Oregon

Kate Brown, Governor

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May 10, 2017

DHS Oregon Department of Human Services

The Honorable Senator Richard Devlin, Co-Chair
The Honorable Representative Nancy Nathanson, Co-Chair
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Re: Department of Human Services (DHS) third rebalance report and request.

Dear Co-Chairs:

Nature of the Request: The purpose of this letter is to provide the second DHS Rebalance report and request (attached) of the 2015-17 Biennium to the Emergency Board.

Action Requested: DHS requests acknowledgement of receipt of this third Rebalance report of the 2015-17 Biennium. In addition, DHS proposes to revert an estimated $51.4 million GF in savings, increase Other Funds limitation of $0.6 million in the central appropriation and increase fund limitation by $10.7 million In the APD/I/DD appropriation.

Legislation Affected: See Report Attachment A. DHS would request that other and federal funds not be reduced at the end of the biennium to both ensure DHS can close the books without a further rebalance and for cash flow purposes. This would alter the numbers in the report attachment B for Other and Federal Fund limitation in specific appropriations.

If you have questions please contact Eric Moore at 503-884-4701.

Sincerely,

Eric Luther Moore
DHS Chief Financial Officer

Enclosure

cc: Laurie Byerly, Legislative Fiscal Office
Ken Rocco, Legislative Fiscal Office
George Naughton, Department of Administrative Services
Tamara Brickman, Department of Administrative Services

Oregon Department of Human Services

Report to Ways and Means Human Services Subcommittee (2017)

The Department of Human Services (DHS) Rebalance Report

May 2017

Executive Summary and Nature of Request:

The Oregon Department of Human Services (DHS) is submitting its third rebalance report for the 2015-17 biennium. This report reflects a number of issues affecting the DHS budget, some of which were known or anticipated. DHS expects to balance the budget for 2015-17 without an additional General Fund ask and, assuming no major federal fund changes or other unknown issues, anticipates to revert $51.4 million in General Fund at the close of the biennium. This memo will cover the main reasons for this anticipated reversion.

Budget Issues for 2015-17

The most significant General Fund (GF) issues driving the DHS rebalance position are savings in several programs that were either more than anticipated or not addressed at the last rebalance. In addition, increased revenues from estate collections and federal participation have also added to the current position of the agency.

This does not mean there are not still significant risks to the DHS 15-17 budget. However, at this time DHS estimates it will revert $51.4 million back to the General Fund.

The table below summarizes the DHS GF rebalance position by major program area.

Program General Fund in Millions	LAB	Rebalance Proposal	Proposed LAB
Aging and People with Disabilities	$ 897.0	$ (17.5)	$ 879.5
Child Welfare	$ 481.3	$ (11.8)	$ 469.5
Individuals with Developmental Disabilities	$ 743.4	$ -	$ 743.4
Self Sufficiency	$ 375.4	$ (20.4)	$ 354.9
Vocational Rehabilitation	$ 24.3	$ -	$ 24.3
Other	$ 253.5	$ (1.7)	$ 251.8
TOTAL GF	$ 2,774.8	$ (51.4)	$ 2,723.3

Program Rebalance Details

This section contains more details on the Department's updated budget position by program area (see attachment B for caseload change details from Fall 2016 to Spring 2017).

Aging and People with Physical Disabilities (APD)

APD has a net savings of ($17.5) million in GF based on the following issues:

- Nursing facility caseloads are up $1.4 million
- There are savings of a net ($0.7) million GF in cost per case savings in community based care and in-home care settings

- Due to continuing management actions there is net savings of ($12.0) million GF in the in-home care cost per case mainly driven by the changes in the live in program that exceeded the original savings projection.
- Estate recoveries have exceeded expectations by $5.5 million OF that allow the offset of ($5.5) million in GF
- A higher number of 100% Federal Funds (FF) ACA eligible clients creates an additional savings of ($6.8) million GF
- A higher match rate for waivered case management has led to an additional savings of ($2.7) million GF
- A hiring strategy that saved an estimated (5.0) million GF more than originally anticipated

The final action proposed by DHS is to "carry over" the last provider tax payment of an estimated $13.8 million in Other Funds (OF) for use in the 2017-19 budget. This would allow use of this one time funding in APD programs to offset possible reductions in the APD program.

