



TEXAS HEALTH AND HUMAN SERVICES COMMISSION

THOMAS M. SUEHS
EXECUTIVE COMMISSIONER

February 15, 2010

Ms. Mary Katherine Stout, Director
Governor's Office of Budget, Planning and Policy
1100 San Jacinto, 4th Floor
Austin, Texas 78701

Mr. John O'Brien, Director
Legislative Budget Board
1501 Congress Avenue, 5th Floor
Austin, Texas 78701

Dear Ms. Stout and Mr. O'Brien:

I have attached the Texas Health and Human Services System's response to the January 15, 2010, request to identify potential savings totaling five percent of general revenue for the 2010-11 biennium.

Identifying possible reductions in a budget that is overwhelmingly invested in client services is a painstaking task. State leaders asked agencies to identify options that "present prudent, efficient reductions that minimize the impact on direct services," and that philosophy guided our work.

As our agencies began to identify possible savings, I implemented an administrative hiring freeze on January 20, 2010. I took this early action so that we could begin to achieve administrative savings as quickly as possible and to protect critical areas such as protective services, direct care staffing at state supported living centers and hospitals, regulatory staff, and eligibility services.

Program and budget staff at each agency have put in an incredible number of hours to identify potential savings. This involved consideration of state and federal statutes, regulations, and maintenance-of-effort requirements; the mix of federal and state funding for each program; and a host of other complexities associated with each option.

We developed the following principles to guide our efforts:

- Maintain the highest level of services and minimize the direct affect on clients.
- Achieve as much administrative savings as possible without jeopardizing oversight and accountability.

Ms. Mary Katherine Stout and Mr. John O'Brien
February 15, 2010
Page 2

- Preserve effective prevention programs that help reduce the state's costs in the long run.
- Preserve vital community programs, such as crisis mental health services.
- Delay implementing new programs.

Agencies began by identifying areas where the assumptions made in Senate Bill 1 had changed, and projected state funding requirements are now lower. This included areas where additional federal funds were received, caseload projections are lower, and anticipated project start dates already had been moved back. We identified savings associated with the hiring freeze and other possible administrative reductions, in addition to looking at areas where we could delay the start of new programs rather than reduce existing services. To meet our target of identifying up to \$304 million in potential state general revenue savings, however, we also faced some incredibly difficult decisions. The options we have developed also would result in the loss of \$242 million in federal funds, making the potential loss of funding to our agencies approximately \$546 million in all funds.

As directed by the January 15 letter, we will make no reductions to eligibility staffing, including the additional resources approved under Rider 61 in Senate Bill 1, and we will continue to evaluate the need for the additional staff authorized by that rider. Likewise, there are no changes being proposed for current benefits or eligibility standards for Medicaid or the Children's Health Insurance Program. We have taken great care to ensure that the Texans who rely on our services today will continue to have access to those services in the future.

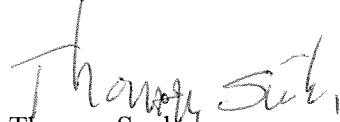
As we looked at the possible reductions identified by our agencies, I made the difficult decision to include a potential reduction in Medicaid rates as an option for your consideration. I believe this is the only way to achieve the full five percent savings target for health and human services and avoid deep reductions in existing programs and services. It should be noted that none of the potential savings options has a significant affect on the projected Medicaid shortfall. As you know, caseloads currently are increasing at a rate higher than we projected. We will continue to closely monitor caseloads and keep you informed of that situation.

I recognize that the challenges our agencies faced in identifying potential budget reductions are much like the difficult decisions that many Texas families face every day. Like Texas families, we know that difficult times often result in difficult decisions. Even administrative savings have the potential to erode our effectiveness in the long run, just as a family's decision to delay oil changes can lead to higher car repair bills later. We are grateful that our state has fared better than most during this national recession, and we trust that today's prudent and careful actions will ensure that we remain able to protect the health and safety of Texans in the future.

