

Analysis

Item 19: Department of Human Services

Expenditure Limitation Increases

Analyst: Laurie Byerly

Request: Increase the Other Funds expenditure limitation by \$51,709,973 and increase the Federal Funds expenditure limitation by \$8,500,000 for the Department of Human Services to align revenues with expenditures and complete transactions in support of its legislatively approved programs.

Analysis: The Department of Human Services (DHS) is requesting increases in expenditure limitation to address six budget components that need to be resolved prior to the end of 2020. While these issues could have been addressed in SB 5723 (2nd special session of 2020), the details were either not known or available for inclusion at that time. The agency's request consists of the following:

- 1) For the Aging and People with Disabilities program, an increase of \$26,862,800 Other Funds expenditure limitation to true up the budget for waived case management services. The additional expenditure limitation is needed to separately track program expenditures (personal services case management costs) to receive a higher federal match rate. A similar adjustment will need to be made in the 2021-23 budget.
- 2) Also related to waived case management, an increase of \$6,256,578 Other Funds expenditure limitation in State Assessments and Enterprise-wide Costs. There are direct charges related to the case management work in this program unit that can also receive a higher federal match. A similar adjustment will also need to be made in the 2021-23 budget.
- 3) The Intellectual and Developmental Disabilities (IDD) program seeks an increase of \$6,590,595 Other Funds expenditure limitation to support accounting rules that require the Fairview Trust transfer to the Oregon Community Foundation to be recorded as a special payment, instead of a revenue transfer. Consistent with SB 491 (2019), the funds were moved in early January 2020, but the Other Funds expenditure limitation used for the transaction needs to be replaced to cover other program expenditures.
- 4) Another budget adjustment for IDD adds \$4.0 million Other Funds expenditure limitation to spend money sitting in a settlement account. This action is connected to a \$4.0 million General Fund reduction made in SB 5723 (2nd special session of 2020); while the reduction assumed available settlement funds would be used to replace the General Fund, the amount of Other Funds expenditure limitation currently budgeted is insufficient for spending the dollars.
- 5) For the Vocational Rehabilitation (VR) program, an increase of \$8.0 million Other Funds expenditure limitation will allow the program to use revenues received from school districts as part of the funding mechanism for the Youth Transition Program. The program prepares students with disabilities for employment or career related postsecondary education.
- 6) Finally, an additional \$8.5 million Federal Funds expenditure limitation is also requested for VR to spend federal fiscal year 2020 reallocation dollars. Action in SB 5723 (2nd special session of 2020)

already provided \$2.4 million of the requested amount, so the Legislative Fiscal Office (LFO) recommendation reflects an increase of \$6,100,000 Federal Funds expenditure limitation.

LFO is recommending approval of the agency’s request, with the modification to item number 6 as described above. In addition to expenditure limitation increases, there are associated revenue changes, for example beginning balance adjustments, that should be made to correctly record the updated legislatively approved budget in ORBITS, the statewide budget system.

Moving forward, LFO will also work with the agency and the Department of Administrative Services Chief Financial Office to tighten up the budget displays for Other Funds revenues and expenditures to improve budget alignment and transparency.

Legislative Fiscal Office Recommendation: The Legislative Fiscal Office recommends that the Emergency Board increase the Other Funds expenditure limitation by \$51,709,973 and increase the Federal Funds expenditure limitation by \$6,100,000 for the Department of Human Services to align revenues with expenditures and complete transactions in support of the agency’s legislatively approved programs.

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Department of Human Services
Streepey/Webb

Request: The Department of Human Services (DHS) requests the following:

- Increase Other Funds expenditure limitation by \$26,862,800 for waived case management costs in Aging and People with Disabilities (APD);
- Increase Other Funds expenditure limitation by \$6,256,578 for APD waived case management cost allocation expenses within the State Assessments and Enterprise-wide Costs (SAEC) program;
- Increase Other Funds expenditure limitation by \$4,000,000 to offset General Fund reductions approved in the Intellectual and Developmental Disabilities (I/DD) program during the 2019-21 Second Special Session;
- Increase Other Funds expenditure limitation by \$6,590,595 in I/DD for the Fairview Trust transfer directed by Senate Bill 491 (2019);
- Increase Other Funds expenditure limitation by \$8,000,000 in the Vocational Rehabilitation (VR) program to expend revenue collected for the Youth Transition Program (YTP); and
- Increase Federal Funds expenditure limitation by \$8,500,000 in the Vocational Rehabilitation (VR) program due to additional federal re-allotment funds.

