

**75<sup>th</sup> OREGON LEGISLATIVE ASSEMBLY – 2009 Regular Session  
BUDGET REPORT AND MEASURE SUMMARY**

**MEASURE: HB 5052-A**

**JOINT COMMITTEE ON WAYS AND MEANS**

**Carrier – House: Rep. Kotek  
Carrier – Senate: Sen. Bates**

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

**Vote:** 21 – 0 – 1

House – Yeas: Buckley, D. Edwards, Galizio, Garrard, Gilman, Jenson, Komp, Kotek, Nathanson, Richardson, Shields, G. Smith

– Nays:

– Exc:

Senate – Yeas: Bates, Carter, Girod, Johnson, Monroe, Verger, Walker, Whitsett, Winters

– Nays:

– Exc: Nelson

**Prepared By:** Linda Ames, Department of Administrative Services

**Reviewed By:** Daron Hill and Sheila Baker, Legislative Fiscal Office

**Meeting Date:** May 8, 2009

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**Agency**  
Various Agencies

**Budget Page**  
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**LFO Analysis Page**  
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**Biennium**  
2007-09

## Budget Summary \*

	<u>2007-09 Legislatively Approved Budget (1)</u>		<u>2007-09 Committee Recommendations</u>		<u>Committee Change From 2007-09 Leg. Approved</u>	
					<u>\$ Change</u>	<u>% Change</u>
<b><u>Dept. of Community Colleges and Workforce Development</u></b>						
Other Funds	\$	4,898,816	\$	325,000	\$ 325,000	6.6%
Federal Funds		121,489,837	\$	2,000,000	\$ 2,000,000	1.6%
<b><u>Department of Education</u></b>						
Other Funds	\$	186,503,488	\$	300,000	\$ 300,000	0.2%
Federal Funds		1,034,160,467		26,200,000	26,200,000	2.5%
<b><u>Department of Human Services</u></b>						
General Fund	\$	3,352,885,424	\$	0	\$ 0	0.0%
Other Funds		1,316,252,633		21,013,591	21,013,591	1.6%
Federal Funds		7,162,637,405		11,538,796	11,538,796	0.2%
<b><u>Oregon Military Department</u></b>						
General Fund	\$	25,645,400	\$	-134,272	\$ -134,272	-0.5%
Federal Funds	\$	306,495,601	\$	7,660,750	\$ 7,660,750	2.5%
<b><u>Employment Department</u></b>						
Federal Funds	\$	253,659,367	\$	28,500,000	\$ 28,500,000	11.2%
Federal Funds Non-limited	\$	0	\$	108,000,000	\$ 108,000,000	
<b><u>Housing and Community Services Department</u></b>						
Federal Funds	\$	146,915,336	\$	8,627,000	\$ 8,627,000	5.9%
<b><u>Department of Transportation</u></b>						
Other Funds	\$	3,428,612,691	\$	15,925,430	\$ 15,925,430	0.5%
Federal Funds		81,066,942		400,000	400,000	0.5%
<b><u>State Board of Pharmacy</u></b>						
Other Funds	\$	4,757,239	\$	8,162	\$ 8,162	0.2%

## Budget Summary \* (cont.)

	2007-09 Legislatively Approved Budget (1)	2007-09 Committee Recommendations	Committee Change From 2007-09 Leg. Approved	
			\$ Change	% Change
<b><u>Various Agencies (Related to Pay Freeze/Furlough)</u></b>				
General Fund	\$	\$	-2,677,839	\$ -2,677,839
Lottery Funds	\$	\$	-158,293	\$ -158,293
Other Funds	\$	\$	-381,913	\$ -381,913
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<b>General Fund Total</b>	\$	\$	-2,812,111	\$
<b>Lottery Funds Total</b>		\$	-158,293	
<b>Other Funds Total</b>		\$	37,190,270	
<b>Federal Funds Total</b>		\$	192,926,546	

\* Excludes Capital Construction expenditures.

(1) Includes adjustments through the December 2008 meeting of the Emergency Board.

