



# Oregon

Theodore R. Kulongoski, Governor

Department of Human Services

Office of the Director

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September 25, 2008

The Honorable Peter Courtney, Co-Chair  
The Honorable Jeff Merkley, Co-Chair  
State Emergency Board  
900 Court Street NE  
H-178 State Capitol  
Salem, OR 97301



Re: September 2008 DHS Financial Update – Replacement Report

Dear Co-Chairpersons:

## **NATURE OF REQUEST**

The Department of Human Services (DHS) requests receipt of its financial update report of the 2007-09 biennial budget and approval of requested allocations from Special Purpose Appropriations. This report provides an update of changes to the DHS Legislatively Approved Budget at the February 2008 Legislative Session. It also includes proposed management actions and needed legislative approvals to help address the budget challenges identified in the update.

## **AGENCY ACTION**

### **2007-2009 Financial Status**

At the June 2008 E-Board, DHS reported a projected need of \$7.3 million of general funds to balance our 2007-2009 biennial budget.

This need has now increased to \$71.6 million.

There are two areas that are responsible for the majority (\$62.8 million) of the increase; caseload increases and loss of tobacco revenue.

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Not surprisingly, changes in the economy in the past 6 months have had a dramatic effect on the Fall 2008 caseload numbers compared to previous projections in Fall 2007. The cost of the caseload increases are \$41.8 million.

As the economy worsens food, housing and fuel costs increase and more families need help with food stamps and health care. As jobs are lost the TANF cash assistance caseloads increase. For example, between the Fall 2007 Forecast (LAB projections) and the Fall 2008 Forecast, food stamp use increased 8.1%; Temporary Assistance for Needy Families caseload is up 14.7%, and Oregon Health Plan use is up 3.9%.

In addition, the latest state Revenue Forecast included news that the Tobacco revenues collected by the Department of Revenue will decrease, causing a projected loss of revenue for DHS of \$21 million.

Fiscal management is a priority in DHS, and as you have seen we continue to make every effort to manage our budget within resources. But as you know, many of our costs are driven by external factors like the economy, caseload increases and federal changes.

In fact, at our Rebalance in January 2008 the department reported \$23 million in savings. That \$23 million was appropriated for a Community Based Care provider rate increase, funding for child welfare caseworkers, and Oregon State Hospital program improvements. These were all excellent uses of the savings and will improve services to our most vulnerable populations, but it does illustrate how quickly things can change in the DHS budget. In a mere eight months we have gone from a \$23 million savings to a \$71 million deficit.

Below is a summary of the changes between the June and September updates of needs/savings. Details are contained in the attached report. At the meeting of the E-Board on September 25<sup>th</sup> we will bring additional management actions identified to possibly offset budget needs.

<b>SEPTEMBER 2008 - E-BOARD FINANCIAL UPDATE :</b>	<b>September 2008 General Fund Need/(Savings) in millions</b>	<b>June 2008 General Fund Need/(Savings) in millions</b>
Issue Summary		
• Unfunded Portion of 2007-09 Salary Package	\$ 10.1	Unknown
• Program caseloads and costs changes - Fall 2008 Forecast effect	41.8	0.1
• Remaining need for OSH - CIP Funding (from SPA)	2.4	1.7
• Decline in DMAP/TURA Tobacco Tax Funding	21.0	7.0
• Other Revenue shortfalls	5.3	2.7
• Added cost related to MMIS system efficiency (timely payments)	3.0	Unknown
• Effect of Federal rule / Interpretation changes on Federal Revenues	57.1	55.3
• Management Actions to address budget issues	(43.6)	(32.3)
• Requested Legislative Action to address budget issues	(25.5)	(31.1)
• OSH - 2007-09 Costs projections in excess of budget	-	3.9
<b>Net General Fund Position</b>	<b>\$ 71.6</b>	<b>\$ 7.3</b>

*Federal rule changes:*

The DHS financial update includes the latest information and estimated budgetary impact of proposed federal policy changes. Each issue is in a different state of development and the details of the changes, including how and when they might apply to DHS programs, are often vague. Currently, seven regulations impacting the department are under moratoria until April 2009. While under moratoria no policy guidance or clarification can be issued. The budgetary effects included in this report are best estimates based upon the department's interpretation of the information available and are priced for the four months remaining in the biennia following the end of the moratorium. There are risks that these federal changes could have a greater effect than estimated in this report.

In addition, the moratorium did not include targeted case management rule changes.

DHS is actively addressing the federal fund revenue issues to find ways to reduce, delay, or eliminate the financial effects. This includes communication with the Centers for Medicare & Medicaid Services (CMS) questioning findings or changes and working with the Oregon Congressional delegation regarding the potential budgetary and programmatic impacts to the state. If unsuccessful in our communication with CMS, the department may

pursue possible litigation or negotiate the issues to potentially reduce and/or delay the latent fiscal impacts.

