

**74th OREGON LEGISLATIVE ASSEMBLY – 2007 Regular Session
BUDGET REPORT AND MEASURE SUMMARY**

MEASURE: SB 5547-A

JOINT COMMITTEE ON WAYS AND MEANS

**Carrier – House: Rep. Boone
Carrier – Senate: Sen. Carter**

Action: Do Pass as Amended and Be Printed A-Engrossed

Vote: 16 – 4 – 1

House – Yeas: D. Edwards, Galizio, Jenson, Nathanson, Nolan, Shields

– Nays: Garrard, Hanna, Morgan

– Exc:

Senate – Yeas: Bates, Carter, Gordly, Johnson, Morse, Nelson, Schrader, Verger, Westlund, Winters

– Nays: Whitsett

– Exc: Devlin

Prepared By: Blake Johnson and Eric Luther Moore, Department of Administrative Services

Reviewed By: Sheila Baker and John Britton, Legislative Fiscal Office

Meeting Date: 4/20/07

Agency

Department of Human Services
Emergency Board

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Biennium

2005-07

Senators: Bates, Carter, Devlin, Gordly, Johnson, Morse, Nelson,
Schrader, Verger, Westlund, Whitsett, Winters

Senator Kurt Schrader, Co-Chair

Representatives: D. Edwards, Galizio, Garrard, Hanna, Jenson,
Morgan, Nathanson, Nolan, Shields

Representative Mary Nolan, Co-Chair

Senator Margaret Carter, Human Services Subcommittee Chair

**2005-07 Supplemental
Appropriation/Limitation***

	2003-05	2005-07		
	<u>Estimated Expenditures</u>	<u>Governor's Budget</u>	<u>Committee Recommendation</u>	<u>Difference from 2005-07 Legislatively Approved Budget</u>
<u>Department of Human Services</u>				
General Fund	na	na	\$ 9,415,687	\$ +9,415,687
Other Funds	na	na	\$ 7,364,193	\$ +7,364,193
Total	na	na	\$ 16,779,880	\$ +16,779,880
<u>Emergency Board</u>				
General Fund	na	na	\$ -9,861,271	\$ -9,861,271
<u>Position Summary</u>				
Authorized Positions	na	na	10	10
Full-time Equivalent (FTE) Positions	na	na	-1.66	-1.66

* Excludes Capital Construction expenditures

Revenue Summary

Department of Human Services (DHS) programs and operations are funded by a mix of General Fund, Lottery Funds, Other Funds, and Federal Funds. General Fund makes up about 27 percent of the Department's total budget. Most of the General Fund is used to match or ensure the receipt of Federal Funds. Lottery Funds finance the Gambling Addiction Treatment program. Other Funds are derived from a variety of sources, including grants, tobacco taxes, provider taxes, the unitary tax assessment, beer and wine tax revenues, fees and premiums, estate collections, local funds, program recoveries, and charges for services. About 62 percent of the Department's budget comes from federal sources, primarily Medicaid (Title XIX), Food Stamps, and Temporary Assistance to Needy Families funds.

Summary of Subcommittee Action

Senate Bill 5547 implements the budget rebalance plan that carries out the Department's programs and operations for the rest of the 2005-07 biennium. This plan includes revised estimates of program caseloads, costs per case, and non-General Fund revenues which in total, increase the Department's General Fund costs by \$9,115,687 and increase Other Funds expenditure limitation by a total of \$7,364,193. The Human Services Subcommittee also approved an additional \$300,000 General Fund to continue support for family planning services for the balance of the

biennium. The bill thus appropriates a total of \$9,415,687 General Fund to the Department. The bill also disappropriates the \$9,861,271 unallocated balance of the \$83.3 million special purpose appropriation made in HB 5644 to the Emergency Board for DHS in the April 2006 Special Session.

