

UTAH STATE OFFICE OF REHABILITATION – STRUCTURAL IMBALANCE

 SOCIAL SERVICES APPROPRIATIONS SUBCOMMITTEE
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ISSUE BRIEF

SUMMARY

A structural imbalance is when an agency's ongoing expenditures exceed ongoing revenues. The Utah State Office of Rehabilitation (USOR) has a structural imbalance in its Division of Rehabilitation Services (DRS) currently estimated to be \$7,821,600 (\$1,666,000 in state funds). The Division of Rehabilitation Services has been dealing with a structural imbalance since FY 2010. The DRS structural imbalance is primarily the result of: 1) 40 percent caseload growth from FY 2007 through FY 2013, 2) state and federal budget cuts during the same period, and 3) an internal decision by USOR to continue providing services to all who apply and are found eligible. Some other surrounding states established waiting lists (called Order of Selection) during this period to deal with budget reductions. USOR, instead, used a strategy of using one-time funding sources combined with reducing its overall expenditures per client in order to make its budget balance during this period. The one-time funding sources consisted of: 1) using accumulated reserve federal grant authority, 2) federal ARRA stimulus one-time funds, and 3) one-time federal re-allotment funds. All accumulated reserve federal grant authority and federal ARRA stimulus money have been exhausted. Reductions in state funding have eroded the ability for the agency to match federal reallocation dollars that may become available in August of 2014. Without additional state funding USOR believes it "will be unable to draw down federal reallocation dollars and will not be able to provide services to all eligible individuals." If DRS lacks sufficient funding to provide services to all who apply and are found eligible, "federal law would require the agency to initiate an Order of Selection which would create a waiting list for services. Because of the prescriptive way Federal regulations require Order of Selection be implemented, this waiting list is projected to be over 10,000 eligible individuals during the first year." The Fiscal Analyst has provided a range of options for the Legislature to consider.

LEGISLATIVE ACTION

The Utah State Office of Rehabilitation is requesting \$1,666,000 ongoing funds. These state dollars will enable USOR to draw down \$6,155,600 in federal reallocation funds. This would provide an ongoing solution to the current structural imbalance. In lieu of providing additional funding, the Legislature could consider establishing a waiting list as described in the following section, *Order of Selection as a Policy Option*. If the Legislature chooses to take no action, USOR will be required by federal law to establish an Order of Selection. The following cost estimates provide options for dealing with the structural imbalance:

1. No additional state funding – USOR can continue serving only its current caseload as well as the 'Most Significantly Disabled' category. All new 'Significantly Disabled' and 'Not Significantly Disabled' would be placed on an Order of Selection.
2. \$1.2 million – USOR could serve its current caseload as well as all the new 'Most Significantly Disabled' and 'Significantly Disabled' individuals.
3. \$1.8 million – No Order of Selection would be necessary. USOR could serve all current and estimated new clients (USOR is only requesting \$1,666,000 due to efforts internally to find savings).

OVERVIEW

A structural imbalance is when an agency's ongoing expenditure exceeds its ongoing revenue. The Utah State Office of Rehabilitation believes it has a structural imbalance of \$7,821,600 (USOR state fund budget request of \$1,666,000 divided by its state matching percentage of 21.3 percent = \$7,821,600).

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USOR describes its issue as follows:

Since Federal Fiscal Year 2008 USOR has experienced a 40.4 percent increase in the number of eligible individuals being served by the Vocational Rehabilitation program. In addition, USOR has experienced increased service costs in all direct client service areas, but particularly in two larger areas of direct services; vocational/college training tuition rates which have increased 30.1 percent over that same period of time, and medical costs for restorative services that have increased 32.5%. All categories of direct client service expenditures have increased by 60.9 percent since FFY 2008 due to the combination of inflation and increased demand.

USOR’s revenue from the State of Utah decreased from FY 2009 through FY 2013 by 7.0 percent. USOR has continued to serve all eligible citizens during this period through the combined use of one-time federal stimulus and reallocation funding. All additional federal one-time funding is now exhausted without any additional state funding to use as a required match.

There are two basic ways to deal with a structural imbalance: 1) reduce ongoing expenditures and/or 2) increase ongoing revenues. USOR has primarily dealt with its structural imbalance thus far by utilizing available one-time federal re-allotment funds and one-time federal stimulus funds (method 2). USOR is currently unable to access any additional federal re-allotment funds without additional state matching money. For FY 2015, USOR is requesting \$1,666,000 additional ongoing state funding. This additional state funding would be used by USOR to draw down federal re-allotment funding of \$6,155,600.

