Iowa Legislative Fiscal Bureau

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ISSUE REVIEW

Net Budgeting at Department of Human Services Institutions

ISSUE

This ***Issue Review*** provides background and current status of the impact of the net budgeting process at certain institutions under the auspices of the Department of Human Services.

AFFECTED AGENCIES

Department of Human Services, including:

- State Mental Health Institute at Independence.
- A psychiatric medical institution for children (PMIC) within the State Mental Health Institute at Independence.
- A dual diagnosis mental health and substance abuse program at the State Mental Health Institute at Mount Pleasant.
- State Hospital-School at Woodward.
- State Hospital-School at Glenwood.

CODE AUTHORITY

Senate File 2410, (FY 1999 Human Services Appropriations Act) including:

- Section 19, 1(c)(1).
- Section 19, 1(c)(2).
- Section 19, 1(d)(1)
- Section 20, Subsection 2, for both State Hospital-Schools.

BACKGROUND

THE NET BUDGETING PROCESS:

An institution's appropriation is decreased by the General Assembly in an amount estimated to be the amount of revenues from federal, county, third party payers, and other sources, which are deposited by the Department of Revenue and Finance into an operating account for the institution in lieu of deposit into the State General Fund. Some costs remain the State responsibility, such as non-Medicaid eligible children, those clients with no legal settlement, and the difference between the capped county per diem costs and actual per diem costs incurred by an institution.

Reasons to initiate net budgeting for the institutions include:

- Possible incentives for savings and efficiency measures.
- Possible expansion of services and clients if an institution retains nonstate revenues.
- Possible involvement by the local community.
- Lessen the impact of future across-the-board reductions.

LEGISLATION:

- Senate File 2442 (FY 1997 Human Services Appropriations Act) required representatives of the Department of Human Services to work with Executive and Legislative Branch staffs to develop a proposal to allow State appropriations to reflect the net amount of State funds needed. A report was due and received in December 1996.
- House File 715 (FY 1998 Human Services Appropriations Act) required the State Mental Health Institute at Independence to conduct a pilot project to determine net state expenditures for revenues and expenditures attributable for the Institute. A preliminary report in January 1998 and a status report in October 1998 were required and received. This was only a test and State appropriation adjustments for FY 1998 in expectation of net budgeting were not made.

  The same House File also required the State Hospital-School at Glenwood to implement net budgeting, with revenues attributable to the State Hospital-School deposited into the State Hospital-School's account, rather than the State General Fund. At the same time the State appropriation was reduced by $33.0 million for FY 1998 compared to FY 1997, predicted revenues into the State General Fund were also reduced. Reports were required in January 1998 and October 1998 and were received.
- Senate File 2410 (FY 1999 Human Services Appropriations Act) required the State Mental Health Institute at Independence to continue the pilot project started in FY 1998, referring to a net State share accounting test. The FY 1999 appropriation was not adjusted in anticipation of retaining nonstate revenues in the Institute's account. Reports are due in January 1999 and October 1999 regarding advantages and disadvantages.
  - Senate File 2410 also required a new 30-bed psychiatric medical institution for children (PMIC) to operate under a net budgeting manner. The language in SF 2410 specified that revenues were to be deposited in the Institute's account.

- Also in SF 2410, a new dual diagnosis mental health and substance abuse program at the State Mental Health Institute at Mount Pleasant was required to be implemented, with revenues deposited in the Institute's account. A report is required in December 1998.
- All four State Mental Health Institutes are required by SF 2410 to implement a net budgeting accounting test. Reports regarding advantages and disadvantages with the net budgeting process are required in January 1999 and October 1999.
- Senate File 2410 also requires the DHS to implement a net budgeting project at the State Hospital-School at Woodward, in addition to Glenwood. The FY 1999 appropriation to Woodward was decreased by $25.7 million compared to FY 1998 in anticipation of nonstate revenues being deposited in the Hospital-School's account rather than the State General Fund. Reports are required in January 1999 and October 1999.

