRYAN: I'm not talking about licensing, I'm talking about taking them-- We licensed-- In the Kean University example I just gave you, we license them, too. Why not take it to the next level, certify them, show a good work ethic and good history, and move on and let these people do their mission?

MR. KAUFMAN: Well, I think it's an approach that might be an issue, and we were talking a little bit internally at the Department, in terms of how more seasoned providers may have more flexibility, in some ways, than less seasoned providers. But it is also true-- You had asked a question of Mr. Cooney before me. We have had instances -- fortunately not many, and I don't know whether we keep that from happening because we spend too much time on these things, or because we don't-- But we have had agencies that have gone out of business or that we had to close because of certain practices.

ASSEMBLYMAN CRYAN: I don't doubt that. But why not take your good ones that go across boundaries, certify them, and then deal with the (indiscernible) thing, the 80-20. I mean, why not move on? It seems to me like that would be -- if you're looking at multi-years, and you're on the message here, you're close on a couple -- without extending this hearing. Why not take a look at that approach? It seems to me to be more appropriate than--

MR. KAUFMAN: We'd be happy to look at it. I will have to tell you, I have had some experience where there have been very experienced agencies that find themselves in very serious financial problems, based on poor judgement at that particular time, that then endangered the services.

ASSEMBLYMAN CRYAN: Fair point.

MR. KAUFMAN: It does occur.

ASSEMBLYMAN CRYAN: Thank you.

MR. KAUFMAN: You're welcome. Thank you.

ASSEMBLYMAN PAYNE: Thank you.

Thank you very much, Mr. Kaufman. I appreciate the testimony and time that both of you gentlemen have spent with us. I think that, as I said earlier, this will help to accelerate the process and bring closure to, at least, the review that you're doing now.

I thank you very much -- all of you -- for attending and testifying. This hearing is concluded.

(MEETING CONCLUDED)