*Audit interpretations:*

The department has developed funding switch plans to address the TANF Emergency Assistance (TANF EA) issue which essentially redistributes the TANF funds no longer eligible for use in TANF EA to other CAF program areas in exchange for general fund budgeted in those programs. It also includes use of available Social Services Block Grant federal funding in eligible programs that are funded by general fund and shifting the general fund to TANF EA to back-fill the reduction of TANF federal funds.

*Special Purpose Appropriation requests:*

Included in the proposed legislative actions in this financial update is the requested approval of additional general fund budget authority from two DHS Special Purpose Appropriations.

First, from the DHS Special Purpose Appropriation for the Oregon State Hospital, the department requests the remaining \$2.4 million general fund authority to complete the continuous improvement plan to address issues raised by the recent federal review of OSH. This request includes approval of 153 new positions that are part of the improvement plan for OSH.

Second, from the DHS Special Purpose Appropriation set aside at the February 2008 Legislative Session, the department requests the remaining \$15.1 million be appropriated to the department.

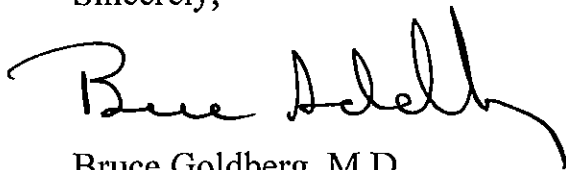
## **ACTION REQUESTED**

Acknowledgement of the Department of Human Services' September 2008 financial update report is requested. Approve the department's requests to increase general fund budget authority by transferring funding from the two Special Purpose Appropriations, as outlined above.

## **LEGISLATION AFFECTED**

Attachment 1 has the changes necessary in Oregon Laws to implement the increases from the SPA to DHS.

Sincerely,

A handwritten signature in black ink, appearing to read "Bruce Goldberg". The signature is fluid and cursive, with a long horizontal stroke at the end.

Bruce Goldberg, M.D.  
Director

Attachments

CC: John Britton, Legislative Fiscal Office  
Sheila Baker, Legislative Fiscal Office  
Blake Johnson, Budget Analyst, DAS/BAM

DEPARTMENT OF HUMAN SERVICES  
 2007-09 SEPTEMBER 2008 FINANCIAL UPDATE  
 APPROPRIATION AND LIMITATION ADJUSTMENTS

ATTACHMENT 1

DIVISION	CHAPTER, SECTION	FUND	REBALANCE ADJUSTMENT S	REQUEST FROM SPA	NET ADJUSTMENT S
CAF	Ch 743, 1(2)	General		15,080,056	15,080,056
	713 (7)	General			
	Ch 749, 21d	General			
	Ch 743, 2(2)	Other Limited			
	713 (7)	Other			
	Ch 743, 4(2)	Federal Limited			
	713 (7)	Federal			
	Ch 743, 5	Federal Non-Limited			
		Total			
HS	Ch 743, 1(3)	General		2,435,027	2,435,027
	Ch 910, 21a(1)	General			
	Ch 16, 51(1)	General			
	Ch 16, 51(2)	General			
	Ch 16, 51(3)	General			
	Ch 743, 2(3)	Other Limited			
	Ch 743, 5	Other Non-Limited			
	Ch 743, 3	Lottery			
	Ch 743, 4(3)	Federal Limited			
	Ch 743, 5	Federal Non-Limited			
		Total			
DHS Total		General		17,515,083	17,515,083
		Other			
		Other Non-Limited			
		Lottery			
		Federal			
		Federal Non-Limited			
		Total			
				17,515,083	17,515,083

**DEPARTMENT OF HUMAN SERVICES  
REPORT TO THE STATE EMERGENCY BOARD  
September 2008**

**The Department of Human Services (DHS) 2007-09 Financial Update**

At the June 2008 E-Board, DHS reported a projected need of \$7.3 million of general funds to balance our 2007-2009 biennial budget.

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There are two areas that are responsible for the majority (\$62.8 million) of the increase; caseload increases and loss of tobacco revenue.

Not surprisingly, changes in the economy in the past 6 months have had a dramatic effect on the Fall 2008 caseload numbers compared to previous projections in Fall 2007. The cost of the caseload increases are \$41.8 million.

As the economy worsens food, housing and fuel costs increase and more families need help with food stamps and health care. As jobs are lost the TANF cash assistance caseloads increase. For example, between the Fall 2007 Forecast (LAB projections) and the Fall 2008 Forecast, food stamp use increased 8.1%; Temporary Assistance for Needy Families caseload is up 14.7%, and Oregon Health Plan use is up 3.9%.

In addition, the latest state Revenue Forecast included news that the Tobacco revenues collected by the Department of Revenue will decrease, causing a projected loss of revenue for DHS of \$21 million.

