TEXAS
Health and Human Services

# HHSC Revised 5 Percent Reduction Plan

## Executive Summary

On May 20, 2020, Governor Greg Abbott, Lieutenant Governor Dan Patrick, and Speaker Dennis Bonnen directed state agencies to submit a plan identifying savings that will reduce General Revenue and General Revenue Related appropriations by 5 percent for the 2020-21 Biennium. The 5 percent reduction target given to the Health and Human Services Commission (HHSC) by the Legislative Budget Board totaled $132,716,696 in General Revenue and General Revenue-Dedicated Funds.

With the close of fiscal year 2020, the agency has more financial certainty and has revised its initial proposal, originally submitted June 15, 2020. Updates to the plan eliminate all previously proposed reductions to client services and maximize projected lapsed funds (Table 1.1). In addition, Table 2 has been provided cross-walking the differences between the original reduction plan, and the revised plan outlined below.

HHSC's initial Budget Reduction Plan detailed how the agency proposed to achieve savings for the current biennium. Agency programs and operations were carefully evaluated to achieve the targeted reduction when developing the initial plan to ensure the smallest impact to client services and essential response activities related to COVID-19. The initial proposal included approximately $15.2 million in General Revenue reductions to client services.

Since submitting its plan in June, the agency has continued to assess potential impacts of the reductions. At the same time, alternative savings opportunities to offset reductions to client services were evaluated and feedback was received from numerous legislative members and stakeholders.

**Table 1.1 Proposed savings across major functions**[1]

| Function | General Revenue Impact | All Funds Impact | Estimated FTE[2] Impact |
|---|---|---|---|
| **Client Services Provided to Texans** | - | - | - |
| **Program Administration Directly Supporting Client Services** | $15,135,910 | $31,090,084 | 33.2 |
| **Eligibility Determination and Enrollment for Individuals Seeking Access to Services** | $17,547,387 | $48,377,615 | - |
| **Regulatory Oversight of Healthcare Professionals and Individuals** | $5,029,526 | $9,717,592 | 98.0 |
| **Other Administration Supporting Agency Operations** | $16,663,798 | $42,495,981 | 42.6 |
| ***Subtotal*** | ***$54,376,621*** | ***$131,681,272*** | ***173.8*** |
| **2020-21 Projected Lapse** | $76,473,384 | $76,473,384 | - |
| **Total** | **$130,850,005**[3] | **$208,154,656** | **173.8** |

[1] Amounts included in the table are not final and might vary as the agency identifies and pursues additional savings opportunities through the remainder of the 2020-21 biennium.

[2] A full-time equivalent (FTE) is a ratio that represents the number of hours that an employee works compared to 40 hours per week. Full-time employment is generally considered to be 40 hours per week. An FTE is any combination of workers that together work 40 hours per week and does not necessarily equate to headcount.

[3] Reduction amounts represents the HHSC portion and does not include reduction amounts attributable to the Texas Civil Commitment Office (TCCO).

## Revised 5 Percent Reduction

HHSC's revised reductions will not reduce funding for direct client services. The revised plan includes $54,376,621 in General Revenue savings across program administration, eligibility determination and enrollment services, regulatory oversight, and other administration.

HHSC projects there will be sufficient additional lapsed funds in fiscal years 2020 and 2021 to achieve the remainder of the reduction target.

- It is important to note, the reduction in General Revenue to meet the reduction target will have an All Funds impact of $131,681,272.

Additionally, HHSC's original five percent reduction plan misattributed $15,461 of the General Revenue reduction target to the Texas Civil Commitment Office (TCCO). The revised 5 percent reduction target (Table 1.2) shows the correction to the portion of the General Revenue reduction target that is attributable to HHSC and TCCO. Additional information regarding the calculation of the 5 percent reduction target can be found in Methodology and Approach.

**Table 1.2 Revised 5 Percent Reduction Target**

| Agency | 5% Reduction Target Identified in Initial Plan | Correction | Revised 5% Reduction Target |
|---|---|---|---|
| **HHSC** | $130,834,544 | $15,461 | $130,850,005 |
| **TCCO** | $1,882,152 | ($15,461) | $1,866,691 |
| **Total** | **$132,716,696** | **-** | **$132,716,696** |

This document provides additional details for the plan to meet the five percent reduction target, including significant impacts.