Ms. Mary Katherine Stout and Mr. John O'Brien
February 15, 2010
Page 3

Please let me know if you have any questions or need additional information. Greta Rymal, Deputy Executive Commissioner for Financial Services, serves as the lead on this matter and may be reached at (512) 424-6919 or by e-mail at Greta.Rymal@hhsc.state.tx.us

Sincerely,


Thomas Suehs

TS:sm

Attachment

Summary FY2010-11 HHS 5% Reduction Options

as submitted February 16, 2010

HHS Agency	FY10-11 GR Budget as Adjusted	FY10-11 HHS 5% GR Targets*	Totals Excluding Rate Reductions	Totals Including Rate Reductions	Percent of Adjusted Agency GR Budget
Department of Assistive and Rehabilitative Services	\$ 187,403,531	\$ 9,370,177	\$ 7,661,151	\$ 7,886,117	4.2%
Department of Family and Protective Services	\$ 802,931,677	\$ 40,146,584	\$ 14,693,125	\$ 14,693,125	1.8%
Department of State Health Services	\$ 2,984,451,948	\$ 149,222,597	\$ 132,247,464	\$ 133,392,924	4.5%
Department of Aging and Disability Services	\$ 1,697,456,283	\$ 84,872,814	\$ 17,001,506	\$ 39,857,716	2.3%
Health and Human Services Commission	\$ 398,691,540	\$ 19,934,577	\$ 32,611,751	\$ 107,716,867	27.0%
Totals	\$ 6,070,934,979	\$ 303,546,749	\$ 204,214,997	\$ 303,546,749	5.0%

Rate Reduction Options

1% provider rate reduction for all programs except Medicaid community care, foster care, adoption subsidies- effective September 1, 2010

\$ 49,748,546

Additional 1% provider rate reduction for Medicaid long-term care residential and acute care adults- effective September 1, 2010 (cumulative 2% reduction)

\$ 35,007,712

Additional managed care rate reduction- effective September 1, 2010

\$ 14,575,494

Subtotal Rates

\$ 99,331,752

* Targets exclude eligibility, Medicaid entitlement, CHIP, foster care, and debt services

Department of Assistive and Rehabilitative Services

Reduction Options Included in 5% (Excludes Rate Reductions)

Item	General Revenue			Federal Funds		
	FY 2010	FY 2011	Biennial	FY 2010	FY 2011	Biennial
Temporary Hiring Freeze	546,189	842,232	1,388,421	1,791,949	2,763,178	4,555,127
This includes anticipated savings from a merit/promotion freeze for all positions and a temporary hiring freeze on certain positions implemented January 20, 2010.						
Reduce Administrative Operating Costs	349,450	308,340	657,790	-	-	-
DARS will closely manage the overhead needs and reduce professional fees, travel and other operating costs.						
Higher FY09 SSAVR Federal Earnings	665,702	-	665,702	-	-	-
DARS earned more in Social Security Administration - Vocational Rehabilitation funds in Fiscal Year 2009 than expected. These federal funds can be used to reduce the amount of general revenue needed for the program.						
Appropriation Above Estimated Collections in BEST and "I Love Texas" fund	268,899	269,095	537,994	-	-	-
These amounts would reduce appropriations in BEST (Blindness Education Screening and Treatment) and "I Love Texas" funds to actual collection.						
Vocational Rehabilitation FTEs Funded But Not Approved	2,075,486	2,075,486	4,150,972	3,243,604	3,243,604	6,487,208
DARS received funding for an additional 105.5 FTEs for vocational rehabilitation strategies; however, the agency did not receive approval for the actual positions during the 81st Legislative Session.						
Reduce DRS and DBS Independent Living Programs and Backfill with ARRA Funds	130,136	130,136	260,272	-	-	-
Rehabilitation Services (DRS) and Blind Services (DBS) Independent Living programs would be reduced. To the extent possible, DARS will use stimulus funds for Independent Living to compensate for this reduction.						
Total	\$4,035,862	\$3,625,289	\$7,661,151	\$5,035,553	\$6,006,782	\$11,042,335