REQUIRED STATUS REPORTS:

As required in HF 715 (FY 1998 Human Services Appropriations Act), the Department of Human Services submitted the reports required regarding the net budget pilot projects at the State Mental Health Institute at Independence and the State Hospital-School at Glenwood. Concerns were provided in both the January 1998 and October 1998 reports. The concerns and possible solutions derived during the 1998 Legislative Session included:

- State Mental Health Institute at Independence:
  - Increased administrative costs. Concerns include an increase in payment tracking and that collection of payments will be necessary.
  - Cash-flow. Comments include a possible need to exceed the State appropriation during a fiscal year or into the next fiscal year. Similar concerns were eliminated by the General Assembly for the State Hospital-School at Glenwood, as detailed below.
  - Revenue projections. Due to legal settlement disagreements, third party-payer limitations, and admission disagreements, projections of revenue have been difficult for the accounting test of net budgeting at the Institute.
  - Idiosyncrasies of the institutions. Nonstate sources of revenue between a mental health institute and a State hospital-school are not the same in percentage, and concern regarding the viability of utilizing net budgeting for mental health institutes was expressed, since the majority of funds at the mental health institutes are State funds.
  - Direct county payments: A need to have the counties pay the Institute directly rather than paying the Department of Revenue and Finance, which may permit a more efficient collection and tracking process, according to the concerns specified.

- State Hospital-School at Glenwood:
  - Cash Flow. Revenues are delayed due to quarterly county billings for services rendered, instead of consistent allocations from a State appropriation. This results in a possible negative cash flow. Action taken by the 1998 General Assembly in SF 2410 included:
    - Requiring county payments to be made in 45 days from receipt of the bill instead of 60 days.
    - Permitting the Hospital-Schools to use the State appropriation in an amount more than appropriated on a temporary basis for cash flow purposes, as long as the amount does not exceed the appropriation at the close of the fiscal year (August 31).
  - Disputed Billings. This most often occurs with a county in a disagreement regarding legal settlement of a client receiving services at the State Hospital-School. The DHS has established a work group to study the long standing issue of legal settlement.
  - Carry Forward of Unspent Funds. The State Hospital-School may be able to improve the business aspects of net budgeting. In SF 2410, the General Assembly allowed Glenwood to carry over any unexpended or unobligated FY 1998 appropriation. The Governor item-vetoed the language, indicating as for most FY 1999 appropriation bills, that it is inappropriate to use one-time funding for on-going expenses.
  - Late Receipts. Revenues may not be received for a fiscal year until after the close of the State fiscal year on August 31. In SF 2410, the General Assembly permitted the year-end balance calculations to include county receivables billed but not yet received, for receipts received within 90 days of being billed for FY 1999. (For the State Hospital-School at Woodward, the Hospital-School is permitted to draw from the State General Fund in an amount equal to the receivables billed but not yet received.)
  - Estimating revenues. Changes in federal match rates, the number of clients served, and per diem rates make estimating revenues for the State Hospital-School challenging. The DHS indicated that it will be difficult to estimate revenues accurately due to the variables involved.
  - Off-the-top obligations. The DHS and the State Hospital-School continue to monitor off-the-top obligations paid to the State and to the DHS relating to indirect cost reimbursements, administrative costs, workers' compensation, unemployment compensation, and personnel billings.

FINANCIAL DATA

The FY 1998 appropriation for the State Hospital-School at Glenwood was the only State appropriation actually adjusted due to the net budgeting process for FY 1998. The appropriation was reduced by $33.0 million at the same time revenues to the State General Fund were also reduced by an equal amount. **Figure 1** presents a review of the $33.0 million reduction and compares FY 1997 nonstate revenues to FY 1998 nonstate revenues.

Figure 1

FY 1997 vs. FY 1998 Actual Revenue Sources for the State Hospital-School at Glenwood

Category	FY 1997 Revenues	FY 1998 Revenues	Difference
State Appropriations	$ 35,634,079	$ 3,066,097	$ -32,567,982

Federal Funds Reimb.	210,612	211,502	890
Local Government		9,238,150	9,238,150
In-State Transfer	17,128	9,931	-7,197
Interest	542	570	28
Refunds and Reimbu.		23,754,534	23,754,534
Equipment	637	0	-637
Rent/Leases	209,059	218,453	9,394
Other Sales	173,971	609,323	435,352
Other	94,684	1,701,497	1,606,813
Total	$ 36,349,712	$ 38,810,057	$ 2,469,345

Figure 1 illustrates that the total difference in net budgeting from Local Governments, Refunds and Reimbursements, Other Sales, and Other sources totals $35.0 million compared to the net budgeting General Fund reduction of $33.0 million for FY 1998. (The amount of $32.6 million found in **Figure 1** for the State appropriation difference includes other increases and decreases by the General Assembly, and not just the change for the net budgeting process.) **Figure 1** would indicate that the nonstate revenues for the State Hospital-School at Glenwood exceeded estimates by $2.0 million in FY 1998. The total operating budget increased by $2.5 million compared to FY 1997.