It is important to note **this plan is not final** and will evolve over time as HHSC continues to assess the impacts of the reductions and identify lapses or alternative savings opportunities.

# Methodology and Approach

## Methodology to Determine 5 Percent Reduction Target

HHSC was appropriated $29,167,526,530 in General Revenue and General Revenue-Dedicated Funds for the 2020-21 Biennium. The policy letter associated with the requested 5% reduction includes nine categories of exclusions from the five percent reduction. HHSC is appropriated General Revenue and General Revenue-Dedicated Funds that fall into three of the nine categories:

1. Funding for debt service requirements and bond authorizations ($8,608,609);
2. Benefits and eligibility levels in Medicaid programs, the Children's Health Insurance Program (CHIP), the foster care program, the adoption subsidies program, the permanency care assistance program, and services for individuals with intellectual or developmental disabilities ($24,112,592,704); and
3. Funding for behavioral health services programs ($2,376,376,528).

In addition, the Compensation to Victims of Crime Account No. 0469 is not used for certification and is considered exempt for the purposes of calculating the five percent reduction target ($15,344,766).

After accounting for the exemptions above, $2,654,333,923 in General Revenue and General Revenue-Dedicated Funds remain subject to the 5 percent reduction.

The total reduction target is $132,716,696 in General Revenue and General Revenue-Dedicated Funds.

- The General Revenue and General Revenue-Dedicated reduction target includes TCCO, which is a separate agency administratively attached to HHSC.
- TCCO was appropriated $37,643,046 in General Revenue Funds for the 2020-21 Biennium, including $309,222 in behavioral health services programs which are excluded from the five percent reduction; the associated reduction target is $1,866,691.

The remaining reduction target attributable to HHSC is $130,850,005.

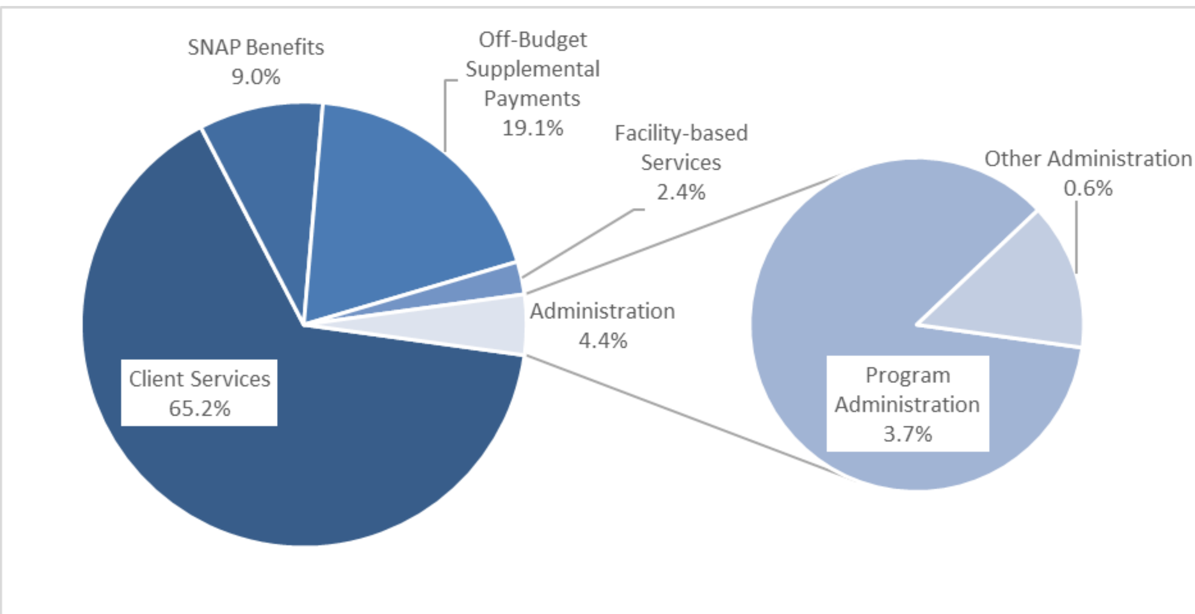
## Approach to Identifying Reductions and Summary of Changes

HHSC's most basic funding priority is preservation of funds for direct client services over funds for administration of those services. While administrative costs are required to support the delivery of services, preventing or minimizing negative impacts to Texans is paramount to the agency when implementing any budget reductions.

