Iowa's State Fiscal Crisis and Its Impact on Human Services: New Holes in the Safety Net

Charles Bruner
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December 2004

Iowa Fiscal Partnership

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EXECUTIVE SUMMARY

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Overview

During a recession, the demand for public services increases. More people need public assistance to support their families; fewer people are covered by health insurance through their employer; family stress causes an increase in child abuse and mental health and chemical dependency problems. Most of the state programs and services that address these needs are provided through funding that goes to the Iowa Department of Human Services (DHS).

This report analyzes how both state and overall appropriations for programs under the supervision of the Iowa Department of Human Services changed between state fiscal year 2001 and state fiscal year 2004. Outside of education, the DHS budget is the largest share of the state budget and its appropriations, but state appropriations tell only a part of the story. State general fund appropriations in FY2004 of $707.3 million for the DHS covered only 25 percent of the funding used by the Department, with non-general fund expenditures totaling $2.835 billion, primarily from federal funds administered by the Department.

Table S1 (page ii) shows the changes in general fund appropriations and non-general fund expenditures and authorized FTEs (full-time equivalent workers) for the DHS for fiscal years 2001 and 2004, by major department category (with the exception that state expenditures for child care have been moved from the child and family services section to the economic assistance section).

As Table S1 shows, overall general fund appropriations declined dramatically during this period (by 9.7 percent), while non-general fund expenditures rose even more dramatically (by 51.9 percent). Despite increased demand, the department's workforce declined substantially during the period.

Total general fund appropriations and non-general fund expenditures rose by 29.8 percent over the three-year period, which would appear as a healthy overall growth, well above the rate of inflation. This figure is deceptive, however, as it includes substantial new state expenditures established to draw down additional federal funding. As will be discussed later, the major reason for the increase in overall expenditures was the state's Medicaid program.

Charles Bruner *is executive director of the Child & Family Policy Center in Des Moines. He provides technical assistance to states, communities and foundations on child and family issues.*
Victor Elias *is a senior associate at the CFPC, where his responsibilities include research, budget and policy analysis on various issues.*

Table S1. Iowa Department of Human Services
General Fund Appropriations and Non-General Fund Expenditures and FTEs
FY2001 and FY2004, by Major Categories

	Actual 2001	Estimated Net 2004	% Change FY01-04
GENERAL FUND APPROPRIATIONS			
Economic Assistance and Child Care	$ 47,424,192	$ 49,123,135	3.6%
Medical Services	433,610,949	373,711,547	-13.8%
Child and Family Services	128,440,386	14,892,580	-10.6%
Mental Health, Mental Retardation, Developmental Disability, and Brain Injury (MH/MR/DD/BI)	104,631,003	105,222,096	0.6%
Managing and Delivering	68,909,400	64,318,185	-6.7%
Total General Fund Human Services	**$ 783,015,930**	**$ 707,267,543**	**-9.7%**
NON-GENERAL FUND EXPENDITURES			
Economic Assistance and Child Care	$ 142,410,580	150,969,095	6.0%
Medical Services	70,734,333	228,891,521	223.6%
Child and Family Services	29,935,270	34,565,543	15.5%
MH/MR/DD/BI Total	9,692,376	8,108,843	-16.3%
Managing and Delivering Services	18,290,783	19,556,433	-6.9%
Other DHS Federal (Grants and Match)	1,153,395,820	1,713,018,158	48.5%
Total Non-General Fund Human Services	**$ 1,424,459,162**	**$2,155,109,593**	**51.3%**
TOTAL HUMAN SERVICES EXPENDITURES (General and Non-General Funds)			
Economic Assistance and Child Care	$ 189,834,772	$ 200,092,230	5.4%
Medical Services	504,345,282	602,603,068	19.5%
Children and Family Services	158,375,656	49,458,123	-5.6%
MH/MR/DD/BI	114,323,379	113,330,939	-0.9%
Managing and Delivering Services	87,200,183	83,874,618	-3.8%
Other DHS Federal	1,153,395,820	1,713,018,158	48.5%
Total Human Service Expenditures	**$ 2,207,475,092**	**$ 2,862,377,136**	**29.7%**
TOTAL AUTHORIZED FTEs[1]			
Economic Assistance and Child Care	339.00	437.00	28.9%
Medical Services	21.00	21.00	0.0%
Child and Family Services	366.07	349.07	-4.6%
MH/MR/DD/BI	2,420.06	2,367.30	-2.2%
Managing and Delivering Services	2,457.66	2,094.00	-14.80%
Total Human Services Authorized FTEs	**5,603.79**	**5,268.37**	**-6.0%**