## Position Summary

### Department of Human Services

Authorized Positions	10,351	122	122	1.2%
Full-time Equivalent (FTE) positions	9,727.30	-4.70	-4.70	0.0%

## Summary of Revenue Changes

A number of the budget adjustments in House Bill 5052 reflect additional federal stimulus funds authorized by the American Recovery and Reinvestment Act of 2009 (ARRA) which are expected to be spent by the end of the 2007-09 biennium. The largest increase is in the Employment Department, including \$109.5 million in Unemployment Insurance funds for benefit claims and related administrative costs, and \$6.5 million for reemployment services. Other significant increases include \$26 million in the Department of Education for grants to local school districts, \$20.5 million in Child Care and Development Fund for subsidies to low-income families and training for child care providers, \$6 million in Workforce Investment Act funds in the Department of Community Colleges and Workforce Development, \$5.6 million for the Temporary Assistance to Needy Families program in the Department of Human Services, and \$2.8 million for weatherization assistance in the Housing and Community Services Department.

## **Summary of Human Services Subcommittee Action**

House Bill 5052 makes a number of adjustments to agency budgets for the 2007-09 biennium, as follows:

- Transfers General Fund between appropriations and adds Other Funds and Federal Funds expenditure limitation to rebalance the Department of Human Services budget;
- Increases Other Funds and/or Federal Funds expenditure limitation in the Department of Education, Department of Community Colleges and Workforce Development, Oregon Military Department, Employment Department, Housing and Community Services Department, Department of Transportation and the State Board of Pharmacy; and
- Removes General Fund, Lottery Funds, and certain Other Funds savings that were generated from the pay freeze, furlough, and reduction of a new salary pay range step for management and executive service employees.

In total, the Subcommittee approved budget adjustments to reduce General Fund expenditures by \$2.8 million and Lottery Funds by \$158,293, and add \$37.2 million Other Funds and \$192.9 million Federal Funds expenditure limitation. The bill also adjusts Lottery Funds allocations. These adjustments are described in more detail below.

### **DEPARTMENT OF HUMAN SERVICES 2007-09 REBALANCE**

The Subcommittee approved a budget rebalance plan that carries out the Department of Human Services (DHS) programs and operations for the rest of the 2007-09 biennium. This plan reflects updated estimates of program caseloads, costs per case, and non-General Fund revenues. It shifts General Fund appropriations between budget structures, but DHS expects to complete the 2007-09 biennium within its current General Fund budget. The plan as approved by the Subcommittee also increases Other Funds expenditure limitation by \$21.0 million, increases Federal Funds expenditure limitation by \$11.6 million, and adds a net 122 positions (a net reduction of 4.70 FTE). The Department's rebalance plan addresses the following major issues:

#### **Program Caseload Forecasts**

The Department's spring 2009 caseload forecast and cost-per-case changes result in a net \$28.7 million in General Fund savings. The main changes in each program area are as follows:

- Seniors and People with Disabilities – Caseload and cost-per-case adjustments provide a net \$13.5 million General Fund savings. Caseloads are lower than projected primarily in nursing facilities, assisted living facilities, specialized living facilities, adult foster care, Oregon Supplemental Income Program (OSIP) financial support, and adult day services. Higher costs are projected for residential care facilities, Providence ElderPlace, and in-home caseloads. In the budget for developmental disability (DD) services, Local Authority and Support Services expenditures reflect higher caseloads, but lower overall costs.

- Children, Adults and Families – Program caseload and cost-per-case adjustments result in a net \$7.5 million General Fund savings. Large increases in the Temporary Assistance for Needy Families (TANF) caseloads are offset by lower-than-expected Employment Related Day Care (ERDC) and foster care caseloads.
- Division of Medical Assistance Programs – Caseload and cost-per-case adjustments provide a net \$0.8 million General Fund savings. Higher TANF caseloads in the Oregon Health Plan and increased reimbursements to Federally Qualified Health Centers are partially offset by lower caseloads primarily for Poverty Level Medical Women, Poverty Level Medical Children, and the Children’s Health Insurance Program.
- Addictions and Mental Health – Caseload and cost-per-case adjustments save a net \$6.9 million General Fund. The most notable savings are in alcohol and drug treatment, Juvenile Psychiatric Security Review Board services, and mental health fee-for-service programs.