Department of Family and Protective Services

Reduction Options Included in 5%

Item	General Revenue			Federal Funds	
	FY 2010	FY 2011	Biennial	FY 2010	Biennial
Temporary Hiring Freeze	921,047		921,047	175,438	175,438
Salary savings are derived from actual vacancies during the first four months of FY 10. The vacancies occurred due to a hiring freeze that began in FY 09 to bring filled FTEs down to the appropriated level after exceeding the third quarter FTE cap by 144.3 FTEs, and remained in effect until November 2009 when the CPS regional FTE realignment was completed.					
Savings in Other Program Administration	4,282,768		4,282,768	815,765	815,765
Savings are anticipated from recent decrease in travel reimbursement rates and from non-salary FTE costs budgeted but not incurred due to vacancies.					
Updated Contract Experience Resulting in FY10 Available Balances	4,666,309		4,666,309		
These are Prevention and Early Intervention funds and Strengthening Families Initiative funds projected to remain unspent at the end of FY 10. This option would require a method of finance swap of federal funds with general revenue in other areas of the agency's budget.					
Eliminate Pilot Enhanced In-Home Support Program in FY11		4,823,000	4,823,000		
This item would eliminate the FY 11 appropriation for the pilot program aimed at family preservation in accordance with the recent evaluation that showed mixed results for the success of the program. Families who would have been targeted for this program would instead receive traditional services. This option would require a method of finance swap of federal funds with general revenue in other areas of the agency's budget.					
Total	\$9,870,124	\$4,823,000	\$14,693,124	\$991,203	\$991,203

Department of State Health Services

Reduction Options Included in 5% (Excludes Rate Reductions)

Item	General Revenue		Federal Funds	
	FY 2010	FY 2011	FY 2010	FY 2011
				Biennial
Temporary Hiring Freeze	2,700,000	1,673,116	4,373,116	-
Salary savings are derived from actual vacancies. Also includes anticipated savings from a temporary freeze on one-time merits and hiring for certain positions implemented January 20, 2010.				
One-time Revenue Streams (Settlements, Reimbursements)	5,250,000		5,250,000	-
Includes one-time savings related to Ike/Dolly reimbursement and available revenue collected for print shop services. Funds available in Fiscal Year 2010 only.				
Savings from Contract Changes/Re-negotiations	584,277	898,602	1,482,879	-
Assumes cost reductions resulting from changes in contracts related to parcel postage, laptop costs, and cost of the subscription for the Microsoft Enterprise agreement.				
Delay Replacing Computer Equipment	550,000		550,000	-
Assumes delay in replacing a number of desktops and laptops for which DSHS has received full funding for the current biennium. Extended negotiation of a new contract resulted in delay of the agency's ability to replace the equipment.				
Improve Medicaid Reimbursements		1,730,000	1,730,000	-
DSHS will hire an employee to bill Medicaid for laboratory kits for children enrolled in Medicaid. This will increase federal funding and reduce state funding needed to provide services.				
County Indigent - Updated Estimate of County Demand	2,500,000	2,500,000	5,000,000	-
DSHS projects that some counties will spend less than 8 percent of their general tax levy on the indigent health care programs, which is the threshold that qualifies the counties for state assistance.				
Immunizations	8,000,000	4,000,000	12,000,000	-
Texas received additional federal stimulus funds for immunizations. General revenue for these services will be needed in the 2012-13 biennium after the stimulus funding ends. This item would require DSHS to submit a modified grant proposal and seek CDC approval.				
Kidney Health Care Rebates	4,500,000	650,000	5,150,000	-
Most of this funding represents one-time settlements on vendor drug rebates. DSHS anticipates that in 2012-13 biennium program funding needs will increase due to increases in prices and drug costs.				