[1] These are Iowa Department of Human Services figures, and differ somewhat from those from the Legislative Fiscal Bureau figures. The Department also has provided information on actually funded and filled positions, which are shown in the Appendix. While the authorized figures are somewhat higher than the filled figures, the relationships across the years are consistent across most categories, except for Child and Family Services, which will be discussed later.

Source: Legislative Services Agency, Fiscal Division, unless noted otherwise

Over this period there were significant cutbacks in certain discretionary and often more preventive services, and there were major transfers of funds and uses of time-limited funding sources to meet ongoing program needs. The result has placed strains on most parts of the DHS budget and on the workers and providers who deliver services to those in need.

Summary of Impacts by Department of Human Services Appropriations Areas

The following summarizes what the report found for each of the service areas.

Economic Assistance and Child Care Summary

Over the last three years, while the state's economic position has worsened and Iowans generally have greater needs for economic assistance:

- Overall state general fund expenditures have remained virtually unchanged over the three-year period (although non-general fund expenditures have increased).
- Two state-supported efforts to help families – emergency assistance and individual development accounts – have been eliminated.
- Iowa has not raised its payment benefits under TANF to reflect the impacts of inflation. Additionally, although Iowa has adopted standards for FIP hardship exemptions, a number of TANF recipients have reached their five-year eligibility limits and no longer quality for assistance at all.
- Iowa's child-care subsidy program remains among the least well-funded in the country, with major cliff effects due to the low eligibility limits for participation, and Iowa has done the minimum in meeting its maintenance of efforts requirements for child care.
- A declining share of state funding has been devoted to economically supporting families with children, when child care subsidies and payment benefits are combined, a trend that has continued from 1980 to the present.

Medical Services

Iowa is a major source of medical care for Iowa's children and for the elderly and persons with disabilities and must contend with the same medical cost issues that affect private employers and insurers. Medical services:

- represent the largest and fastest growing part of the DHS overall budget;
- have become the source for medical coverage for a large share of children from Iowa's working families whose health coverage needs are not being met by the private, employer-based health care system, yet are needed to enable those families to work;
- increasingly have been funded by resources that will not be there in the future;
- in some places (dental care and EPSDT services, in particular) do not provide sufficient financial incentives for comprehensive or accessible care; and
- will require significant and ongoing new general fund expenditures if needs are to be met.

Child and Family Services

While Iowa's child welfare system is generally considered to be underfunded and to face challenges in meeting federal expectations related to protecting children and achieving permanency and well-being goals:

- Overall child welfare expenditures declined, even though demand increased;
- Specific elements of the system were cut back, with the decategorization reserve funding eliminated, and the adoption subsidy program subject to new restrictions;
- Support for both purchase-of-service providers and institutions has forced real cuts in services and availability; and
- Federal funding under Title IV-E and particularly under Medicaid, and the flexibility of that funding, remained a major, unresolved issue with the federal government.

Mental Health, Retardation, Developmental Disability, and Behavioral Services

Over the last two decades, the state has taken increasing financial responsibility for financing mental health, retardation, developmental disability, and behavioral services. Between 2001 and 2004, however,

- Mental health services have not received increased funding to reflect inflation nor to address unmet need or increased demand as exists during recessions;
- Mental Health Institutes have been able to cope with reduced funding only by instituting major reductions in bed capacity;
- Several small and more discretionary services have been eliminated; and
- Services remain fragmented and of variable availability and quality throughout the state.

Managing and Delivering Services

The Department needs staff to administer and manage the $2.3 billion budget and its many programs. Generally, demand increased for most DHS programs from 2001 to 2004, but the managing and delivering services component of the Department of Human Services has:

- been dramatically reduced at the general administration level;
- experienced reductions in administrative staff at the local level; and
- not kept pace at the direct field operations level with increases in caseloads, with caseload levels far above recommended levels in child welfare services, in particular.