Attachment I shows the corresponding change in the FY 1998 General Fund Balance sheet, decreasing expected revenues from the State-Hospital School at Glenwood.

CURRENT SITUATION

For FY 1999, the following institutions or programs received a State appropriation based upon the used of net budgeting:

- The psychiatric medical institution for children (PMIC) at the State Mental Health Institute at Independence.
- The dual diagnosis mental health and substance abuse program at the State Mental Health Institute at Mount Pleasant.
- The State Hospital-School at Glenwood.
- The State Hospital-School at Woodward.

The four State Mental Health Institutes at Independence, Clarinda, Mount Pleasant, and Cherokee are to implement a net budgeting accounting test for FY 1999, but continue to receive State appropriations based upon a gross budgeting account methodology.

Enacted legislation required one or more reports for all of the projects underway or in an accounting test status during FY 1999, except for the psychiatric medical institution for children at the State Mental Health Institute at Independence.

ALTERNATIVES

The General Assembly may wish to consider the concerns delineated in this ***Issue Review*** in addition to seeking input from other affected sources, such as counties and third party payers when considering the impact of net budgeting. Solutions to the concerns may take a number of years, while self-identified changes within the Department of Human Services regarding an accounts receivable system to improve the billing system to other entities take place.

BUDGET IMPACT

Overall, the impact of net budgeting is not one which should affect revenues and expenditures except for comparisons of appropriations or expected Statewide revenues for a particular institution. As the institutions affected begin to have greater experience in estimating nonstate revenues, in tracking billings, and in processing collections, projected institutional revenues compared to actuals may become more consistent and reliable.

Resolution of the issue of the role of the Department of Revenue and Finance in receiving revenues prior to deposit into a particular institution's may result in a need for very accurate revenue estimates to ensure the amount of necessary State appropriations.

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Exhibit 1

REVENUE ADJUSTMENTS	Fiscal Year 1997 Governor's Recomm.	Fiscal Year 1997 Legislative Action	Fiscal Year 1998 Governor's Recomm.	Fiscal Year 1998 Legislative Action
Personal Income Tax HF 388	$ - 3.1	$ 0.0	$ - 93.0	$ - 103.0
Inheritance Tax SF 35			0.8	- 19.0
Sales Tax - M & E Exemption HF 126			- 4.0	- 4.0
Subchapter S Corporations HF 306			0.0	- 5.0
Tuition Tax Credit			- 1.5	
Tax Exempt Bonds			- 0.7	
Public Safety & Racing Revenue SF 529			1.3	1.3
Eliminate Real Estate Transfer Tax			0.4	
IRC Update SF 129		- 2.8		- 2.2
Net Budget at Glenwood HF 715				- 33.0
Certificate of Need SF 236				- 0.1
Utility Study SF 529				0.1
Vital Records HF 710				- 1.0
Bosnia Military Exemption HF 355		- 0.1		0.0
OWI Fines HF 707				0.6
EMS Fees SF 59				- 0.1
Indigent Defense HF 662 Vetoed				0.0
Local Option Sales Tax Payment HF 729				- 3.1
TOTAL REV. ADJUSTMENTS	$ - 3.1	$ - 2.9	$ - 96.7	$ - 46.5

The totals for FY 1998 columns of *Total Rev. Adjustments* do not include the reductions for Personal Income Tax ($103.0 million) and Inheritance Tax ($19.0 million) since these amounts were considered by the Revenue Estimating Conference 4/10/97.

TRANSFERS	FY 1997 Governor's Recomm.	FY 1997 Legislative Action	FY 1998 Governor's Recomm.	FY 1998 Legislative Action
Lottery Proceeds SF 542	$ 38.2	$ 38.2	$ 38.2	$ 38.2
Marine Fuel Tax Revenues	2.3	2.3	2.3	2.3
Indirect Cost Transfers	1.9	1.9	1.5	1.5
Corrections Infrastructure Fund	1.1	1.1	0.5	0.5
Insurance Reserve Receipts	6.3	6.3	0.0	0.0
Miscellaneous	0.7	0.7	0.7	0.7
TOTAL CASH TRANSFERS	$ 50.5	$ 50.5	$ 43.2	$ 43.2

Attachment 1