Item	General Revenue			Federal Funds		
	FY 2010	FY 2011	Biennial	FY 2010	FY 2011	Biennial
Indigent Health Care- UTMB This reduction assumes that UTMB will not serve as many indigent individuals as a result of Hurricane Ike. Restoration of facilities and services are underway.	6,500,000	800,000	7,300,000	-	-	-
Diabetes Prevention Pilot Reduces funds for the UTMB/Stark Diabetes Center. Total of \$3 million was appropriated each year for the diabetes center. The reduction will be implemented during the start-up of the project.		200,000	200,000	-	-	-
Site visits to Texas Vaccine for Children Providers Reduces contract with Texas Medical Foundation for site visits to Texas Vaccine for Children Providers. DSHS will mitigate the impact by concentrating on visiting new providers or those providers with performance issues.		300,000	300,000	-	-	-
WIC Rebates WIC rebates are funds collected from formula and cereal manufacturers. Any reductions in this strategy must comply with federal requirements governing the program. Federal law requires the expenditure of WIC rebates before the drawdown of federal funds.	15,359,200	15,514,541	30,873,741	-	-	-
Funds Appropriated Above Estimated Collections DSHS projects that actual collections for several general revenue-dedicated accounts will be lower than the amount appropriated to the agency. These accounts include Vital Statistics, Bureau of Emergency Management, Oyster Sales and Perpetual accounts.	692,080	881,431	1,573,511	-	-	-
FQHC Incubator Grants Eliminates general revenue funding for expansion of existing and development of new Federally Qualified Health Clinics. The Federal American Recovery and Reinvestment Act provided significant funding to existing FQHCs for construction, expansion and workforce.	2,000,000	5,000,000	7,000,000	-	-	-
Hospital Indigent Health Care Reimbursement - Trauma Funds Reduces trauma funds available for allocation to trauma centers. This amount represents a 10 percent of the funds available to allocate to hospitals for indigent care.	5,000,000	5,000,000	10,000,000	-	-	-
Contract Monitoring and Technical Assistance Reduces funds for temporary staff to assist with contract monitoring and review. Reduction in methadone education media campaign. Eliminates training for Microsoft Assist to providers.	376,476	219,157	595,633	-	55,000	55,000
Regional Health Services Reduces funding for DSHS regional offices. In some cases, these offices also serve as local health departments by working on immunization capacity, tuberculosis control and the investigation of certain diseases. This could affect the state's ability to meet the higher match requirement for CDC preparedness funding. The match requirement increases from 5 percent in FY09 to 10 percent in FY10.		1,790,486	1,790,486	-	-	-

Item	General Revenue			Federal Funds		
	FY 2010	FY 2011	Biennial	FY 2010	FY 2011	Biennial
Delay Implementation of New Regulatory Functions Implementation of the new regulatory functions related to laser hair removal and dyslexia will be delayed until FY2011. Revenues for these functions will also be delayed until 2011.	1,406,537	43,463	1,450,000	-	-	-
Children with Special Health Care Needs Reductions in funding will mean that the agency is not able to remove approximately 285 clients from the waiting list in FY 2011.	-	3,500,000	3,500,000	-	-	-
Hospital Administrative Costs Reduces administrative and support staff and operating costs at state hospitals, such as grounds keeping, administrative and data support services.	100,000	1,100,000	1,200,000	-	-	-
Environmental Health Delays filling vacancies and hiring of additional staff authorized during the 81st Texas Legislature to improve inspections which protect the public's health. Workload in most regulatory programs has continued to increase, therefore delay in implementation of the new compliance FTEs will result in inspection intervals and complaint turnaround remaining at current extended timeframes and possibly increasing.		930,000	930,000	-	-	-
Central Office Administration Reduction Including Contracted Services and Web Support Reduces funding for vehicle maintenance, fuel costs, building security and other contracted services. Also reduces available funds for temporary staffing in vital records. This option also relies on gaining additional efficiencies at the central office in licensing, collecting and analysis of health care information, specimen processing, development of rules and vital records.	367,227	1,195,871	1,563,098	-	-	-
Regulation of Health Care Professionals Delays hiring of additional staff authorized during the 81st Texas Legislature to improve compliance with state regulations which protect the public's health. Workload in most regulatory programs has continued to increase, therefore delay in implementation of the new compliance FTEs will result in inspection intervals and complaint turnaround remaining at current extended timeframes and possibly increasing.		500,000	500,000	-	-	-
Radiation Control Delays hiring of additional staff authorized during the 81st Texas Legislature to improve compliance with regulations which protect the public's health. Workload in most regulatory programs has continued to increase, therefore delay in implementation of the new compliance FTEs will result in inspection intervals and complaint turnaround remaining at current extended timeframes and possibly increasing.		480,000	480,000	-	-	-