Conclusion

DHS clients have felt the impact of the state fiscal crisis from 2001 to 2004 as resources have been held constant or reduced while service needs have increased. The resource reductions would be even greater if the figures were expressed in inflation-adjusted terms.

Overall state general fund expenditures have declined, but non-general fund expenditures have increased dramatically, almost exclusively the result of medical services expenditures and largely due to increased federal funding. A good share of this federal funding increase, however, is from time-limited funding sources or is under federal review and challenge.

There has been elimination of a number of small, discretionary services, such as emergency assistance and family assistance, and some cutbacks in others, such as adoption assistance, and a departmental reorganization has very significantly reduced general administration. Decategorization reserves were eliminated in order to address the budget crisis, removing one incentive to more community-based and prevention-focused service delivery. The state's commitment to more prevention-oriented services represents a very small part of the overall department's budget, but it has experienced very real cutbacks.

Most of the Department of Human Services budget is involved in administering services that are supported, at least in part, by federal funding, with attendant federal regulations and requirements with which the state must comply. The state has been successful in leveraging significant additional federal funding, particularly under Medicaid (through RTS services, the Senior Living Trust Fund, and the Hospital Trust Fund), but these have come with restrictions and with challenges. Maintaining the existing funding base, particularly related to intergovernmental transfers (the Senior Living Trust Fund and the Hospital Trust Fund) and RTS, will be a challenge in subsequent years.

While Iowans experienced significant cutbacks in certain services through the 2001 to 2004 fiscal years, and found others to be simply unavailable (such as dental care under Medicaid), the next few years will be critical in determining how much the state will commit to meeting child, family and senior health care and social needs, and how much support can be secured from the federal government to this end. The enhanced federal Medicaid match has expired, and no salary adjustments were built into the Department's budget, effectively resulting in future staff cutbacks or other reductions in program.

At the same time that Iowans were affected by the recession and in greater need of the services the Iowa Department of Human Services provides, the state effectively cut back on many of the services being provided. Much repair and restoration work needs to be done if the Iowa Department of Human Services is to meet its mandates over the next several years.

Iowa Fiscal Partnership

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This report analyzes how both state and overall appropriations for programs under the supervision of the Iowa Department of Human Services changed between state fiscal year 2001 and state fiscal year 2004. This was a period where Iowa and all states suffered both from a recession and from a "state fiscal crisis," caused in part by the recession but also in part by tax cuts enacted during the 1990s that produced a long-term structural mismatch between state funding commitments and state tax revenues.[1]

Outside of education, the Iowa Department of Human Services budget is the largest share of the state budget and its appropriations, but state appropriations tell only a part of the story. State general fund appropriations in FY2004 for the Iowa Department of Human Services of $707.3 million covered only 25 percent of the funding used by the Department, with the remaining $2.835 billion, primarily from federal funds. These non-general fund expenditures include matching federal funds to the state's Title XIX (Medicaid) and Title IV-E (foster care) programs, a number of federal block grants (including Temporary Assistance to Needy Families or TANF, the Child Care and Development Block Grant, the Social Services Block Grant, and the Community Mental Health Block Grant), and trust funds established by the state (the Senior Living Trust Fund and the Tobacco Trust Fund).

Table 1 shows the changes in general fund appropriations and non-general fund expenditures and authorized FTEs (full-time equivalent workers) for the Iowa Department of Human Services for fiscal years 2001 and 2004, by major department category (with the exception that state expenditures for child care have been moved from the child and family services section to the economic assistance section). Except where noted by footnote, the sources for this information

[1] For more on the tax cuts, see other Child and Family Policy Center and Iowa Policy Project Reports. In particular, see: Bruner, Charles and Crawford, Mike: *The State Fiscal Crisis, 2001-2004: Comparing Responses of Iowa and Other States*, Iowa Fiscal Partnership web site: http://www.iowafiscal.org/press.section/stories/datafiles/040929a-50-STATE.pdf; September 2004, and Child and Family Policy Center and Iowa Policy Project: *Everything You Wanted to Know About Closing Tax Loopholes and Balancing Iowa's Budget … But Were Afraid to Ask*, February 2004, Iowa Policy Project web site: & press releases/040223-loopholes guide.pdf" http://www.iowapolicyproject.org/reports%20&%20press%20releases/040223-loopholes%20guide.pdf

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TOTAL AUTHORIZED FTEs[1]			
Economic Assistance and Child Care	339.00	437.00	28.9%
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[1] These are Iowa Department of Human Services figures, and differ somewhat from those from the Legislative Fiscal Bureau figures. The Department also has provided information on actually funded and filled positions, which are shown in the Appendix. While the authorized figures are somewhat higher than the filled figures, the relationships across the years are consistent across most categories, except for Child and Family Services, which will be discussed later.