Intellectual and Developmental Disabilities (I/DD)
There is a net savings anticipated in I/DD of ($3.0) million GF. Due to the following issues:

- Caseload costs have increased only slightly from the last rebalance, a net increase of $2.5 million.
- There is anticipated to be savings of ($6.3) million GF due to two factors.
    - The first is that new SACU positions were not able to be timely hired due to contract negotiations that lasted well into the biennium.
    - The second is that DHS has received approval from the federal government to get a higher match rate for administrative and management staff at SACU as these costs are considered in the rate for group homes in our state plan.
- In addition the local field has a projected savings of ($1.8) million due to management actions to increase the Medicaid participation rate which increased the use of FF instead of GF.
- I/DD Design costs are anticipated to be overspent by $2.6 million GF.

However, this rebalance includes a proposal by DHS to reinvest the $3.0 million in savings as a buffer to ensure DHS can balance the budget if the Legislature determines that it is necessary to dis-appropriate any GF before the final closing of the DHS financial books December 31, 2017.

There are two main risks to the I/DD budget. The first is the quickly changing caseload and cost per case in I/DD programs. While projections are based on prior trends and there are only a few weeks left in the biennium there are still caseload and cost per case uncertainties and possible late bills that DHS may not be currently aware of or have not processed yet that could impact the budget.

The second is the lawsuit brought by Disability Rights Oregon relating to the reduction of hours implemented by I/DD in 2016. Due to this lawsuit DHS has had to undo all of the hour reductions that have been made over the last several months. This may further increase the GF costs for I/DD during the 15-17 and would eliminate the reduction assumed in the 2017-19 Governor's Budget. At this time it is uncertain as to the GF impact of this action. DHS has not assumed this increase in this rebalance.

These funds would help ensure any unknown risks are able to be addressed without coming back to a "close out" rebalance post 2017 Full Legislative Session and before the end of calendar year 2017. If not used, this GF would revert to the General Fund in the normal reversion process.

Child Welfare (CW)

Child Welfare has a net savings of $11.8 GF. This is the net of the following issues.

- Wellbeing and Permanency costs per case have increased causing a need of $0.77 million GF. This is slightly offset by savings in caseloads in these programs of ($0.47).
- Attorney General costs are estimated to exceed the GF budget by $7.9 million GF. This is the result of giving up inflation in prior biennia and increased usage of AAG services by Child Welfare.
- In addition to savings in cost per case and caseloads there is anticipated savings in both Safety and permanency programs of a net ($10.0) million GF. Of this ($3.8) is "applicable child" savings due to better match rates for adopted children. While this is savings, there are federal requirements that this savings be reinvested into the child welfare system with a specific portion to post adoption assistance. DHS has legislation that would allow this type of savings to be put in an "other funds" account for use only as federal regulations allow. The legislation is SB 102 (2017). DHS will need to reinvest funding in future biennia to fulfill the federal requirements or face penalties that may include paying back the savings achieved to the federal government. DHS does not currently have authority to "carry over" these savings for reinvestment in the next biennium.
- Because DHS has reached its administrative cap for the TANF grant a general fund need of $5.0 million is created. This will allow the same amount of TANF FF to be carried forward for use as one time revenue in the 2017-19 biennium. DHS receives a block grant that has a limit of 15% administration. Therefore once the cap is reached all remaining administrative expenditures must be state funded. The unused TANF FF can then be carried forward to the next fiscal year.
- DHS also proposes to use $4.0 million in GF instead of SSBG in order to allow the SSBG to be carried over for use in the 2017-19 budget. In part this will fill the anticipated gap created by the denial of backfill of capped grants in the 2017-19 budget. While not a 15-17 issue, there is large risk in that SSBG has been proposed to be eliminated in the last several federal budgets. While it has survived so far, there is no guarantee that these funds will be available for FFY 18 or 19. This is about a 40.0 million dollar risk to the 17-19 budget.
- Finally DHS proposes to keep 1.0 million in GF in the Child Welfare budget for contingency purposes and to help avoid having a "close out" rebalance after the end of the biennium and before the end of the calendar year. If not used this GF would revert to the General Fund in the normal reversion process.