Fiscal management is a priority in DHS and you have seen, we continue to make every effort to manage our budget within resources. But as you know many of our costs are driven by external factors like the economy, caseload increases and federal changes.

In fact, at our Rebalance in January 2008 the department reported \$23 million in savings. That \$23 million was appropriated for a Community Based Care provider rate increase, funding for child welfare caseworkers, and Oregon State Hospital program improvements. These were all excellent uses of the savings and will improve services to our most vulnerable populations, but it does illustrate how quickly things can change in the DHS budget. In a mere eight months we have gone from a \$23 million savings to a \$71 million deficit.

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<b>Net General Fund Position</b>	<b>\$ 71.6</b>	<b>\$ 7.3</b>



## September 2008 Financial Update Report

Below is a more detailed display of the issues included in this financial update followed by further explanation of each item.

### SEPTEMBER 2008 - E-BOARD FINANCIAL UPDATE :

#### Issue/Risk - Proposed Solution

General Fund  
Need

#### Budget Challenges:

1. Unfunded Portion of 2007-09 Salary Package	10,149,664
2. Program caseloads and costs changes since February 2008 LAB	41,824,025
3. Remaining need for OSH - CIP Funding (from SPA)	2,435,027
4. Decline in DMAP/TURA Tobacco Tax Funding	21,036,000

#### Other Revenue reductions:

5. Restricted use of Provider Tax Interest - DMAP	1,193,471
6. DHS Transition Grant - revenue shortfall	1,718,168
7. Overpayment recovery - remittance of Federal funds from former TANF program (AFDC)	2,360,143

#### Federal Rule changes/interpretations:

8. Social Services Block Grant - Administration cost reimbursement limited to 9%	2,900,000
9. Reduction in OSH Gero Medicaid Funding	3,729,388
10. Targeted Case Management - Reduction of Federal Funds	12,873,116
11. Reduction of TANF Emergency Assistance Funding	37,550,854

#### Other Issues:

12. MMIS Efficiency - more payments will be made in 2007-09.	3,000,000
<b>13. Subtotal - DHS Budget Challenges</b>	<b>140,769,856</b>

**Proposed Solutions to Budget Challenges:**

General Fund  
Savings

**Management Actions:**

14. Greater Part "D" revenues than planned in OSH budget	(750,000)
15. Redirect savings from vacant Mental Health residential treatment beds.	(2,151,853)
16. Management actions to off-set TANF EA funding reduction by shifting of funding within CAF division.	(34,490,000)
17. DHS Administrative cost reduction actions (Hiring delays, limit/stop travel, targeted S&S reductions)	(6,224,162)

**18. Subtotal - Management Actions** (43,616,015)

**19. Subtotal - Net Budget Challenges and Management Actions (Item 13-18)** **97,153,841**

**Legislative Actions:**

20. Approval of remaining OSH-CIP Funding (from SPA)	(2,435,027)
21. Approval of shift of SSBG to SDP DD Family Support and GF to CAF TANF EA program (\$5.1M) and ASD (\$2.9M)	(8,000,000)
22. Approval of remaining portion of DHS-SPA.	(15,080,056)

**23. Subtotal - Legislative Actions** (25,515,083)

**24. Subtotal - Net Financial Position (Item 19-23)** **71,638,758**

**(Item #1) Budget Challenge: Unfunded Compensation plan:** The 2007-09 approved salary package provided 80% of the projected cost of the 2007-09 compensation plan, but did not fund any of the supplemental management compensation increase. The latest projected cost of the compensation plan for DHS is \$28.8 million general fund, which is \$10.1 greater than the \$18.7 million salary package funding approved at the June 2008 E-board.

**(Item #17) Related Management Action:** The department has implemented an Administrative cost contingency plan developed in April 2008 to help off-set the unfunded portion of the 2007-09 compensation plan. Administrative cost reduction actions include reduction of discretionary Service & Supply expenditures and short term hiring delays for non-direct service positions to off-set \$6.2 million of the unfunded compensation plan.

**(Item #2) Latest update – DHS Program caseloads and costs:** As of this report date, the department just finished its Fall 2008 caseload forecast update. The related caseload cost changes have just been updated and have been included in the report to provide the most current information as soon as it is available, however further details of the caseload and caseload cost changes have not been completed at the time this report was prepared. This information will be

provided at the September 2008 E-board meeting. Here is a general summary of the cost changes from the Fall 2008 caseload forecast compared to the 2007-09 Legislatively Approved Budget for these programs:

<u>PROGRAM:</u>	<u>GF Need (Savings)</u> (Millions)
Medical Assistance Programs	\$32.27
Child Welfare Programs	( 1.11)
Self Sufficiency Programs	17.70
Vocational Rehabilitation Programs	0.08
Senior Programs – Long Term Care	( 7.97)
Senior Programs – Developmentally disabled	<u>0.85</u>
<b>Net change – DHS Programs</b>	<b>\$41.82</b>