Source: Legislative Services Agency, Fiscal Division, unless noted otherwise

are the Legislative Fiscal Bureau's annual appropriations figures, as reported in its overall report on the state budget.[2] All the figures were reviewed by Iowa Department of Human Services' fiscal staff, and, where they had changes (usually the result of updated information regarding 2004 estimates), the departmental figures are used and the changes footnoted.[3]

As Table 1 shows, overall general fund expenditures declined dramatically during this period (by 9.7 percent), while non-general fund expenditures rose even more dramatically (by 51.9 percent). Despite increased demand, the department's workforce declined substantially during the period.

Total general fund appropriations and non-general fund expenditures rose by 29.8 percent over the three-year period, which would appear as a healthy overall growth, well above the rate of inflation. This figure is deceptive, however, as it includes substantial new state expenditures established to draw down additional federal funding. As will be discussed later, the major reason for the increase in overall expenditures was the state's Medicaid program.

The following sections discuss changes in each of these major expenditure areas in more detail. Each section also draws upon trend data to place expenditures in the context of service need and demand.

[2] FY 2001 data is from *2002 Session Fiscal Report, 79th General Assembly, August 2002,* and FY 2004 data is from *2004 Session Fiscal Report, 80th General Assembly, July 2004,* by the Legislative Services Agency, Fiscal Division.

[3] We would like to thank the Iowa Department of Human Services' staff for their careful review of this document, which has much improved its accuracy. The authors, however, take full responsibility for the final report and the figures.

Economic Assistance and Child Care

The economic assistance part of the Department of Human Services budget includes the Family Independence Program (FIP), JOBS appropriation, the child support recovery program, and emergency assistance. Since child care is so closely connected to the FIP program and is used both to help families leave welfare and stay off welfare, it also is included in this section and this analysis.

The Iowa Department of Human Services administers Iowa's Temporary Assistance to Needy Families (TANF) cash assistance program, called the Family Independence Program (FIP) in

Table 2. Iowa Department of Human Services
General Fund Appropriations and Non-General Fund Expenditures and FTEs
FY2001 and FY2004, Economic Assistance and Child Care

	FY2001	Estimated FY2004	% Change FY01-04
GENERAL FUND APPROPRIATIONS			
Economic Assistance and Child Care			
Family Investment Program (FIP)	$ 35,545,738	$ 38,156,727[6]	7.4%
Child Support Recovery Unit	6,817,702	5,915,656	-13.2%
Child Care	5,050,752	5,050,752	0.0%
Emergency Assistance	10,000		-100.0%
Total Econ. Assistance and Child Care General Fund Expenditures	**$ 47,424,192**	**$ 49,123,135**	**-3.9%**
NON-GENERAL FUND EXPENDITURES			
Economic Assistance and Child Care			
Family Investment Program/Temporary Assistance for Needy Families (FIP/TANF)	$ 44,035,883	49,525,854	12.5%
Promise Jobs/TANF	19,980,113	13,412,794	-32.9%
Individual Development Accounts/TANF	200,000		-100.0%
State Day Care/TANF	23,129,567	21,145,765	-8.9%
Child Care Development Block Grant Federal	28,923,877	42,089,767	45.5%
0-5 Children/TANF	6,350,000	7,350,000	15.8%
Medical Services	2,763,605		-100.0%
MH/MR/DD/BI	2,600,000	2,600,000	0.0%
Managing and Delivering Services	13,421,113	13,807,729	2.9%
Other DHS Federal	1,006,422	1,037,186	3.1%
Total Econ. Assistance and Child Care Non-General Fund Expenditures	**$ 142,410,580**	**$ 150,969,095**	**6.0%**
Gen. Fund and Non-Gen. Fund Expenditures for Econ. Assistance and Child Care	**$ 189,834,772**	**$ 200,092,230**	**5.4%**
Total Authorized Econ. Assistance FTEs	**339.00**	**437.00**	**28.9%**

[6] The Child Care transfer from the Child Care Tax Credit and the Child Support Recovery funds transfer to FIP were added by the Iowa Department of Human Services to the tables prepared from the Iowa Fiscal Bureau's report.

