June 15, 2020

Ms. Sarah Hicks
Budget & Policy Director
Office of the Governor
1100 San Jacinto, 4th Floor
Austin, Texas 78701

Mr. Jerry McGinty
Director
Legislative Budget Board
1501 N. Congress Ave., 5th Floor
Austin, Texas 78701

Re: Five Percent Biennial Budget Reduction Plans

Dear Ms. Hicks and Mr. McGinty:

As directed by Governor Abbott, Lieutenant Governor Patrick, and Speaker Bonnen in their May 20, 2020 letter, the Texas Health and Human Services Commission (HHSC) submits the attached five percent reduction plan and summary of its impact to agency operations and the delivery of health and human services across the state.

Total savings achieved by HHSC total $132,716,696 General Revenue with an estimated impact of reduced or delayed hiring of 915.4 FTEs. Agency programs and operations were carefully evaluated during this exercise to achieve the targeted reduction, while ensuring the least impact possible to both client services and essential response activities related to COVID-19. 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.

HHSC is fully aware of the detrimental impact that the ongoing COVID-19 pandemic is having on the Texas economy and the dire budget climate the state faces. We appreciate the opportunity to submit the attached information for your consideration and look forward to working with you and the Legislature during the upcoming legislative session.

Please let me know if you have questions or need additional information. Mr. Trey Wood, Chief Financial Officer, serves as the lead staff on this matter and he can be reached by telephone at (512) 707-6080 or by email at Trey.Wood@hhsc.state.tx.us.

Sincerely,

[Signature on file]

Phil Wilson
Executive Commissioner

Enclosure

TEXAS
Health and Human Services

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Executive Commissioner

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 Health and Human Services Commission's (HHSC's) 5 percent reduction target is $132,716,696 in General Revenue and General Revenue-Dedicated Funds. Additional information regarding the calculation of the 5 percent reduction target can be found in Section 2 – Methodology.

Table 1. Proposed savings across major functions[1]

Function	General Revenue Impact	All Funds Impact	Estimated FTE Impact
Client Services Provided to Texans	$15,194,052	$17,192,291	
Program Administration Directly Supporting Client Services	$18,035,916	$33,990,084	33.2
Eligibility Determination and Enrollment for Individuals Seeking Access to Services	$17,271,647	$47,626,069	741.6
Regulatory Oversight of Healthcare Professionals and Individuals	$5,029,534	$9,717,592	98.0
Other Administration Supporting Agency Operations	$16,663,807	$42,495,981	42.6
Subtotal	***$72,194,956***	***$151,022,016***	**915.4**
Projected FY 2020 General Revenue Lapse	$58,639,588	$58,639,588	
Total	**$130,834,544[2]**	**$209,661,604**	**915.4**

[1] Amounts included in the table are not final and may 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 to further mitigate impacts to client services.

[2] Reduction amount represents the HHSC portion and does not include reduction amounts attributable to the Texas Civil Commitment Office.

HHSC identified $72,194,956 in General Revenue savings across client services, program administration, program eligibility determination and enrollment services, regulatory oversight, and other administration. HHSC projects that there will be sufficient additional lapsed funds in Fiscal Years 2020 and 2021 to achieve the remainder of the reduction target.

This document provides additional details for the plan to meet the 5 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 included nine categories of exclusions from the 5 percent reduction. HHSC is appropriated General Revenue and General Revenue-Dedicated Funds that fall into three of those 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 ($24,112,862,704); and
3) Funding for behavioral health services programs ($2,376,376,528).

In addition, the Compensation to Victims of Crime Account No. 0449 is not used for certification and is considered exempt for the purposes of calculating the 5 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 the Texas Civil Commitment Office, which is a separate agency administratively attached to HHSC. TCCO was appropriated $37,643,046 in General Revenue Funds for the 2020-21 biennium and the associated reduction target is $1,882,152. The remaining reduction target attributable to HHSC is $130,834,544.