Item	General Revenue			Federal Funds		
	FY 2010	FY 2011	Biennial	FY 2010	FY 2011	Biennial
Food and Drug Regulation		455,000	455,000	-	-	
Delays hiring of additional staff authorized during the 81st Texas Legislature to improve compliance with regulations which protect the public's health. Workload in most regulatory programs has continued to increase, therefore delay in implementation of the new compliance FTEs will result in inspection intervals and complaint turnaround remaining at current extended timeframes and possibly increasing.						
MH Hospital Capacity at Rusk, North Texas, San Antonio and Terrell Hospitals	4,000,000	23,000,000	27,000,000	-	-	
Eliminates 50 beds in each of these hospitals. This will result in the 207 fewer patients served in Fiscal Year 2010 and 1,240 in Fiscal Year 2011. In addition, hospital staff would be decreased by 270 FTEs in Fiscal Year 2010 and 360 in Fiscal Year 2011.						
Total	\$59,885,797	\$72,361,667	\$132,247,464	\$0	\$55,000	\$55,000

Department of Aging and Disability Services

Reduction Options Included in 5% (Excludes Rate Reductions)

Item	General Revenue			Federal Funds		
	FY 2010	FY 2011	Biennial	FY 2010	FY 2011	Biennial
Temporary Hiring Freeze Salary savings are derived from actual vacancies and savings from filling positions at lower salaries than the position was budgeted for during the first four months of FY 2010. Also includes anticipated savings from a temporary hiring freeze on certain positions implemented January 20, 2010. There are no reductions to salaries in the State Supported Living Centers.	789,245	5,595,383	6,384,628	1,107,974	7,854,710	8,962,684
Reduced Travel DADS will closely manage travel to meet required needs.	834,209	421,352	1,255,561	939,131	474,417	1,413,548
Reduce Overhead DADS will closely manage overhead to meet essential needs.	821,610	543,304	1,364,914	1,358,918	839,197	2,198,115
Personal Care Service - Hours Management DADS is working to ensure greater consistency in the authorization of Personal Assistance Service hours (Primary Home Care, Community Attendant Services, and Community Based Alternatives) for a given condition/situation. Currently, there are wide regional variations in the average hours of service authorized per individual. The focus of this option is on ensuring consistency.	998,035	4,998,368	5,996,403	2,404,742	8,756,085	11,160,827
Utilization Review of Home and Community-Based Services (HCS) DADS will expand its utilization review efforts in HCS to focus on service areas where limited utilization review currently occurs. This option is in response to the State Auditors recommendation that DADS review plans of care that exceed service level thresholds established in HCS guidelines.	-	2,000,000	2,000,000	-	3,503,577	3,503,577
Total	\$3,443,099	\$13,558,407	\$17,001,506	\$5,810,765	\$21,427,986	\$27,238,751

Health and Human Services Commission

Reduction Options Included in 5% (Excludes Rate Reductions)