*Medical Assistance Programs (DMAP):*

- Children: More children in both the Children's Health Insurance Program (CHIP) and Poverty Level Medical Children enrollment categories are seeking services than had been estimated. This is likely due to the continued weak economy as well as the successful outreach activities and enrollment of adults and their children related to the (limited) re-opening of Oregon Health Plan (OHP) Standard.
- Although there is a less than one percent increase in seniors and the Aid to Blind and Disabled, since the individuals have high medical costs, small changes have a relatively large budgetary impact.
- The costs for Medicare Buy-In are lower than originally estimated. The Centers for Medicare and Medicaid Services (CMS) recently announced the Medicare premium rates for calendar year 2008. These rates are lower than the premium rate provided by the Senior League used in the budget.

The weak economy, the OHP Standard re-opening and the major policy changes in the TANF program continue to create significant upward risks to the DMAP forecasts.

*Children, Adults and Families (CAF):*

- Child Welfare: Over the last year, the number of children in out-of-home care (e.g. foster care) declined somewhat compared to the forecast. This is likely due to the large influx of children who had entered foster care over the past few years, now leaving foster care. It is anticipated that in the upcoming year, there will not be any large increases or decreases. While the overall number of children in Out-of-home care is expected to remain relatively steady, more

general funds are needed since there are fewer children eligible for TANF Emergency Assistance federal funding.

- There continue to be many more families seeking services from self-sufficiency programs such as Temporary Assistance for Needy Families (TANF) and Food Stamps than had been estimated. This is due to the double effects of rising costs of basic household expenses such as food and transportation, coupled with a weak job market and job losses. Given the restructuring of TANF and Employment-Related Daycare Program, there continue to be risks of even higher caseloads. [Note that a portion of the forecasted increase in caseload cost is funded by using TANF federal funds that are now available by the reduction of TANF Emergency Assistance funding that was being used with Child Welfare. The amount of TANF federal funds is less than anticipated in the June 2008 Financial Update, however. This is because a portion of the funds were shifted instead to other eligible programs in exchange for general funds to backfill the estimated large reduction of TANF Emergency Assistance federal funds that had been used for Child Welfare – see Attachment A.]

#### *Seniors and People with Disabilities:*

- In-home. The in-home caseload continues to decline. The decline is likely due to the on-going effects of the Medicare Part D, prescription drug benefit. (People would sign up for in-home long-term care services in order to qualify for OHP Plus, specifically the prescription drug benefit.)
- Community-based care. Assisted living facilities and residential care facilities in recent months have either slightly declined or held steady. The interaction of the private market and Medicaid continue to pose a risk to the forecast. The increase in the cost per case is largely due to the rate increase that was approved during the February 2008 legislative session. The rate increase may account for some community based facility caseloads to be holding even instead of declining in recent months.
- Nursing facilities were no longer in decline for the first time in several years. While they may continue to increase, especially if there are capacity issues with the community-based facilities, the most recent months have stabilized. The increase in the cost per case is due to a scheduled rate increase that went into effect July 1, 2008, as well as a rate add-on of a few dollars per resident day due to the increased Certified Nursing Assistant (CNA) minimum staffing requirement that was effective March 1, 2008.

**(Item #3) OSH – Continuous Improvement Plan funding (Special Purpose Appropriation):** In January 2008, the Oregon State Hospital (OSH) further advanced its comprehensive continuous improvement plan to address several issues identified in a recent inspection of OSH by the U.S. Department of Justice. This plan totaled \$6.7 million and included 211 new OSH positions and 43.78 new FTE, and was presented to the legislature during the February 2008 session. The plan was approved, and additional funding and position authority for the portion of the plan to be completed by June 2008 totaling \$1.8 million, 21 new positions and 11.54 FTE was approved and included in the DHS budget. The remaining \$4.9 million, 190 positions, and 32.24 FTE were placed in this DHS Special Purpose Appropriation for future allocation. At the June E-board, half of the remaining SPA, \$2.45 million was released to the DHS-OSH budget to fund the CIP. The CIP implementation plan has continued with the assumption that the remaining funding in the SPA will be made available to DHS-OSH. Here is an update of the CIP plan as of August 2008:

<b>DHS – OSH Continuous Improvement Plan:</b>	
Total Plan Cost:	\$6.7 Million
Total Plan Positions:	211 Positions
Total Plan FTE:	43.78 FTE
<b>First Phase of the OSH Plan (in place by June 2008):</b>	
Additional Funding Approved:	\$1.8 Million
Additional Positions/FTE Authorized:	21 New Positions and 11.54 FTE
New Positions Filled as of June 2008:	21 New Positions Filled
Projected Cost for new positions:	\$1.8 Million
<b>June 2008 E-Board approval from the OSH SPA for the second phase of the OSH Plan (to be in place by September 2008):</b>	
Additional Funding Approved:	\$2.45 Million
Additional Positions/FTE Authorized:	22 New Positions and 10.76 FTE
New Positions Filled as of August 2008:	37 New Positions Filled and 18.36 FTE
Projected Cost for new positions:	\$2.1 Million
<b>Request for allocation from the OSH SPA for the final phase of the OSH Plan (to be in place by June 2009)</b>	
Additional Funding Requested:	\$2.44 million
Additional Positions/FTE Requested:	168 New Positions and 21.48 FTE
Maximum available expenditures:	\$ 2.8 million
Maximum Additional Pos/FTE available:	153 New Positions and 20 FTE

See Attachment B for further details)

**(Item #20) Related Legislative Action Requested:** The department requests that the Emergency Board approve the appropriation of the remaining balance of the Special Purpose Appropriation for the OSH-Continuous Improvement Plan in the amount of \$2,435,027 general fund. This funding will allow completion of the 2007-09 OSH-CIP as presented to the Legislature in February 2008.

**(Item #4) Decline in DMAP/TURA Tobacco Tax Funding.** The June 2008 Tobacco Tax revenue forecast by the Oregon Department of Economic Analysis projected a reduction of Tobacco Tax revenue for the department of \$7 million. (\$6.7 million less than planned for the Oregon Health Plan program, and \$0.3 million less than planned in the Tobacco Prevention Education Program (TPEP)). The latest (September 2008) update projects an additional \$14 million decline, for a total of \$21 million less in Tobacco Tax than planned in the DHS Legislatively Approved Budget. The DHS budget includes \$373.4 million of Tobacco Tax revenues, but the latest forecast reduces this to \$352.4.

**Other Revenue issues:**

**(Item #5) Restricted use of Provider Tax interest revenue.** This revenue source was included in the OHP Plus program budget as funding for this program. Upon further review, this revenue is restricted to the OHP Standard program and cannot be used for OHP Plus. Since the OHP Standard program is funded exclusively with provider tax and Medicaid funds, the interest earned on the provider tax would not displace the need for general fund. Because the provider tax revenue cannot be used for OHP Plus as budgeted, this will become a DHS budget management challenge within the Division of Medical Assistance Programs of \$1.2 million.

**(Item #6) DHS Federal Fund - Transition Grant:** During the restructure of DHS in 2001-03, several ending federal grant balances within the accounting system were consolidated into one grant called the DHS Transition Grant. This was done as part of the consolidation into one department. As DHS has progressed since the restructure, it has been determined that the "Transition Grant" balance is erroneous and should be eliminated. Because the DHS Transition Grant was included as part of budgeted Children, Adults and Families (CAF) and Administrative Services Division (ASD) funding, the correction of this erroneous grant will present a budget management challenge to DHS of \$1.5 million within the CAF division budget and \$0.2 million in ASD.

**(Item #7) Remittance of overpayment recovery of former TANF program (AFDC) federal funds:** When the department recovers overpayments of benefits, the federal portion of the overpayment recovery is to be reimbursed to the respective

federal program. It has been determined that the federal portion of overpayment recoveries (that were collected between 10/1996 and 06/2006) of the prior TANF program (AFDC) have not been returned to this federal program. Rather than returning the funds, these recoveries were deducted from future draws of federal funds. This resulted in a carry over of these funds into subsequent years and the funds were ultimately used for the program. The unplanned return of the federal portion of these overpayment recoveries now results in an unplanned use of \$2.4 million general fund.

**Federal Rule Changes/Audit Interpretation effects:**

**(Item #8) Change In the administrative cost reimbursement provision of the federal Social Services Block Grant.** Effective 10/01/2007, a rule change to limit administrative cost reimbursement to 9% for the federal Social Services Block Grant (SSBG) became effective. Previously, the administrative cost reimbursement was not limited. The department prepared the 2007-09 budget based upon the assumption that the administrative reimbursement for the SSBG would continue to be unlimited and planned on SSBG revenues in the Administrative Services Division (ASD) of \$4 Million. The recent rule change to limit reimbursement to 9% reduced SSBG revenues to fund ASD by \$2.9 million.

**(Item #21) Related Legislative Action:** The department has identified an allowable alternate use for the SSBG revenues no longer available for ASD reimbursement. The Seniors and People with Disabilities, Developmentally Disabled Family Support program meets funding requirements for the SSBG. This program is budgeted as a fully general funded program. The department proposes to shift the SSBG no longer available to be used in ASD to the DD Family Support program in exchange for general fund for the ASD.