Approach to Identifying Reductions

HHSC's most basic funding priority is to preserve amounts associated directly to client services over amounts associated to the administration of those services. While administrative costs are required to support the delivery of services, the mitigation of impacts to Texans is paramount to the agency. Reductions to client services are typically implemented when further reductions to administrative funding will impact or significantly impede the faithful delivery of services. When client service funding must be reduced the agency assesses the demand for the service and its impact on the healthcare of Texans.

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. However, because the efficiency Texas has achieved in terms of service delivery, solely administrative reductions would impede the agency's ability to deliver services.

The agency has identified potential savings that will have the smallest possible impact on client services. Additionally, HHSC will continue to work to identify potential lapsed funding to be used to further mitigate impacts to client services.

An illustration of HHSCs current funding associated to client services and administrative supports (Figure 1) provides context for the current reductions.

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

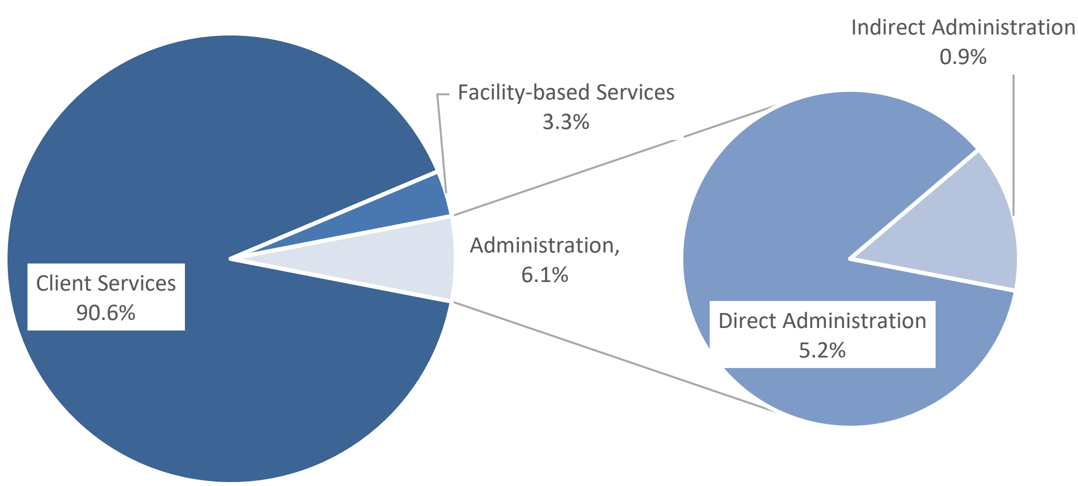

Table 2. Health and Human Services Commission All Funds Appropriations – Client Services, Facility-based Services, Administration Breakout (2020-21 Biennium[3])

(millions)	AY20	AY21	Grand Total	Percentage of Appropriations	Percentage of Reduction
Client Services	**34,177.5**	**35,046.7**	**69,224.2**	**90.6%**	**21.0%**
Facility-based Services	**1,364.7**	**1,164.3**	**2,529.0**	**3.3%**	**0.0%**
Administration	**2,311.9**	**2,328.4**	**4,640.3**	**6.1%**	**79.0%**
Program Administration	*1,973.3*	*2,006.3*	*3,979.6*	*5.2%*	*56.3%*
Other Administration	*338.7*	*322.1*	*660.7*	*0.9%*	*23.1%*
Total 2020-21 Appropriated	**37,854.1**	**38,539.4**	**76,393.5**	**100.0%**	**100.0%**

[3] Table 2 does not include Interagency Contract funds in Goal K, Office of Inspector General, and Goal L, System Oversight and Program Support. The Program Administration category includes Access and Eligibility Services and Regulatory Oversight.