The economic ramifications of COVID-19 have created an unprecedented financial challenge to the state. To achieve the targets and goals outlined above, HHSC will implement reductions predominantly focused on administrative funding and will maximize the use of lapsed funds.

HHSC's current funding associated to client services and administrative supports provides context for the reductions (Figure 1).

**Figure 1. Health and Human Services Commission All Funds Appropriations – Client Services, Facility-based Services, Administration, Funds Outside of 2020-21 General Appropriations Act Breakout (2020-21 Biennium)**



## Table 2 Summary of Changes

| | Function | Current Proposed Reductions (June $15^{th}$) | (1) Adjustment to Amount of Reduction Target Attributable to TCCO | *Subtotal, Revised Reduction Target* | (2) Additional Projected Fiscal Year 2020 Lapse | (3) Reductions Eliminating Impacts to Client Services | Total Revised General Revenue Reduction |
|---|---|---|---|---|---|---|---|
| **Fiscal Year 2020** | **Client Services** | - | - | - | - | - | - |
| | **Eligibility Operations and Enrollment** | - | - | - | - | - | - |
| | **Program Administration** | - | - | - | - | - | - |
| | **Regulatory Oversight** | - | - | - | - | - | - |
| | **Other Administration** | - | - | - | - | - | - |
| | **Projected Lapse** | 58,639,611 | 7,730 | 58,647,341 | 6,777,662 | - | 65,425,003 |
| | **Total** | **58,639,611** | **7,730** | **58,647,341** | **6,777,662** | **-** | **65,425,003** |
| **Fiscal Year 2021** | **Client Services** | 15,194,052 | - | *15,194,052* | (3,877,662) | (11,316,390) | - |
| | **Eligibility Operations and Enrollment** | 17,271,647 | - | *17,271,647* | - | 275,740 | 17,547,387 |
| | **Program Administration** | 18,035,910 | - | *18,035,910* | (2,900,000) | | 15,135,910 |
| | **Regulatory Oversight** | 5,029,526 | - | *5,029,526* | - | - | 5,029,526 |
| | **Other Administration** | 16,663,799 | | *16,663,799* | - | - | 16,663,799 |
| | **Projected Lapse** | - | 7,731 | 7,731 | - | 11,040,650 | 11,048,381 |
| | **Total** | **72,194,934** | **7,731** | **72,202,665** | **(6,777,662)** | **-** | **65,425,003** |
| **Total (2020-21 Biennium)** | **Client Services** | 15,194,052 | - | *15,194,052* | (3,877,662) | (11,316,390) | - |
| | **Eligibility Operations and Enrollment** | 17,271,647 | - | *17,271,647* | - | 275,740 | 17,547,387 |
| | **Program Administration** | 18,035,910 | - | *18,035,910* | (2,900,000) | - | 15,135,910 |
| | **Regulatory Oversight** | 5,029,526 | - | *5,029,526* | - | - | 5,029,526 |
| | **Other Administration** | 16,663,799 | - | *16,663,799* | - | - | 16,663,799 |
| | **Projected Lapse** | 58,639,611 | 15,461 | 58,655,072 | 6,777,662 | 11,040,650 | 76,473,384 |
| | **Total** | **130,834,545** | **15,461** | **130,850,006** | **-** | **-** | **130,850,006** |

**Table 3. Health and Human Services Commission All Funds Appropriations – Client Services, Facility-based Services, Administration Breakout (2020-21 Biennium4)**