**(Item #9) Reduction of Medicaid funding for the Oregon State Hospital – Geriatrics Program.** The Gero-psychiatric Program at Oregon State Hospital is a 114 bed program certified as a component of the hospital that provides active psychiatric treatment to Medicaid eligible individuals age 65 and older and is reimbursed by Medicaid. A February 2008 survey by CMS found that some individuals were not receiving active psychiatric treatment and could not be billed to Medicaid. This will result in a reduction of Medicaid funding for this program of \$3.7 million for the 2007-09 biennium.

**(Items #14&#15) Related Management Action:** The department would propose backfilling \$750,000 of the reduction in Medicaid funding with additional Medicare Part D revenues that OSH will receive. In addition, budgeted expenditures for contracted mental health residential treatment services are currently tracking below planned levels. The

department will redirect this savings in general fund of \$2.2 million to offset a portion of the reduction in Medicaid funding for the Geropsychiatric Program at Oregon State Hospital.

**(Item #10) Targeted Case Management (TCM) – Reduction of Federal Medicaid funding:** Rule changes for TCM claiming would eliminate claiming of Medicaid reimbursement for child welfare and juvenile justice staff; restrict claiming Medicaid reimbursement to one Medicaid case manager; eliminate claiming Medicaid reimbursement for some administrative functions; reduce claiming time for individuals transitioning from institutions; require claims to be documented and billed on a medical service model in 15 minute increments; and prohibit community providers from authorizing Medicaid covered services as part of an overall case planning strategy. The department estimates that these changes will reduce DHS Medicaid 2007-09 claiming for TCM by \$12.9 million, shifting these costs to general fund. (Note that this change will also affect the Oregon Youth Authority.)

**(Item #11) Temporary Assistance for Needy Families (TANF) Emergency Assistance:** The TANF EA federal funds provides services to children involved with CAF Child Welfare while in the home of the parent and while in substitute care placements. Federal Title IV-E funds are the first and primary source of funding for services to these children. If the child is not eligible for Title IV-E funding, TANF-EA funds are used to fund services. The Administration for Children and Families (ACF) audit completed late in 2007, provided clarification regarding its requirements of annual redeterminations for TANF EA eligible children. Annual redetermination will reduce TANF EA eligibility and reduce Federal financial participation for these children, which would shift \$37.6 million of the cost for these services to general fund.

**(Item #16) Related Management Action:** The department has identified alternate uses of these TANF EA federal funds that are no longer available to fund Child Welfare. This management action would shift these TANF funds to other eligible programs within CAF and swap general fund in those programs to back-fill the TANF EA funds in Child Welfare.

**(Item #21) Related Legislative Action Requested:** The department has a carry-over of Social Services Block Grant funds available for use in the 2007-09 biennium. The department proposes to use these funds for the Seniors and People with Disabilities, Developmentally Disabled Family Support program, which meets funding requirements for the SSBG. This program is budgeted as a fully general funded program. The department proposes to shift the available SSBG funding from the Children, Adults, and Families division to the DD Family Support program



in SPD in exchange for general fund to back-fill a portion of the lost TANF-Emergency Assistance funding.

(See Attachment A for further details of Federal Rule issues.)

**Other Issues:**

**(Item #12) Medicaid Management Information System (MMIS) efficiencies – more payments to be made in 2007-09 than planned.** The new MMIS system will improve/simplify the ability for service providers to submit billing information electronically through the internet. The department estimates that this will improve the timeliness of provider payments and result in more claims being paid during the 2007-09 biennium than anticipated in the LAB. This issue was estimated at \$9.8 million and brought forward at the January 2008 DHS Rebalance. However because it was a preliminary estimate, the estimated amount was included in the DHS SPA until a more precise estimate was available. This issue has been reduced to \$3 million based on more current information from other states that have installed the new MMIS.

**Other Legislative Action Requested:**

**(Item # 22):** The department requests that the Special Purpose Appropriation set aside at the February 2008 Legislative session be appropriated to the department. These funds would help address the remaining budget challenges that would not be mitigated by the proposed department management actions and legislative actions included in this financial update. This SPA included provisions for several potential funding needs within the department. (Please see Attachment B for the current status of these issues.) As noted in this attachment, the funding needs identified in January 2008 have changed and this SPA is no longer needed for these purposes other than the MMIS efficiency cost issue. This SPA will expire effective November 30, 2008. The department will present its 2007-09 rebalance plan at the December 4, 2008 Emergency Board meeting. While the department is not officially rebalancing its budget at this time, the DHS SPA is requested for the CAF division as the majority of the remaining budget challenges will effect this division. This SPA funding could be unscheduled pending the December 2008 rebalance plan at which time specific division financial positions will be presented.

**DHS Management Plan to address the September Financial Update Position:**

The department is developing a management plan to address the net \$71.6 million GF deficit position of this financial update in order to manage within its LAB authority. This plan will be presented at the September E-board meeting.