There is also what is effectively a technical adjustment between child welfare and self sufficiency that moves $20 million of GF from CW to SS and $20 Million of TANF FF from SS to CW. The net impact is $0 to the agency and the appropriation. The reason for this is DHS can spend some TANF in CW but cannot count GF spent in CW as Maintenance of Effort (MOE) for TANF. So we spend the GF in TANF and the FF in CW even though it is budgeted the opposite way. This is part of how DHS makes its contingency MOE commitment for TANF. Because of this change it looks like there is $20 million of GF savings in CW (included in the net CW numbers) but that is offset by the overspending in GF in SS (also included in the net numbers for Self Sufficiency below). Similarly it looks like there is a $20 million FF problem in CW that is offset by $20 million in FF savings in SS.

Due to the administrative cap on TANF, savings may not be able to be realized in General Fund and instead may need to be realized as FF TANF savings that would be available for one time use in 2017-19.

Self Sufficiency
Self Sufficiency has a net savings of ($20.4) million GF based on the following issues:

- Significant reduction in caseload and cost per case to savings in TANF programs. TANF savings nets to ($30.2) million in GF savings. Savings here is more significant than usual because it was not realized at the last rebalance.
- Due to unforeseen underutilization of the Employment Related Day Care program there is additional savings of ($11.2) million GF and ($9.2) million Other Funds which will result in the Early Learning division having a carry-over balance of federal CCDF funding into 2017-19. This program is a capped program and DHS closed the list anticipating a large influx of cases during the summer months. This number did not materialize as quickly as anticipated leading to underspending in this program. In addition changes in provider requirements reduced the number of providers available to provide this service.
- As mentioned above there is a $20 million dollar overspending of GF in Self Sufficiency for MOE purposes. Again, this is a net $0 for the agency, but technically shows as an overspending of GF in SS.
- Finally DHS proposes to keep 1.0 million in GF in the Self Sufficiency budget for contingency purposes and to help avoid having a "close out" rebalance after the end of the biennium and before the end of the calendar year. If not used this GF would revert to the General Fund in the normal reversion process.

Due to the administrative cap on TANF, personal services savings may not be able to be realized in General Fund and instead may need to be realized as FF TANF savings that would be available for 2017-19.

Vocational Rehabilitation (VR)

VR has no issues in this rebalance.

Central
Central services anticipates a $1.5 million GF savings due to the higher match rate for Targeted Case Management in APD. These savings should be in the APD program but the Central Office cost allocated expenditures are hitting the APD program instead of the Central Office budget line item. While the higher match rate is being appropriately charged, the payment is coming out of a different part of the budget than where the expenditure is actually made. This is a technical issue in part driven by federal requirements for tracking targeted case management that DHS is working to resolve for the 2017-19 biennium. However, DHS proposes a management action to keep those savings in the Central appropriation to help ensure DHS can close its books without returning to a close out rebalance. This will cover unanticipated last minute invoices that may come in after the biennium closes that were not accounted for in the rebalance projections. If not spent, funds would revert back to the GF through the normal process.

Program Design Services
Has no issues in this rebalance.

Shared Services
Has no issues in this rebalance.

Statewide Assessments and Enterprise-wide Costs (SAEC)
SAEC has the following issues that net to a slight savings of ($1.7) million GF:

- A slight projected need in telecommunications, mass transit, enterprise technology service and unemployment costs of a net $0.7 million GF.
- A slight projected savings in state government service charge and for "risk" charges of a net ($0.4) million GF.
- A small savings in facilities due to a planned project not being able to be completed in 17-19 of ($1.0) million GF. Facilities also has some empty federal limitation that is not supported by revenue. DHS proposes to reduce the limitation in federal funds by ($9.0) million FF most of which is empty limitation.
- A small savings in shared services funding of ($1.0) million GF. This is primarily due to cost allocation changes that moved some costs to OHA. Usage of shared services by DHS was also slightly over projected in 15-17 due to this change in cost allocation methodology.

Risks
There are four major outstanding risks to the DHS budget.

- I/DD caseloads and cost per case increases as the number of Oregonians coming to DHS for services increase. In addition client acuity levels may also increase.
- Depending on how the hiring freeze and delay impacts DHS, there is a risk that VR may have to invoke the order of selection if their staffing levels drop too low if retirements or turnover increases.
- The risk that the Secretary of State allowable costs to the federal government is lowered compared to what is assumed in the prior rebalance
- Unknown invoices that come in after the close of the biennium that we have not projected in the rebalance plan. Ideally the contingency funds built into this proposed rebalance will offset any unforeseen issues that inevitably arise after the close of the biennium.