| (millions) | AY 20 | AY 21 | Total | Percentage of Appropriated Funds | Percentage of Estimated Total Available Funds | Percentage of non-Lapse Reduction |
|---|---|---|---|---|---|---|
| **Client Services** | 34,177.5 | 35,046.7 | 69,224.2 | 90.6% | 65.2% | 0.0% |
| **Facility-based Services** | 1,364.7 | 1,164.3 | 2,529.0 | 3.3% | 2.4% | 0.0% |
| **Administration** | 2,311.9 | 2,328.4 | 4,640.3 | 6.1% | 4.4% | 100.0% |
| ***Direct Administration*** | *1,973.3* | *2,006.3* | *3,979.6* | *5.2%* | *3.7%* | *69.4%* |
| ***Other Administration*** | *338.7* | *322.1* | *660.7* | *0.9%* | *0.6%* | *30.6%* |
| **Total Appropriated Funds** | **37,854.1** | **38,539,4** | **76,393.5** | **100.0%** | **71.9%** | **100.0%** |
| **SNAP Benefits** | 4,794.9 | 4,794.9 | 9,589.7 | N/A | 9.0% | 0.0% |
| **Off-Budget Supplemental Payments** | 10,118.7 | 10,118.7 | 20,237.3 | N/A | 19.1% | 0.0% |
| **Total Funds Outside GAA** | **14,913.5** | **14,913.5** | **29,827.0** | **N/A** | **28.1%** | **0.0%** |
| **Grand Total** | **52,767.6** | **53,452.9** | **106,220.5** | **100.0%** | **100.0%** | **100.0%** |

[4] Table 3 does not include Interagency Contract funds in Goal K, Office of Inspector General ($11.3 million), and Goal L, System Oversight and Program Support ($328.7 million). The Program Administration category includes Access and Eligibility Services and Regulatory Oversight. SNAP benefits and Off-Budget Supplemental Payments are shown using fiscal year 2019 estimates.

# Impact Details

This section provides additional details on significant impacts of proposed reductions across major agency functions. As noted, this plan is not final and will evolve over time as HHSC continues to assess the impacts of the reductions and identify lapses or alternative savings opportunities.

## Program Administration

HHSC's five percent reduction plan includes $15.1 million in General Revenue ($31.1 million in All Funds) in reductions to program administration duties that directly supports client services.

Reductions to program administration will primarily impact contracted services for Medicaid administration and system support. Major contracts affected by these reductions include the enrollment broker, claims administrator, and external quality review.

Potential reduction impact:

- delay support for clients and providers;
- decrease contract oversight effectiveness;
- limit capacity to assess quality or program effectiveness; and
- reduce scope or extend implementation of legislatively directed changes, projects, and reports.

Savings for Program Administration Directly Supporting Client Services assumes reduced or delayed hiring impacting approximately 33.2 full-time equivalents (FTEs) and includes savings related to reduced travel and other operating expenses.

The agency expects that FTE reductions will vary as the agency identifies and pursues additional savings opportunities through the remainder of the 2020-21 Biennium.

HHSC will work to identify additional savings strategies and opportunities to further mitigate impacts to FTEs that directly support client services.

## Eligibility Determination and Enrollment

HHSC's five percent reduction plan includes $17.5 million in General Revenue ($48.4 million in All Funds) in proposed reductions to eligibility determination and enrollment functions for individuals seeking access to services.

Reductions consist of both reductions to major contracts and reduced or delayed hiring of vacant positions and are focused on efficiency, yielding the greatest amount of savings with the least direct impact to eligibility, enrollment, and access to services.

The following criteria was used to assess areas for reductions:

- Access and eligibility reductions consist primarily of decreased salary costs and contracted administrative services; and
- Decreased salary costs will be achieved through staff attrition and postponing hiring for staff vacancies.

Reductions to salary costs will impact eligibility operations.

Potential reduction impact:

- decrease in eligibility determination timeframes;
- increase the agency's risk of not meeting federally required eligibility determination target timeframes;
- impact contracted administrative service capacity of the Eligibility Support Services and Electronic Benefit Transfer contracts; and
- reduce the scope of Data Broker Services contract and contracted Document Processing Services.

Savings for Access and Eligibility Services (AES) assumes reduced or delayed hiring for approximately 741.6 Eligibility Operations positions.

- HHSC proposes to manage this reduction by delaying hiring of positions that are vacant or that become vacant and does not plan to reduce the total number of positions for AES.
- As the reduction for AES is achieved or if other savings are identified, AES will fill positions at a rate that would not decrease General Revenue savings below the target.

The agency expects that impacts will vary as additional savings opportunities are identified and pursued throughout the remainder of the 2020-21 Biennium.

HHSC will work to identify additional savings strategies and seize opportunities to further mitigate impacts to eligibility operations.

## Regulatory Oversight

HHSC's five percent reduction plan includes $5.0 million in General Revenue and General Revenue-Dedicated Funds ($9.7 million in All Funds) in proposed reductions to regulatory oversight functions, impacting 98.0 FTEs.