**On-going Risks:**

The Department of Human Services operates in an environment of ever changing economic conditions, demographic changes, federal policy and rule change, and other such external risk factors. While this financial update contains the latest information and projections available, these factors will continue to influence caseload and caseload cost changes and availability of federal funding. This risk of additional costs and/or loss of revenues will continue and could change the financial position of DHS over the remainder of the 2007-09 biennium. DHS will continue to monitor and report on its financial position and will strive to manage within its budget authority for 2007-09.

**Summary of Budget Challenges and related actions:**

<b>SEPTEMBER 2008 - E-BOARD FINANCIAL UPDATE : DHS Plan to address Budget Challenges</b>	<b>Budget Challenge (General Fund)</b>	<b>Management Action (General Fund)</b>	<b>Legislative Action (General Fund)</b>
<b><u>Budget Challenges:</u></b>			
1. Budget Challenge: Unfunded Portion of 2007-09 Salary Package Related Action: Item 17. DHS Administrative cost reduction actions (Hiring delays, limit/stop travel, targeted S&S reductions)	10,149,664	(6,224,162)	
2. Program caseloads and costs changes since February LAB	41,824,025		
3. Remaining need for OSH - CIP Funding (from SPA) Related Action: Item 20. Approval of remaining OSH-CIP Funding (from SPA)	2,435,027		(2,435,027)
4. Decline in DMAP/TURA Tobacco Tax Funding	21,036,000		
5. Restricted use of Provider Tax Interest - DMAP	1,193,471		
6. DHS Transition Grant - revenue shortfall	1,718,168		
7. Overpayment recovery - remittance of Federal funds from former TANF program (AFDC)	2,360,143		
8. Social Services Block Grant - Administration cost reimbursement limited to 9% Related action: Item 21: Approval of shift of SSBG to SDP DD Family Support for GF to ASD (\$2.9M)	2,900,000		(2,900,000)
9. Reduction in OSH Gero Medicaid Funding Related action: Item 14: Use greater Part "D" revenues than planned in OSH budget. Related action: Item 15: Redirect savings from vacant Mental Health residential treatment beds.	3,729,388	(750,000) (2,151,853)	
10. Targeted Case Management - Reduction of Federal Funds	12,873,116		
11. Reduction of TANF Emergency Assistance Funding Related action: Item 17: Management actions to off-set TANF EA funding reduction by shifting of funding within CAF division. Related action: Item 21: Approval of shift of SSBG to SDP DD Family Support for GF to CAF (\$5.1M)	37,650,854	(34,490,000)	(5,100,000)
12. MMIS Efficiency - more payments will be made in 2007-09.	3,000,000		
Item 22: General Legislative actions to address Budget Challenges: Allocation of remaining DHS SPA funds			(15,080,056)
<b>Total - DHS Budget Challenges &amp; Management/Legislative actions</b>	<b>140,769,856</b>	<b>(43,616,015)</b>	<b>(25,515,083)</b>

**Attachment A**  
 Department of Human Services  
 Federal Funding Issues  
 September 2008

**2007-09 Biennium ESTIMATED 2009-11 Biennium ESTIMATED**

Final Federal Rule/Policy Change Issues:	Division(s) Effected	Effective	Federal Funds at Risk	Federal Funds at Risk	Status
<b>Targeted Case Management (TCM):</b> The Centers for Medicare & Medicaid Services (CMS) rule changes eliminated child welfare, probation, and parole employees	Children, Adults, and Families Seniors & People with Disabilities Administrative Services Division	March 2008 March 2008 March 2008	-\$3.9 Million N/A -\$2.9 Million	Up to -\$8.2 Million Up to -\$9.6 Million Up to -\$8.4 Million	This regulation has been partially delayed by moratorium until April 2009.
<b>Graduate Medical Education (GME):</b> CMS rule changes eliminate Medicaid match payments for GME.	Medical Assistance Programs	August 2008	Up to -\$7.8 Million	Up to -\$19.3 Million	This regulation has been delayed by moratorium until April 2009.
<b>Total estimated effect of Federal Rule/Policy Changes for 2007-09 - (TCM &amp; GME)</b>					
			<b>Up to -\$20.6 Million</b>	<b>Up to -\$78.2 Million</b>	