Recommendation: Approve the requests as modified:

- Increase Other Funds expenditure limitation by \$26,862,800 for waived case management costs in Aging and People with Disabilities;
- Increase Other Funds expenditure limitation by \$6,256,578 for Aging and People with Disabilities (APD) waived case management cost allocation expenses within the State Assessments and Enterprise-wide Costs (SAEC) program;
- Increase Other Funds expenditure limitation by \$4,000,000 to offset General Fund reductions approved in the Intellectual and Developmental Disabilities (I/DD) program during the 2020 2nd Special Session;
- Increase Other Funds expenditure limitation by \$6,590,595 in I/DD for the Fairview Trust transfer directed by Senate Bill 491 (2019);
- Increase Other Funds expenditure limitation by \$8,000,000 in the Vocational Rehabilitation (VR) program to expend revenue collected for the Youth Transition Program (YTP); and
- Increase Federal Funds expenditure limitation by \$6,100,000 in the Vocational Rehabilitation (VR) program due to additional federal re-allotment funds.

Discussion:

Aging and People with Disabilities (APD)

APD is allowed to bill the Federal Centers for Medicaid and Medicare Services (CMS) for case management costs under Oregon's approved Home and Community Based Care 1915(c) waiver. Waivered case management accounting is a process that impacts both APD Delivery and APD

Program, as well as Shared Services-SAEC (thru cost allocation). Per agreement with CMS, DHS must first book the case management time to an Other Funds tracking grant. There is no actual Other Funds revenue behind this accounting entry; it is purely a tracking mechanism (i.e. a holding account). Bills/claims are then processed through the Medicaid Management Information System as encounters. Since APD is the provider of case management services, the use of the Other Funds accounting entry is needed first in order to arrive at the General Fund/Federal Funds split through the Medicaid grant and to receive the Federal Funds revenue. Staff are budgeted with a General Fund/Federal Funds split in APD Delivery, but are charged as Other Funds for the time doing waived case management for this tracking purpose agreed upon with CMS. With this process, DHS needs to have the costs related to waived case management “double budgeted” with both a General Fund/Federal Funds and Other Funds expenditure limitation. DHS received the Other Funds expenditure limitation as part of the rebalance process in the 2017-19 biennium. However, the budget was placed in a Personal Services account that did not roll forward into the 2019-21 biennium. DHS will budget these costs in a Personal Services account known as differentials, which will roll forward in the budget for future biennia budget development.

Intellectual and Developmental Disabilities (I/DD)

Within the I/DD program, DHS has maintained an account, known as the biennial settlement account, for liquidity purposes, due to the timing of payments versus billing and collections. In the past, the Department provided resources upfront to case management entities for services. At the end of the biennium, DHS would compare how much was paid to a case management entity to how much in billings the entity reported, and then there would be a settlement. The settlement account facilitated this process and served to offset the risk of needing to pay out more funds than anticipated. The Department relied on the account to provide upfront support to counties and providers until billing, payments, and reimbursements were reconciled. Due to an upgraded customer interface and billing system, along with fee for service policies, the Department has not needed to rely on the account as settlements occur more in real time. The last significant settlements were processed in 2015-17, when the Department collected \$5 million back from case management entities.

Assured that these Other Funds reserves were no longer needed for settlement purposes, DHS recommended reducing its General Fund budget by \$4,000,000, as a means to help rebalance the budget. The General Fund reduction was incorporated into the reductions made in the 2020 2nd Special Session with the passage of Senate Bill 5723 (2020). However, the Other Funds expenditure limitation was not granted at that time and the Department has never had the limitation in its budget since the account is utilized as a reserve for reconciliation purposes. DHS now needs \$4,000,000 Other Funds expenditure limitation, as these resources are intended to be utilized for one-time purposes to help offset General Fund reductions.