Conclusion
DHS takes its fiscal responsibilities seriously and has attempted to manage the budget in a way that balances service with savings knowing the outlook for the 2017-19 budget. Since the last rebalance, as mentioned above, DHS has managed its budget in a way that has led to savings for the state of Oregon. Combined with caseload savings in TANF and active management of the APD live-in program, and unanticipated revenues, DHS is now in a significantly different position than at the first or second rebalances which were based on early biennial spending trends and prior to the decision to change the live-in program and the Governor's 60 day hiring delay and freeze directive.

If the legislature determines that it should dis-appropriate General Fund from the DHS budget for use in other agencies or to put towards the 17-19 budget hole, DHS would request that some cushion be left in the DHS budget for unanticipated late biennium expenditures or invoices that are not currently known so that DHS does not have to come back for a "close out" rebalance. The numbers in attachment A allow DHS some cushion in the budget in case of currently unknown issues as indicated in the program sections above. DHS looks forward to working with the Legislature and will continue to work with the Legislative Fiscal Office to ensure that the Legislature has the information it needs to make decisions about this rebalance report.

DEPARTMENT OF HUMAN SERVICES (DHS) **ATTACHMENT A**
2015-17 April 2017 Rebalance
APPROPRIATION AND LIMITATION ADJUSTMENTS

PROGRAM	PROPOSED LEGISLATION/ SECTION	FUND	REBALANCE ADJUSTMENTS
SS/CW/VR	ch 760, 1(2)	General	(32,202,000)
	ch 760, 2(2)	Other	(10,135,281)
	ch 760, 3(2)	Federal	(9,254,132)
	ch 760, 4	Federal, Non Limited	-
		Total	(51,591,413)
APD/DD	ch 760, 1(3)	General	(17,535,382)
	ch 760, 2(3)	Other	(8,354,830)
	ch 760, 3(3)	Federal	10,708,805
		Total	(15,181,407)
Central Services/PDS/SAEC	ch 760, 1(1)	General	(1,700,153)
	ch 760, 2(1)	Other	512,831
	ch 760, 3(1)	Federal	(15,816,123)
		Total	(17,003,445)
Debt Service	ch 760, 1(4)	General, Debt Service	-
	ch 837, 117	General, DS - XI-Q Bonds	-
Shared Services	ch 760, 2(4)	Other	-
Total		General	(51,437,535)
		General DS	-
		Other	(17,977,280)
		Federal	(14,361,450)
		Federal Non-Limited	-
		Total	(83,776,265)

Attachment B

Total Department of Human Services Biennial Average Forecast Comparison	2015-17 Biennium		% Change Between Forecasts	Spring 2017 Forecast		% Change Between Biennia
	Fall 16 Forecast	**Spring 17 Forecast**		**2015-17**	**2017-19**	
Self-Sufficiency						
Supplemental Nutrition Assistance Program (Households)	405,142	403,555	-0.4%	403,555	367,795	-8.9%
Temporary Assistance for Needy Families (Families: Cash/Grants)	23,299	22,426	-3.7%	22,426	18,109	-19.3%
Child Welfare (children served)						
Adoption Assistance	11,141	11,054	-0.8%	11,054	10,808	-2.2%
Guardianship Assistance	1,555	1,579	1.5%	1,579	1,817	15.1%
Out of Home Care	7,092	7,207	1.6%	7,207	7,500	4.1%
Child In-Home	1,505	1,422	-5.5%	1,422	1,458	2.5%
Vocational Rehabilitation	9,569	9,295	-2.9%	9,295	9,717	4.5%
Aging & Physical Disabilities						
Long-Term Care: In Home	17,959	18,081	0.7%	18,081	20,267	12.1%
Long-Term Care: Community Based	11,886	11,820	-0.6%	11,820	12,227	3.4%
Long-Term Care: Nursing Facilities	4,241	4,299	1.4%	4,299	4,208	-2.1%
Intellectual and Developmental Disabilities						
Total Case Management Enrollment	25,309	25,315	0.0%	25,315	28,218	11.5%
Total I/DD Services	19,254	25,725	33.6%	25,725	28,192	9.6%