#### Other and Federal Funds Adjustments

- Seniors and People with Disabilities - \$13.8 million General Fund is added to offset \$5 million in Other Funds revenue shortfalls -- in the long term care provider tax and in long term care estate recoveries -- and to correct an \$8.8 million General Fund overstatement of in-home program caseload savings in the December 2008 rebalance plan.
- Department-Wide Support Services - In order to be consistent with its approved federal cost allocation plan, the Department will need \$3.6 million more General Fund (\$3.6 million less Federal Funds expenditure limitation) to cover its anticipated 2007-09 expenditures.
- Children, Adults and Families - \$4.6 million General Fund is added to backfill a disallowance of federal TANF Emergency Assistance funds, and \$117,000 General Fund is added to match a federal grant to purchase laptops and tablets to help caseworkers spend more time on face-to-face visits. \$3.2 million Federal Funds is added for vocational rehabilitation services based on projected federal revenues.
- Division of Medical Assistance Programs – Additional Other Funds revenue of \$4.0 million from higher transportation settlements, Department of Justice Medicaid fraud recoveries, and medical premium payments replace General Fund.
- Addictions and Mental Health - \$7.4 million General Fund is used to cover two Federal Funds revenue issues: \$6.1 million for an overestimation of Disproportionate Share Hospital (DSH) funding at the Oregon State Hospital, and \$1.3 million to reimburse the federal government for third-party recoveries that were not credited correctly. This is offset in part by \$400,000 in higher Medicare Part D revenues.

#### Federal Stimulus Adjustments

TANF expenditures are projected to significantly exceed the capped federal TANF grant because of the significant growth in TANF program caseloads and a greater share of child safety workers’ costs charged to TANF instead of Medicaid or Foster Care and Adoption Assistance funding. The rebalance plan uses \$5.6 million in federal TANF stimulus money and \$15 million in federal Child Care and Development Fund stimulus funds transferred from Employment Department to help offset the problem.

The federal stimulus Federal Medical Assistance Percentage (FMAP) increase reduces the state's portion of certain Other Funds revenue (e.g., overpayment recoveries) that are shared between the state and federal governments. The higher federal repayment and reduced state portion creates a General Fund need of \$1.1 million.

### Medicaid Management Information System

DHS estimates it will need \$1.6 million General Fund to cover higher Medicaid Management Information System (MMIS) costs. The new MMIS was put into operation in December 2008, after years of work. The system has not performed as well as expected: client mailings were not conforming to DHS procedures; auto-enrollment of eligible new OHP clients into managed care was not functioning properly; some service providers such as nursing homes were not being paid accurately; third-party billings have been suspended since the new MMIS was implemented; and required reports to the Centers for Medicare and Medicaid Services have not been generated successfully. Although DHS and its primary MMIS contractor, EDS, have been working to resolve these problems and improvements have been made, much work remains to be done.

Because the MMIS has not performed up to expectations, there is some risk associated with the expenditure forecasts included in this rebalance plan, to the extent that these forecasts relied upon data generated by the MMIS. The Department's financial staff have been aware of the MMIS problems and took extra measures to make sure financial projections were as accurate as they could be. Data used for caseload forecasts did not come from the new MMIS. Therefore, MMIS data problems should not be a factor in these spring 2009 caseload projections.

Because of its concerns with the MMIS implementation, the Subcommittee directed the following budget note:

#### **Budget Note**

DHS is directed to report to either the Joint Committee on Ways and Means or the Legislative Emergency Board, by October 1, 2009, on its efforts to fully implement the Medicaid Management Information System (MMIS). The report should include a discussion of MMIS problems, efforts to correct the problems, and the cost of those efforts.