If USOR does not receive additional state funding, it will be required by federal law to initiate an Order of Selection (see section below). An Order of Selection establishes a waiting list by specified categories and could result, based upon USOR estimates, in placing 10,000 new applicants on that waiting list.

GENERAL FUND EXPENSES/APPROPRIATIONS, CUSTOMERS SERVED, AND COST PER CUSTOMER SERVED

The following data is provided by the Utah State Office of Rehabilitation to illustrate some of the components affecting its structural imbalance in *only* its Vocational Rehabilitation Program:

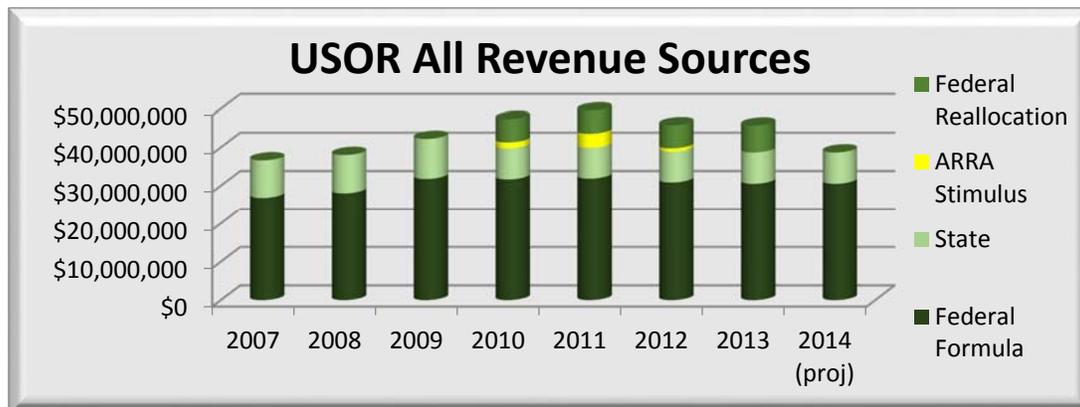


Figure 1



Figure 2

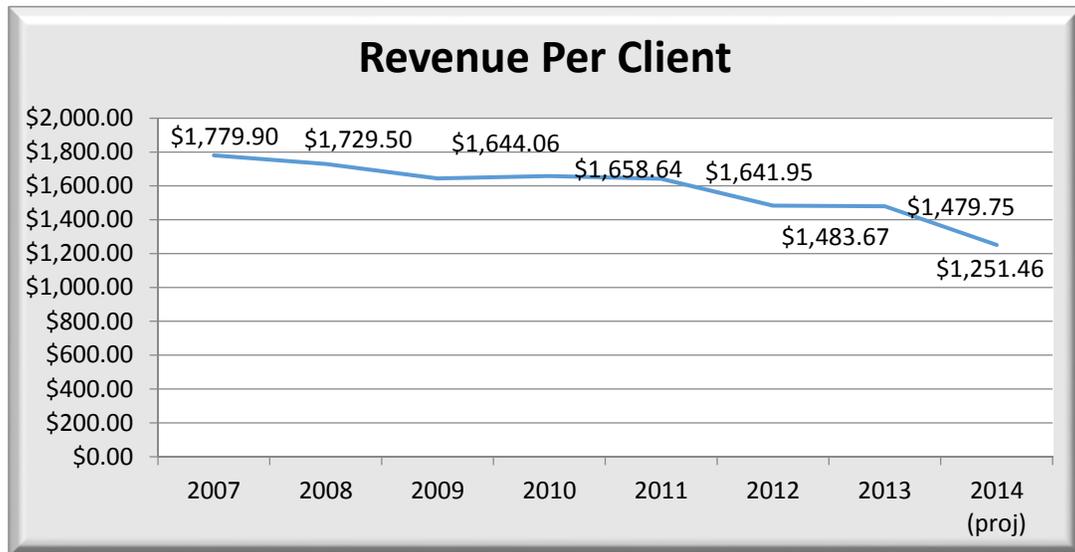


Figure 3

FEDERAL RE-ALLOTMENT FUNDS

USOR typically receives each year in August re-allotment funds from the federal Rehabilitation Services Administration (RSA). USOR states, “In July and August States who can't match their allotment of Basic Support Grant funds return them to RSA. On or near August first of each year, states who can, are given the option of requesting Re-Allotment Funds that have been returned by other states. There is, however, only a 15 day window in which to request these funds. The deadline for submitting a re-allotment request is August 15th.” These re-allotment funds have been approximately \$6 million for the past three years (FY 2011 through FY 2013) and have been used by USOR to provide a temporary solution to the USOR structural imbalance. Without additional state funding, USOR will be unable to meet the matching requirement needed to draw down additional federal re-allotment funds.