Reductions to Regulatory Oversight are focused on the lowest direct impacts to the health and safety of individuals receiving services in regulated facilities, including children in residential care settings, nursing facilities, and other long-term care facilities, as well as regulated hospitals and other acute health care facilities. HHSC used the following criteria when assessing which areas to target for reductions:

- Non-mission critical administrative expenditures and travel expenditures were prioritized over staffing reductions or travel expenditures that limit capacity for facility surveys, inspections, and investigations; and
- Regulatory Oversight reductions consist primarily of non-mission critical administrative expenditures and reductions in salary costs to be managed through attrition.

Reductions to salary costs and critical travel may negatively impact the health and safety of individuals served by:

- Impacting ability to conduct investigations timely and increasing the number of backlogged investigations;
- Decreasing estimated yearly visits (including surveys, investigations, and follow-up visits to facilities); and
- Increasing average daily workloads for daycare monitoring staff.

Savings for Regulatory Oversight assume reduced or delayed hiring impacting approximately 98.0 FTEs. The agency expects that FTE reductions will vary as the agency identifies and pursues additional savings opportunities through the remainder of the 2020-21 Biennium. HHSC will work to identify additional savings strategies and seize opportunities to further mitigate impacts to Regulatory Oversight FTEs.

## Other Administration

The HHSC five percent reduction plan includes $16.7 million in General Revenue and General Revenue-Dedicated Funds ($42.5 million in All Funds) in proposed reductions to Other Administration functions that support agency operations.

Reductions to Other Administration prioritizes non-mission essential administrative expenditures, contracted administrative services, certain travel expenditures, and delay or deferral of capital projects.

- Additional savings were identified related to reduced staffing costs to be managed through attrition: not filling currently vacant positions or hiring at reduced salary levels.
- Other Administration reductions consist of deferment or reduction of capital projects and reductions to non-mission critical administrative expenditures and contracted administrative services.

While HHSC identified some reductions to Other Administration with minimal impacts, full implementation of the reductions identified for these functions will have significant impacts:

- increased response times and decreased monitoring of state facility issues,
- delays or reductions to important Information Technology capital projects,
- reduced staff training and supplies,
- reduced Human Resources recruitment and hiring support; and
- significant impacts to staffing levels for Procurement and Contracting Services.

These administrative areas provide support across the agency as well as to the Department of State Health Services and the Department of Family and Protective Services. Reductions will likely cause increases in overtime costs and costs for temporary employees, increased turnover, and significant decreases in productivity.

- Reductions to contracted administrative services with the proposed reduction includes $0.4 million in General Revenue Funds ($1.0 million in All Funds) for reduced or delayed hiring for PCS, impacting approximately 12.7 FTEs.
- Reductions to PCS may result in increased overtime costs, a need for temporary employees, and increased turnover of current employees.

The proposed reduction to Other Administration also includes $10.2 million in General Revenue and General Revenue-Dedicated Funds ($23.7 million in All Funds) for IT services.

Of the proposed reductions, $7.9 million in General Revenue savings is a result of delayed or deferred capital or other IT projects, including:

- $2.7 million for Data Center Consolidation (including delayed implementation of a Multi-Factor Virtual Private Network (VPN) solution to mitigate cyber security risks when accessing the HHSC environment through a VPN);
- $3.5 million in projected capital lapse and other reductions as a result of a modified project scope and approach related to the Office for Civil Rights Corrective Action Plan Response capital project; and
- $1.3 million in reductions for the Texas Integrated Eligibility Redesign System (TIERS).

Savings for Other Administration assume reduced or delayed hiring impacting a total of approximately 42.6 FTEs.

The agency expects that FTE reductions will vary as the agency identifies and pursues additional savings opportunities through the remainder of the 2020-21 biennium.

HHSC will work to identify additional savings strategies and seize opportunities to further mitigate impacts to Other Administration FTEs.

# Appendix A. Acronym List

| Acronym | Full Name |
|---|---|
| CHIP | Children’s Health Insurance Program |
| FTE | Full-Time Equivalent |
| HHSC | Health and Human Services Commission |
| TCCO | Texas Civil Commitment Office |
| TIERS | Texas Integrated Eligibility Redesign System |
| VPN | Virtual Private Network |