Proposed Federal Rule/Policy Change Issues:	Division(s) Effected	Effective	Federal Funds at Risk	Federal Funds at Risk	Status
<b>Rehabilitative Services:</b> CMS proposed rule changes eliminate services that are not "restorative", increase required planning and documentation for client services, and eliminate Medicaid payment for services furnished as part of a non-medical program (schools or correctional institute).	Children, Adults, and Families Addictions and Mental Health	Not determined as of May 27, 2008. Assumed Start date of July 1, 2009	None in 2007-09 based on estimated effective date.	Up to -\$21.4 Million Up to -\$42.0 Million	There is no final rule for this regulation and no clarification has been provided by CMS.
<b>Local Government Cost Limits:</b> Although this rule would reduce the revenue of some local governments, SPD estimates a possible reduction of Medicaid match for Developmental Disabled Case Management. Additionally the most significant impact is likely to be a large administrative burden on DHS (estimated 10.0 FTE \$1.0 Million per biennium) and local governments to complete and audit the cost reports and adjust payments.	Administrative Services Division	Not determined as of May 27, 2008. Assumed Start date of July 1, 2009	None in 2007-09 based on estimated effective date.	Up to +\$0.5 Million (ADDED NEED)	The regulation has been vacated by the US District court for the District of Columbia due to a lawsuit brought forward by a national coalition of hospitals. This action delays the implementation of the CMS regulation, however CMS could republish the regulation as currently written and we would have 60 days to respond.
<b>Total estimated effect of Federal Rule/Policy Changes for 2009-11 - (Rehabilitative Services &amp; Cost Limits)</b>					
			<b>\$0</b>	<b>Up to -\$69.9 Million</b>	

**Federal Rule/Policy Interpretation Change/Clarification as a result of audits:**

Division(s) Effected	Audit Period	2007-2009 Impact from Audit Period	Federal Funds at Risk
Children, Adults, and Families Administrative Services Division	Feb 2008 Feb 2008	-\$35.8 Million -\$1.8 Million	Estimated financial effect of this policy clarification which changes process and availability of TANF funding for Emergency Assistance. DHS has developed a series of management actions to address this issue. This includes identification of alternative funding sources and expenditure reductions to off-set this loss of Federal revenue.

<b>TANF Emergency Assistance (EA) Redetermination:</b> Clarification provided by the Administration for Children and Families (ACF) requires annual redetermination of TANF EA eligibility effective February 2008. This will reduce TANF EA eligibility and reduce Federal participation for these clients. [Note: The department has identified alternate uses of these TANF EA federal funds that are no longer available to fund Child Welfare. By shifting these TANF funds to other eligible programs within CAF with the general fund in those programs to back-fill the TANF EA funds in Child Welfare, this issue can be mitigated.]	Children, Adults, and Families Addictions and Mental Health	Jan. 2005 Jan. 2005	Up to -\$33.6 Million (higher risk) Up to -\$1.44 Million (lower risk)	Up to -\$20 Million (however resolution expected before 2009-11) Up to -\$96 Million (however resolution expected before 2009-11)	DHS has filed notice to appeal the Child Welfare decision by DHS and will attempt to ameliorate this disallowance. At this time, DHS is awaiting a decision on the Child Welfare appeal, and the AMH Financial Management Review report is pending.
<b>Total estimated effect of Federal Rule/Policy Changes from Audits for 2007-09 - (TANF EA &amp; PC Medicaid)</b>					
			<b>Up to -\$215.2 Million</b>	<b>Up to -\$171.6 Million</b>	

<b>Total - All Federal Revenue Risk Issues</b>					
			<b>Up to -\$235.8 Million</b>	<b>Up to -\$319.7 Million</b>	

Attachment B					
Department of Human Services					
Special Purpose Appropriation (SPA) Update					
September 2008					
SPA Funding Elements	Division	Original SPA Amount	Funding Allocated from SPA in June 2008	SPA Balance at June 2008	Comments
<b>DHS GENERAL SPA:</b>					
Vocational Rehab - GF Backfill	CAF	\$ 2,634,292	\$ 2,420,237	\$ 214,055	June 2008 allocation made to address increased caseload and cost per case, to receive the \$9 Million FF reallocation in August 08, and to avoid "order of selection" in treating clients.
Potential - DD Program Savings	SPD	\$ 6,300,000	-	\$ 6,300,000	Still tracking and available.
MMIS Efficiencies	DMAP, SPD	\$ 9,792,393	-	\$ 9,792,393	Latest estimated need reduced to \$3 Million.
Involuntary Medication Hearings	AMH	\$ 1,182,600	-	\$ 1,182,600	Based on actual activity to date, cost for this issue is less than originally estimated, no additional funding is needed.
State Data Center	ASD	\$ 495,743	-	\$ 495,743	DAS presented statewide need in June 2008. DHS received needed funding from E-Board, no additional funds are needed for this issue at this time.
Reserve/Shortfall		\$ (2,904,735)	-	\$ (2,904,735)	
<b>Total DHS General SPA</b>		<b>\$ 17,500,293</b>	<b>\$ 2,420,237</b>	<b>\$ 15,080,056</b>	Request balance of SPA be appropriated at September 2008 E-board. September 2008 Financial Update includes other general fund needs which this SPA funding would be applied.
<b>DHS - OSH CONTINUOUS IMPROVEMENT PLAN SPA:</b>					
CIP Plan Investment		\$ 4,870,055	\$ 2,435,028	\$ 2,435,027	Request remaining SPA balance be appropriation to fund remaining 2007-09 Continuous Improvement Plan at OSH.