The Department's rebalance plan includes the following major General Fund issues:

Caseload Forecasts

Changes in the Department's caseloads and costs per case based on the Spring 2007 caseload forecast result in a net \$36.3 million in General Fund savings. The main changes in each program area are as follows:

- Children, Adults and Families – The Spring 2007 caseload forecasts for the Temporary Assistance to Needy Families (TANF) program, Employment Related Day Care, child foster care and special rates foster care, and Adoption Assistance programs all are lower than the Fall 2006 forecasts. The net budget savings is \$10.5 million General Fund and \$17 million total funds for the balance of this biennium.
- Health Services – Overall, the Spring 2007 forecast for the Oregon Health Plan (OHP) "Plus" caseload (excluding the OHP Standard caseload) is about 8,038 average monthly cases lower than the forecast used for the November 2006 rebalance. The budget impact of caseload and cost per case changes in this rebalance is a reduced need of \$17.0 million General Fund and \$46.4 million total funds. For the biennium, the total OHP average monthly caseload forecast (excluding OHP Standard) of 380,308 for this rebalance is about 3.3 percent higher than the forecast used for the 2005-07 legislatively adopted budget. This difference in OHP caseload forecasts (from the adopted budget to this 2007 spring rebalance) amounts to an increase of about \$38.5 million General Fund.

The TANF OHP caseload continues to be the most volatile and, consequently, difficult to forecast. This caseload consists of adults with children who receive TANF cash assistance; those who are eligible for, but not receiving cash assistance; and those who are no longer receiving cash assistance but remain eligible for medical assistance for up to one year after receiving cash assistance. The TANF forecast is uncertain and problematic because the OHP TANF caseload is heavily influenced by external factors that are not an explicit part of the current forecasting model—namely, the economy's health and the number of persons who are not covered by medical insurance. DHS staff have worked hard to refine forecasting methods, primarily by including more participants (including legislators, forecasting experts, and program staff) in its forecast review process, but even so the risks inherent in these forecasts remain.

- Seniors and People with Disabilities – The latest home care program caseload forecast of 11,609 average monthly cases is 149 cases below the Fall 2006 forecast. This results in expected home care worker savings of \$9.6 million General Fund and \$22.1 million total funds. While this reduction is not particularly large over the course of the biennium, the home care caseload has declined steadily since Fall 2005 and, given recent trends, should be reviewed closely as the Legislature finalizes the Department's 2007-09 budget.

TANF Maintenance of Effort

The Children, Adults and Families budget requires an additional \$24.0 million General Fund to assure Oregon meets federal TANF maintenance of effort (MOE) requirements for the current federal fiscal year (FFY 2007), which covers the period from October 1, 2006 through September 30, 2007. To receive its \$166.8 million annual allocation of federal TANF block grant funds, Oregon is required to spend \$91.6 million of state funds each year on TANF or TANF-related activities, as MOE for the federal funds. DHS is the major contributor to the state's MOE requirement, but other agencies also have funding which can be claimed for MOE purposes. For a number of reasons, DHS now projects Oregon will not meet the MOE requirement for this federal fiscal year without an infusion of General Fund. DHS will pay current biennium program expenditures with the additional General Fund (to meet the MOE requirement) instead of using available federal TANF funds.

However, the \$24 million identified in the rebalance plan is an estimate, and the actual need could be different. DHS is reviewing both its MOE-eligible expenditure estimates, and those of other agencies. Changing federal policy has broadened MOE-eligible expenditures to include programs whose goal is to reduce out-of-wedlock pregnancies and promote the formation and maintenance of two-parent families, but whose clients need not meet TANF eligibility standards. DHS could identify additional eligible MOE expenditures that would allow it to use federal TANF funds for other program expenditures, potentially saving some of the \$24 million General Fund in this rebalance; if not needed elsewhere to close out the 2005-07 budget, then, the General Fund savings would revert at the end of the biennium. Due to the uncertainty around the MOE issue and the 2005-07 budget, and the potential impact on the 2007-09 budget, the Subcommittee approved the following budget note:

Budget Note:

The Department of Human Services is to report to the Emergency Board or the 2008 legislative session, at the time of its 2005-07 budget close-out, on the status of TANF MOE for federal fiscal year 2007 and estimates for federal fiscal years 2008 and 2009, and available federal TANF funds for the 2007-09 biennium.