Item	General Revenue			Federal Funds	
	FY 2010	FY 2011	Biennial	FY 2010	FY 2011
Savings in Capital Projects	46,831	2,957	49,788	28,623	28,623
Most of the savings would be achieved by reducing contractor hours. Capital projects affected include those supporting medical transportation, accessibility and removable data encryption.					
Reduce GR for Refugee Assistance	266,070	266,070	532,140	-	-
The refugee program has state funding set aside in case the state must repay the federal government for refugee clients later found to be ineligible for services provided with federal funds. In recent years, the state has had minimal utilization of this funding. Federal funds supporting the program were excluded from reductions. In the event that an ineligible refugee receives services, general revenue would have to be redirected from elsewhere in the agency.					
Savings in Other Program Administration	2,600,270	1,666,687	4,266,957	2,690,033	1,758,257
Savings are anticipated from reducing travel, cutting back on trainings or seminars for staff, and canceling subscriptions and reference materials. There also would be savings from additional efforts to reduce the costs of utilities and consumables.					
Actual and Anticipated Salary Savings	1,912,168	420,865	2,333,034	2,184,865	498,260
Salary savings are derived from actual vacancies and savings from filling positions at lower salaries than the position was budgeted for during the first four months of FY 2010. Also includes anticipated savings from a temporary hiring freeze on certain positions implemented January 20, 2010.					
Savings in Contracts and Grants	7,950,605	7,187,437	15,138,042	3,512,839	4,362,627
The items captures savings where contracts, rates and payments came in lower than expected, or the contract start date was later than expected. Contracts for studies, evaluations, and certain pilots associated with the Frew settlement account for \$12.7 million of the GR savings. Other contracted functions affected by this option include enhanced criminal history background checks for Medicaid providers, document imaging, and business continuity functions in the event of disasters.					
Delay Implementation of Medicaid Buy-In for Children	-	10,291,791	10,291,791	-	11,740,643
HHSC received funding to implement a new program that would allow families to buy into Medicaid coverage to cover the critical health needs of their children. The program implementation has been experiencing delays and will not meet the original start date of September 1, 2010 as agency staff is still working out the program details with the federal government and there are extensive technology implications. The program will be implemented as soon as technically feasible but no later than January 1, 2011, subject to federal approval.					
Total	\$12,775,944	\$19,835,808	\$32,611,751	\$8,416,360	\$18,359,787
					\$26,776,147

Provider Rate Reduction Options

Agency	Item	General Revenue		Federal Funds	
		FY 2010	FY2011	FY 2010	FY2011
	One percent provider rate reduction		49,748,546		89,305,008
	One-percent provider rate reduction for all HHS programs except Medicaid community care, Foster Care, and Adoption Subsidies. Effective September 1, 2010.				89,305,008
HHSC	Acute Care Medical Services, Dental Services, Vender Drug Dispensing Fees - includes both Medicaid and CHIP		37,361,851		67,840,612
DADS	Nursing Facilities, Hospice, ICF-MR		11,428,105		20,019,625
DARS	Medicaid Case Management and Developmental Rehab Services		224,966		394,291
DSHS	CSHCN, Institutes for Mental Disease, Maternal and Child Health, Family Planning, Targeted Case Management, and Rehab Services		733,624		1,050,480
	Additional one percent provider rate reduction for select programs		35,007,712		61,398,128
	Additional one-percent provider rate reduction for Medicaid long term care residential services and acute care adults (cumulative 2% reduction). Programs specific to children are excluded. Effective September 1, 2010.				
HHSC	Acute Care Medical Services for Adults		23,167,771		40,579,191
DADS	Nursing Facilities, Hospice, ICF-MR		11,428,105		20,019,625
DSHS	Institutes for Mental Disease, Family Planning, Targeted Case Management, and Rehab Services		411,836		799,312
	Additional Managed care rates		14,575,494		25,533,185
	Additional provider rate reduction for Medicaid managed care organizations at HHSC. Effective September 1, 2010.				
HHSC			14,575,494		25,533,185
	Total		\$99,331,752		\$176,236,321