The I/DD Community Housing Program assists persons with developmental disabilities to live successfully in community housing that is affordable, safe, and contributes to their independence and quality of life. One way this work has been achieved is through the Community Housing Trust, commonly referred to as the Fairview Trust (Trust), which was established in 1999 through Senate Bill 405. The Trust was initially capitalized through the sale of land, following the closure of the Fairview Training Center in 2000, where intellectually and developmentally disabled persons had been institutionalized since 1908.

Trust resources have been used to provide grant funding to children and adults with developmental disabilities, to allow them to continue living in their own home or family home. The initial sale provided roughly \$12 million for the Trust, which has decreased over time, after

\$6.9 million was utilized in the 2011-13 biennium to help support the State's General Fund. Effective on January 2, 2020, per Senate Bill 491 (2019), the remaining funds (\$6,590,595) were transferred to the Oregon Community Foundation (Foundation), which now has the responsibility to use and manage funds for Trust purposes. The Foundation must submit annual reports for review by DHS. The Department intended to record the Trust transaction as a revenue transfer between the Department of Treasury, where the account(s) resided, and the Foundation. However, due to accounting standards, it has been deemed that the transaction must be treated as an Other Funds expenditure within the DHS budget. Therefore, DHS is requesting the Other Funds expenditure limitation in the amount of \$6,590,595 for the Fairview Trust transfer.

State Assessments and Enterprise Costs (SAEC)

The Department has requested a \$6,256,578 increase in Other Funds expenditure limitation for SAEC costs due to increases in waived case management expenditures in the APD program. The SAEC costs are based on a cost allocation formula and subsequently attributed to individual programs within the agency. The SAEC expenditures include, but are not limited to, Department of Administrative Services (DAS) assessments, rent, and computer replacement costs.

Vocational Rehabilitation (VR)

The Youth Transition Program (YTP) resides within the DHS Vocational Rehabilitation (VR) division. The YTP seeks to prepare students with disabilities for employment or postsecondary education or training. The agency works closely with the Oregon Department of Education to offer services at participating Oregon public high schools. The U.S. Department of Education provides a match of approximately 80 percent and the state provides its 20 percent match through a Maintenance of Effort (MOE) agreement. School districts provide Other Funds revenue to meet the MOE and fulfill the state portion of the match. An increase of \$8,000,000 Other Funds expenditure limitation is needed in order for DHS to spend the Other Funds revenue received from school districts. These expenditures will count towards the YTP MOE requirement. The revenue associated with the Other Funds expenditure limitation increase has accumulated due to a difference between the match rate school districts pay and the required state match rate for the federal Basic 110 program.

The VR program has also requested an increase of \$8,500,000 Federal Funds expenditure limitation due to a federal re-allotment from the U.S. Department of Education for the 2020 Federal Fiscal Year. The VR program receives an annual formula grant each federal fiscal year for VR services. If states have not used their initial grant allotments, funds are subject to redistribution at the federal level. This "re-allotment" process results in some states receiving additional funds for use by their VR programs. Oregon received an additional \$8,500,000 Federal Funds from the U.S. Department of Education on August 28, 2020, for the 2020 Federal Fiscal Year, which ends on September 30, 2020.

During the 2020 2nd Special Session in August 2020, Federal Funds expenditure limitation was increased by \$2,400,000, due to an anticipated federal re-allotment; however, the amount of actual re-allotment amount was not known. Because an increase of Federal Funds expenditure limitation in the amount of \$2,400,000 has already been included in the agency's budget, an increase of only \$6,100,000 is necessary to enable the agency to expend the re-allotment funds.

Legal Reference: The legal references, based on the analyst recommendation, are as follows:

- Increase Other Funds expenditure limitation established by chapter 668, section 2(4), Oregon Laws 2019, for the Department of Human Services, Aging and People with

Disabilities and Intellectual and Developmental Disabilities Divisions, by \$37,435,395, for the 2019-21 biennium.