Mental Health Institutional Costs

Projected costs are higher than budgeted at the Oregon State Hospital (OSH) and Eastern Oregon Psychiatric Center (EOPC), resulting in a General Fund need of \$9.18 million. The costs include higher staffing costs and higher pharmaceutical and contracted professional medical costs. The higher staffing costs appear to be the result of having too few filled positions to meet obligatory standards of staff to patient ratios. Thus, OSH must have existing staff work more and must compensate these staff with higher overtime pay. The inability to fill professional clinical staff positions has required OSH to use contractors, which has driven services and supply costs higher than budgeted as well.

Other and Federal Fund Adjustments

Other and Federal Funds revenue shortfalls and other adjustments result in a \$7.7 million General Fund need. The shortfalls include Other and Federal Funds revenues from hospital settlements in the Division of Medical Assistance Programs, and Medicaid, Medicare and private medical insurance payments to OSH within the Addictions and Mental Health Division (AMH). These costs are partially offset by higher revenues from the Oregon Liquor Control Commission Beer and Wine revenue within AMH, and an increase in Estate Administration Recovery revenue in the

Seniors and People with Disabilities Division. Other Funds and Federal Funds revenues that support the Department Wide Support Services budget (the Administrative Services Division), based on a federally approved cost allocation plan, have also been below budgeted levels.

Other Issues

- DHS has incurred higher costs for the conversion to the State Data Center, totaling \$3.9 million General Fund, \$7.8 million total funds.
- As directed by legislative leadership, the Department did not implement the planned reduction of OHP benefits required by Section 9 of HB 3108 (2005). This creates a General Fund need of \$2 million. The Joint Committee on Ways and Means is expected to use SB 1041 to repeal Section 9 of HB 3108 (2005), which allowed the Department to implement the OHP benefit reductions.
- All other issues net to a General Fund savings of \$1.7 million.

Unscheduled Limitation Request

Rather than reduce certain Other and Federal Funds expenditure limitations as requested by the Department, the Subcommittee determined that unrescheduling the limitation would allow some budget flexibility as the Department closes out its 2005-07 budget. Therefore, the Subcommittee requests the Department of Administrative Services unreschedule (or keep unrescheduled) expenditure limitation as follows:

- Department-Wide Support Services: \$738,589 Federal Funds
- Children, Adults and Families: \$17,667,912 Federal Funds
- Health Services: \$5,729,838 Other Funds and \$34,021,301 Federal Funds
- Seniors and People with Disabilities: \$11,474,728 Federal Funds
- Capital Construction: \$131,447 Other Funds

These funds can be rescheduled if the limitation is needed to finalize the Department's 2005-07 expenditures.

Positions

The rebalance plan includes a net increase of ten positions but an overall decrease of 1.66 Full Time Equivalent (FTE) positions. The new positions include nine positions needed at the Eastern Oregon Psychiatric Center due to a high staff to patient ratio case, and one Mental Health Planner position in Community Mental Health funded by the Mental Health Block Grant to manage grant needs. These positions are all within Health Services, Addictions and Mental Health Division.

Forecast Meetings and Fiscal Accountability

The Department reported to the Subcommittee on its actions during the biennium to improve the agency's financial operations and fiscal accountability. The Department completed a joint operational review with representatives from the Department of Administrative Services State Controllers Division, Public Employees Retirement System, and Oregon State Treasury. The review produced a framework report with recommendations in the areas of accounting, budget, internal controls, accounts receivable/recovery, and treasury and banking activities. Some

of the achievements to implement the report's recommendations include: improved budget to actual reporting; the creation of a cash flow model that allows daily cash flow projections; the creation and hiring of a Deputy Director of Finance position and realignment of budget and accounting staff; and steps to improve the business management of the Oregon State Hospital, including a review of the enterprise accounting system.

Due to its direct influence on the budget, the caseload forecasting process has been a major area of focus. The Department has implemented a variety of improvements and external reviews, including a series of quarterly forecast review meetings with select legislators. Regular updates for legislators enable them to become more familiar with forecast methods as well as program implementation, and helps keep the Legislature apprised of potential rebalance issues caused by caseload changes. The last meeting of the Department's forecasting staff and legislators took place in the fall of 2006. The Subcommittee directed the Department to reinstitute those regular meetings for the 2007-09 interim to review program caseload forecasts and actual results.