### Positions

The rebalance plan includes a net increase of 122 positions but an overall decrease of 4.70 Full Time Equivalent (FTE) positions. Effective July 1, 2009, Clackamas County is returning its county-based programs for seniors and physically disabled persons to the state, which will require the Seniors and People with Disabilities Division (SPD) to start-up four state offices with 112 employees (0.88 FTE for the balance of this biennium). On-going operational funding will be shifted from Transfer Area Agencies on Aging payments to SPD's program support budget, but one-time start up costs will be incurred this biennium. Umatilla County is similarly returning operations of its community developmental disabilities programs to the state, effective April 1, 2009. This involves nine positions (1.17 FTE), with one-time start-up costs this biennium but on-going funding moving from DD Local Authority into the program support budget. As part of the Umatilla County transfer detailed above, one position (0.13 FTE) is added in the Department-Wide Support Services Office of Investigation and Training for Adult Protective Services. Additionally, as part of the glide path to closure for the Eastern Oregon Training Center, six months of savings on 28 positions to be abolished in the 2009-11 biennium result in a reduction of 6.88 FTE in the SPD budget for the 2007-09 biennium.

The plan does not add staffing to address workload needs in other areas of the Department, most notably in the Children, Adults and Families Division. The Subcommittee noted that the combination of budget constraints and growing caseloads, particularly in the Food Stamps and TANF programs, have resulted in significant understaffing relative to program workload staffing standards, and that this issue would need further review as the 2009-11 budget for the agency is developed.

#### Cash Flow Issues

The plan adds \$500,000 General Fund to the Department-Wide Support Services budget to cover interest charges for loans from the state treasury to address expected cash flow problems late in the biennium. DHS took significant steps during the 2005-07 biennium to increase its Other Funds balances and to improve its cash flow, but recent budgetary pressures forced the Department and the Legislature to use available cash to reduce General Fund expenditures. DHS will continue to take steps to minimize state treasury loans and interest charges.

#### Unscheduled Limitation Request

Rather than reduce certain Other Funds and Federal Funds expenditure limitations as initially requested by the Department, the Subcommittee determined that unscheduling the limitation would allow some budget flexibility as DHS closes out its 2007-09 budget. Therefore, the Subcommittee requests the Department of Administrative Services (DAS) to unschedule (or keep unscheduled) expenditure limitation as follows:

- Children, Adults and Families: \$4,500,000 Other Funds, \$8,329,448 Federal Funds
- Health Services: \$24,739,631 Other Funds
- Seniors and People with Disabilities: \$7,724,115 Other Funds, \$23,901,895 Federal Funds
- Department-Wide Support Services: \$141,088 Other Funds

DAS can reschedule these funds if the limitation is needed to finalize the Department's 2007-09 expenditures.

## OTHER ADJUSTMENTS TO APPROVED BUDGETS

#### Department of Community Colleges and Workforce Development

The Subcommittee increased the Other Funds expenditure limitation for the Department of Community Colleges and Workforce Development (CCWD) by \$273,276 for issuance costs related to the sale of Lottery Bonds authorized by Senate Bill 338 (2009). SB 338 is the state fiscal stimulus bill. The bonds were sold in April 2009 to fund deferred maintenance projects at all 17 colleges.

Other Funds expenditure limitation was increased by \$51,724 for expenses paid by the department that are reimbursed by other agencies or organizations. When CCWD coordinates projects with colleges or other state agencies, it sometimes acts as a fiscal agent, receiving funds from its partners and paying the total invoice. In addition, some of the Commissioner's travel is reimbursed.

The Subcommittee increased the department's existing Federal Funds expenditure limitation by \$1.6 million. CCWD was notified that it will receive an additional \$38.6 million in Workforce Investment Act (WIA) Title IB funds for adult, youth, and dislocated worker programs under the federal stimulus package. These funds increase an existing program and will be distributed according to existing formulae. The additional funds do not require a match and do not commit the state to General Fund backfill. CCWD estimates it will expend \$6 million of the \$38.6 million in 2007-09. Due to reductions in pre-stimulus WIA funding, CCWD has all but \$1.6 million in existing Federal Funds expenditure limitation to accommodate the WIA stimulus funds.

A new \$400,000 Federal Funds expenditure limitation established for the Oregon Youth Conservation Corps (OYCC). CCWD received \$6 million from the U.S. Forest Service for youth employment programs administered by the OYCC program. Approval to apply for these funds was received from the Ways and Means Committee in April 2009. The grant does not require a match and does not commit the state to General Fund backfill. CCWD estimates it will spend \$400,000 of the \$6 million in 2007-09.