- Increase Other Funds expenditure limitation established by chapter 668, section 2(1), Oregon Laws 2019, for the Department of Human Services, Central Services and State Assessments and Enterprise-wide Costs Division, by \$6,256,578, for the 2019-21 biennium.
- Increase Other Funds expenditure limitation established by chapter 668, section 2(2), Oregon Laws 2019, for the Department of Human Services, Self Sufficiency and Vocational Rehabilitation Services Division, by \$8,000,000, for the 2019-21 biennium.
- Increase Federal Funds expenditure limitation established by chapter 668, section 3(2), Oregon Laws 2019, for the Department of Human Services, Self Sufficiency and Vocational Rehabilitation Services Division, by \$6,100,000, for the 2019-21 biennium.



Oregon

Kate Brown, Governor

Oregon Department of Human Services

Office of the Director

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September 3, 2020



The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Tina Kotek, Co-Chair
State Emergency Board
900 Court Street NE
Salem, OR 97301

RE: Request for Other and Federal Funds limitation to ensure DHS has limitation to spend budgeted funds through January 2021.

Dear Co-Chairpersons:

Nature of Request

- The Department of Human Services (DHS) requests \$37,435,395 in Other Funds limitation in the Aging and People with Disabilities (APD) and Intellectual and Developmental Disabilities Programs (I/DD) appropriation, \$6,256,578 in the SAEC appropriation, \$8,000,000 in Other funds and \$8,500,000 in Federal Funds limitation in the Self-Sufficiency Program (SSP) and Vocational Rehabilitation (VR) appropriation.

Agency Action

Aging and People with Disabilities, Intellectual and Developmental Disabilities and State Assessments and Enterprise Cost budgets have an urgent need for Other funds limitation for the following reasons:

- In 2019-21 DHS received \$30,000,000 in OF limitation for the APD waived case management costs. The federal government requires waived case management costs to be initially paid as Other Funds and then it is refinanced into appropriate GF and FF payments. Inadvertently, DHS placed this limitation in a specific line item that is zeroed out during the budget building process. DHS has learned from that mistake, but again needs the additional limitation of \$26,862,800 for anticipated waived case management costs.
- Related to waived case management, SAEC is also impacted through cost allocation. The request is to increase the SAEC OF limitation by \$6,256,578.

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- For I/DD, there are two issues both related to session activities, one during the 2019 Legislative Session and one in the August 2020 second special session. This addresses two one-time uses of Other Funds. The first is for the Fairview Trust move to a private account. No Other Funds limitation was provided to make that expenditure. In addition, another use of one-time funds, this time to offset GF, was done but the OF Limitation was not provided. Other funds Limitation of \$10,590,595 is needed to make the planned expenditures. \$6,590,595 for the Fairview Trust transfer and \$4,000,000 for use of one-time settlement funding.

Vocational Rehabilitation (VR) requires both OF and FF limitation. The OF limitation is to use funding built up from the Youth Transition Program that is being used instead of GF to meet service levels and maintenance of effort within VR. VR is requesting \$8,000,000 Other Funds limitation inadvertently not requested during session. In addition, VR recently received \$8,500,000 of federal reallocation funding. This will cover the \$2,400,000 GF removed during the second special session in 2020, but VR needs the federal fund limitation to make these expenditures.

Action Requested

DHS requests OF limitation of \$37,435,395 in the APD/IDD appropriation.

DHS requests OF limitation of \$8,000,000 and \$8,500,000 of Federal Fund limitation in the VR/SSP appropriation.

DHS requests OF limitation of \$6,256,578 in the Central/SAEC appropriation.

State Legislation Affected

APD/I/DD ch 668 2(4) increase by \$37,435,395

SSP/VR ch 668 2(2) increase by \$8,000,000

SSP/VR ch 668 3(2) increase by \$8,500,000

Central/SAEC ch. 668 2(1) increase by \$6,256,578

For additional information please contact Eric Moore (503) 884-4701.

Sincerely,



Eric Luther Moore
DHS Chief Financial Officer

cc: Ken Rocco, Legislative Fiscal Office
Laurie Byerly, Legislative Fiscal Office
George Naughton, Department of Administrative Services
Ali Webb, Department of Administrative Services
Mike Streepey, Department of Administrative Services