USE OF ONE-TIME FUNDING FOR A NEW CASE MANAGEMENT SYSTEM

Currently the Vocational Rehabilitation Program uses a case management system called IRIS designed in 1990. The IRIS system is outdated, cannot be reprogrammed to meet changing federal reporting standards, and is incompatible with more modern technologies. In response, USOR has purchased an off-the-shelf product being used by 35 other state rehabilitation agencies. USOR feels this system, known as AWARE, is the industry standard for rehabilitation services. The cost in the current year is \$1.5 million with a total estimated price tag of \$4.9 million. USOR estimates AWARE will be completed in FY 2016.

INCREASING CASELOADS

USOR has provided the following information regarding caseloads beginning in FY 2007 and projected through FY 2015. Caseload growth can be associated with changes in the economy and population.

Fiscal Year	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014 Est.	FY 2015 Est.
Caseload demand	20,584	21,997	25,682	28,515	30,170	30,853	30,884	30,925	31,389

Table 1

STATE MATCH AND MAINTENANCE OF EFFORT

The federal government requires a state’s allocation to the Vocational Rehabilitation Program (called a Maintenance of Effort or MOE) be at least the amount allocated in the year that was two years previous. If the federal government determines the MOE has not been complied with, there is a dollar for dollar loss of federal allocation in the next federal grant.

TIMING OF FEDERAL FISCAL YEARS AND THE PAYMENT OF STATE MATCH

When the federal government awards the basic Vocational Rehabilitation grant, it specifies that the grant can be used over a two year period. However, the full state match of 21.3 percent must be paid in the first federal fiscal year (in the year in which it is allocated). Federal allocation of the basic Vocational Rehabilitation grant is determined by formula, primarily using population and the Urban Consumer Price Index (CPI-U).

ORDER OF SELECTION AS A POLICY OPTION

USOR categorizes individuals based upon their primary disabling condition and uses three general disabling condition categories:

1. Most Significantly Disabled (21% of caseload)
2. Significantly Disabled (75% of caseload)
3. Not Significantly Disabled (4 % of caseload)

An Order of Selection establishes a waiting list by these three specified categories and could result, based upon USOR estimates, in placing 10,000 new applicants on that waiting list. An Order of Selection would be triggered either from: 1) the Legislature establishing the Order of Selection as a policy choice or 2) USOR having insufficient funds to meet caseload demand and therefore having to establish the Order of Selection as a budget strategy. If USOR has insufficient funds to meet caseload demand, it will be required, under federal law, to establish an Order of Selection.

USOR states:

In the event no additional money were to come by state allocation . . . we would need to implement an Order of Selection following the end of the session. That would mean that we serve all those currently receiving counseling and services under an Individual Plan for Employment (IPE). Those eligible but who are not yet in IPE plan at the time Order of Selection establishment would need to be included on the “wait list “. Additionally, by federal requirement, we would still need to accept applications and make determinations of eligibility/ineligibility, and for those eligible we would need to inform them that they are on “wait list” until such time resources come available to serve them. The requirement is then to work to open up services beyond those simply in plan at the time the Order is implemented by category of ‘Most Significantly Disabled’ (priority one), ‘Significantly Disabled’ (priority two), and lastly, ‘Not Significantly Disabled.’

Under federal law, USOR can’t ‘turn off’ a category that has been designated as part of an Order of Selection until it can fund the entire category. With regard to ‘those [who are] currently receiving counseling and services under an Individual Plan for Employment (IPE),’ they average about 2.5 years in service.

During the economic downturn beginning in 2008, states were faced with shrinking budgets. With regard to rehabilitation services, states either provided additional funding to try and maintain service levels or made the policy choice (either overtly or by default) to implement an Order of Selection. Of similarly configured state agencies to that of Utah's (known as *combined* agencies), the following 17 states are currently using an Order of Selection: Arizona, California, Colorado, Georgia, Hawaii, Illinois, Indiana, Kansas, Louisiana, Maryland, Mississippi, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, and Wisconsin.

If USOR were to establish an Order of Selection, the following cost estimates provide options for dealing with the structural imbalance:

1. No additional state funding – USOR can continue serving only its current caseload as well as the 'Most Significantly Disabled' category. All new 'Significantly Disabled' and 'Not Significantly Disabled' would be placed on an Order of Selection.
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