#### Department of Education

The Subcommittee approved an increase of \$300,000 Other Funds expenditure limitation and \$200,000 Federal Funds expenditure limitation for the School for the Deaf and School for the Blind. The Other Funds revenue is from miscellaneous receipts that are available this year. The federal revenue is available under the Individuals with Disabilities Education Act. These funds will be used to mitigate the impact of General Fund reductions this biennium.

The Subcommittee also approved a \$26 million increase in the Department's Federal Funds expenditure limitation for certain grants to local districts under the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA provides Oregon, among other things, estimated additional funds of \$138 million under the Individuals with Disabilities Education Act (IDEA) and \$94 million under Title IA of the Elementary and Secondary Education Act for grants to local schools. The U.S. Department of Education has urged states to make a portion of these additional funds available to districts during the current school year. The Oregon Department of Education surveyed a sampling of districts and determined that as much as \$20 million in IDEA funds and \$6 million in Title IA funds could be used during the 2008-09 fiscal year.

#### Oregon Military Department

The Subcommittee added a total of \$7,660,750 Federal Funds expenditure limitation for the Oregon Military Department, but disappropriated \$134,272 General Fund, as follows:

- The Operations program was increased by \$7 million. This includes \$1,815,700 Federal Funds expenditure limitation to pay for Personal Services costs, primarily for temporary employees and overtime. It also includes \$5,184,300 Federal Funds expenditure authority for "plus-ups" the agency received to existing cooperative agreements in the Environmental, Telecommunications, Equipment Refurbishment and Facilities subprograms.
- Federal Funds expenditure limitation for the Community Support program is increased by \$252,000 to cover a shortfall in the Youth Challenge program. The Subcommittee also disappropriated \$134,272 General Fund savings in the Emergency Services subprogram from the funding provided by the Emergency Board in June 2008 to pay for the 2007 winter storm.



- The Subcommittee increased the Federal Funds expenditure limitation for the Capital Improvement program by \$408,750 for capital improvement projects in Albany, Redmond, Salem and Warrenton. The federal dollars have been received through the American Recovery and Reinvestment Act of 2009.

### Employment Department

The Employment Department's Federal Funds expenditure limitation was increased by \$28.5 million to accommodate federal stimulus support for the following program areas:

- Unemployment insurance (UI): \$1.5 million for administrative costs resulting from workload growth due to the increased number of unemployment claims and the payment of extended benefits. These funds do not include the \$6.1 million received by the state as a result of passage of UI modernization legislation contained in Senate Bill 462 (2009). Those funds will primarily be spent in the 2009-11 biennium.
- Business and Employment Services: \$6.5 million to provide reemployment services to UI claimants and manage workload increases. Funds are available under the Wagner-Peyser Act, which supports re-employment services, and the Trade Act, which provides benefits to workers who have been affected by U.S. trade policy. The Department has received \$4.9 million in Wagner-Peyser funds and anticipates receiving \$1.5 million in Trade Act funds.
- Child Care Division: \$20.5 million for direct client subsidies and provider training. Most of the funds (\$19.5 million) will be transferred to the Department of Human Services for low-income client subsidies. The remainder will be transferred to the Department of Higher Education for skills-based training for child care providers. This action will spend nearly all of Oregon's expected allocation of federal Child Care and Development Fund stimulus funds.

The Subcommittee also approved the establishment of \$108 million in Federal Funds Non-limited expenditure authority for payment of UI benefits funded through the federal stimulus package. Of this amount, about \$40 million will fund benefit extensions and about \$68 million will fund a \$25 increase in weekly benefits.

### Housing and Community Services Department

The Subcommittee approved an increase of \$2,806,000 in Federal Funds expenditure limitation to administer the United States Department of Energy (USDOE) Weatherization Assistance Program grant authorized by the American Recovery and Reinvestment Act of 2009. Approval to apply for these funds was received from the Joint Committee on Ways and Means in March 2009. The grant is being made on a formula allocation. Funds will be used to augment the department's existing weatherization program for low income persons, reducing their energy consumption and by extension, living expenses. Funds are passed through to local contractors – who have completed required training and certification – to make improvements. Existing staff will implement the program.