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Impact Details

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

Client Services and Program Administration

Through its analysis, HHSC focused reductions on the lowest direct service impact to clients that benefit long-term health care for families and children with disabilities. This function consists primarily of reductions to client services, grant funding, and contracted administrative services. Examples of reductions include decreased services, funding in excess of client service expenses, and phasing out of funding. HHSC used the following criteria when assessing which areas to target for reductions:

- Services directly impacting short-term mortality were prioritized over long-team health benefits; and
- Services with limited impact on the direct health and well-being of Texans were prioritized last.

Reductions to Client Services will impact the following programs:

- Child Advocacy Programs
- Comprehensive Rehabilitation Services
- Early Childhood Intervention (ECI) Respite
- Epilepsy
- Family Violence
- Hemophilia Assistance Program (HAP)
- Indigent Health Care Reimbursement
- Local intellectual and developmental disability authorities (LIDDAs)
- Mobile Stroke Unit
- Umbilical Cord Bank Funding
- Women’s Health

Reductions to Client Services will result in decreased services associated to Child Advocacy Programs, Epilepsy, Family Violence, LIDDAs, and Women's Health. Reductions associated to funding in excess of client service expense primarily impact Comprehensive Rehabilitation Services. In addition, these reductions will phase-out funding for ECI Respite Service, Indigent Healthcare Reimbursement, HAP, Mobile Stroke Unit, and Umbilical Cord Blood Bank.

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. These reductions may potentially 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 assume reduced or delayed hiring impacting approximately 33.2 full-time equivalent (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 FTEs that directly support client services.

Eligibility Determination and Enrollment

Reductions to Access and Eligibility Services (AES) are focused on efficiency, yielding the greatest amount of saving with the least direct impact to eligibility, enrollment, and access to services. HHSC used the following criteria when assessing which areas to target for reductions:

- Access and eligibility reductions consist primarily of decreased salary costs and contracted administrative services; and
- Decreased salary costs will be achieved by not filling positions or delaying the filling of positions once they become vacant.

Reductions to salary costs will impact eligibility operations. These reductions could potentially decrease eligibility determination timeframes, increasing the agency's risk of not meeting federally required eligibility determination target timeframes.

Reductions to contracted administrative services will impact the service capacity of the Eligibility Support Services (ESS) and Electronic Benefit Transfer (EBT) contracts. These reductions will also reduce the scope of Data Broker Services contract.

HHSC anticipates significant FTE impacts related to reductions in AES. Savings for AES assume reduced or delayed hiring for approximately 741.6 Eligibility Operations 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 Eligibility Operations FTEs.

Regulatory Oversight

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 will negatively impact the health and safety of individuals served by:

- Increasing backlogs of complaint investigations;
- Delaying timely investigations of allegations of abuse, neglect, or exploitation;
- Reducing technical support for program applications and creating delays in the processing of enforcement actions and applications;
- Reducing the number of criminal history checks conducted on childcare providers; and

- Limiting capacity for proactive investigations to identify illegal and unregulated childcare operations.

Staff reductions will impact proactive investigations of unregulated childcare providers. The 2020-21 General Appropriations Act, House Bill 1, 86th Legislature, Regular Session, 2019 (Article II, HHSC, Rider 168, Illegal Child Care Operations Investigation Unit), provided for additional funding and FTEs to establish and operate a unit to proactively investigate illegal child care operations. The rider requires the unit to maintain 17 inspectors. Reductions would reduce the number of proactive searches aimed at identifying unregulated operations and reduce the ability of staff to conduct community engagement and education.

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

Reductions to Other Administration prioritizes non-mission essential administrative expenditures, contracted administrative services, avoidable travel expenditures, and deferment of capital projects.

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

While HHSC was able to identify some reductions to Other Administration with minimal impacts, full implementation of the reductions identified for these functions will have significant impacts including 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 and reductions will likely cause increases in overtime costs and costs for temporary employees, increased turnover, and significant decreases in productivity.

Savings for Other Administration assume reduced or delayed hiring impacting 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.