The Subcommittee also approved an increase of \$5,821,000 in Federal Funds expenditure limitation to administer the Neighborhood Stabilization Program (NSP). The funding is from the U.S. Department of Housing and Urban Development (HUD) and was authorized by the Housing

Recovery Act of 2008. Approval to apply for these funds was received from the Interim Committee on Ways and Means in December 2008. The funding is a one-time supplemental Community Development Block Grant for the redevelopment of abandoned and foreclosed homes. Priority emphasis is given to areas with the greatest need: areas with the greatest percentage of home foreclosures and areas with the highest percentage of homes financed by a subprime mortgage.

#### Department of Transportation

The Oregon Department of Transportation's (ODOT) Highway Maintenance program Other Funds expenditure limitation is increased by \$7,325,430 to address clean up work conducted by the ODOT for a storm event in the northwestern part of the state in December 2008 and January 2009. The storm event necessitated an increase in the amount of work and thus expenditures will exceed existing budgeted limitation. The Federal Highway Administration and the Federal Emergency Management Administration (FEMA) agreed to help fund the storm-related cleanup and the restoration of the highways involved.

Other Funds expenditure limitation is increased by \$8.6 million for the Highway Safety program. The ODOT continuously reviews its project construction schedules and has determined that several projects related to Highway Safety within the State Transportation Improvement Plan (STIP) are paying out at an accelerated rate. This increase will allow payments to be made on schedule for projects within the STIP.

The Subcommittee increased the Federal Funds expenditure limitation for the Transportation Safety program by \$400,000. The increase is to accommodate receipt and expenditure of additional funds from the United States Department of Transportation, National Highway Traffic Safety Administration (NTSA) for national impaired driving funds to support DUII enforcement efforts.

#### State Board of Pharmacy

The Subcommittee approved an additional \$8,162 Other Funds expenditure limitation for the State Board of Pharmacy to cover higher than anticipated costs for Office Expenses, Telecommunications, and other expenses. The Board took measures to address the shortfall by postponing a board meeting, cancelling out-of-state travel, and reducing expenditures on information technology projects. The increase will cover costs that the Board was unable to offset through other measures.

## ADJUSTMENTS RELATED TO PAY FREEZE/FURLOUGHS

The Subcommittee approved a number of reductions to 2007-09 agency budgets related to the savings that were generated from pay reductions for management and executive service employees. The Governor announced these cost-saving measures in February 2009, and the savings will be accrued between March 1, 2009 and June 30, 2009. The specific cost-saving actions apply to Executive branch agencies only, and include the following:

- All management/executive service employees' salaries were frozen as of March 1, 2009.
- All management/executive service employees started taking furlough days starting on March 1, 2009. The number of furlough days during the four-month period range from one to four, depending on salary level.
- For management/executive service employees who received a step increase because of the new top step given to managers effective July 1, 2008, their salary was reduced to remove that step increase starting on March 1, 2009.

These savings were anticipated as part of the package of actions taken to balance the state's budget to the March 2009 revenue forecast. House Bill 5052 removes the General Fund and Lottery Funds savings from affected agencies' budgets, and reduces Other Funds for the Department of Administrative Services. In addition to the Executive branch actions, the Public Defense Services Commission also implemented actions that result in Personal Services savings, which are included here. The total reduction is \$2,677,839 General Fund, \$158,293 Lottery Funds expenditure limitation, and \$381,913 Other Funds expenditure limitation in the Department of Administrative Services. The detailed adjustments are shown in Attachment A.

## ADJUSTMENTS TO LOTTERY FUNDS ALLOCATIONS

House Bill 5052 includes Lottery Funds allocation adjustments related to certain expenditure reductions described above. Allocations are reduced by a total of \$86,695 as follows:

- The allocation to the Office of the Governor is reduced by \$13,722.
- The allocation to the Economic and Community Development Department for department operations is reduced by \$70,979.
- The allocation to the Problem Gambling Treatment Fund is reduced by \$1,994.