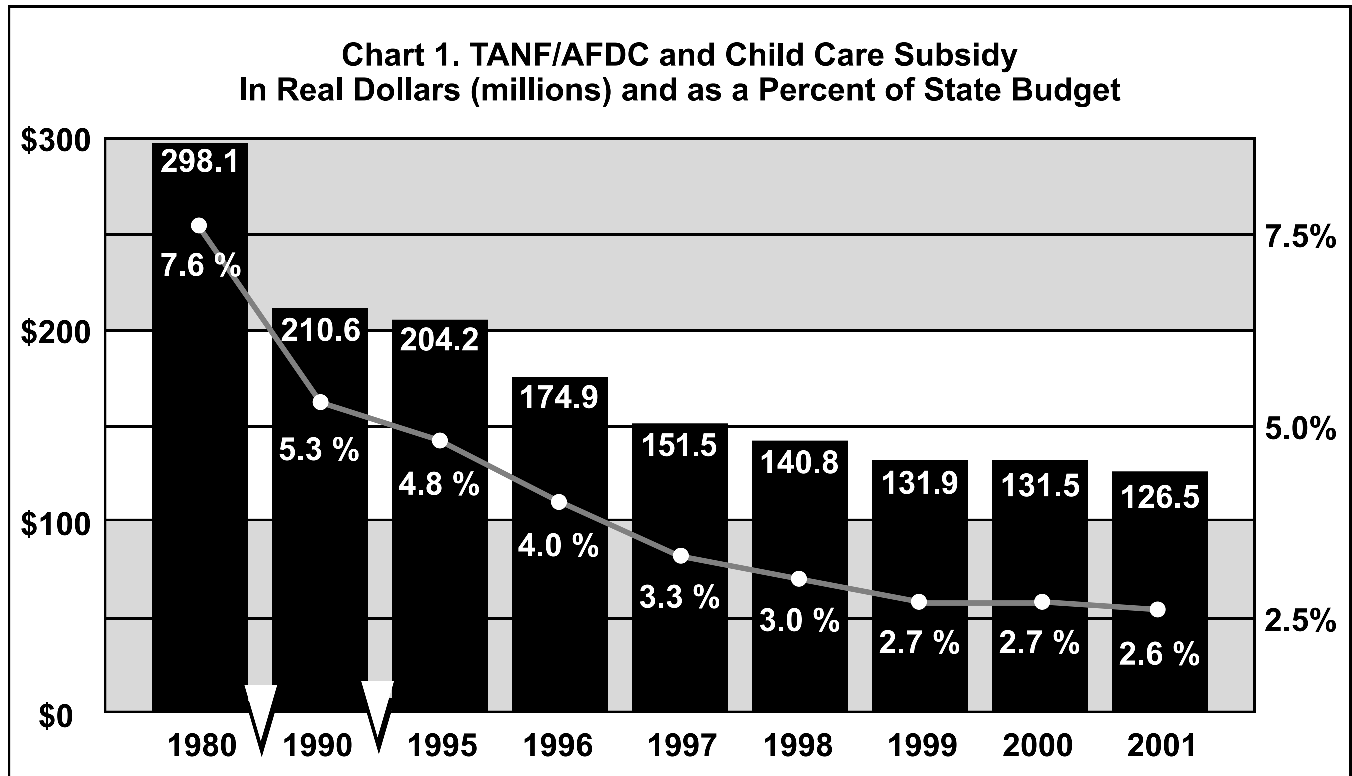
Source: Legislative Services Agency, Fiscal Division, unless noted otherwise

Iowa, which provides cash payments to qualifying families as well as some job seeking and training assistance. The federal Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA) replaced the federal Aid to Families with Dependent Children Act in 1997, changing the program from a state entitlement program (meaning the federal government matched state contributions with no set limit, so federal funding rose when state expenditures increased) to the TANF black grant. The block grant provided more flexibility to the states in the use of federal funds while imposing new requirements, including a time limit on eligibility along with increased work participation, data reporting, and state maintenance of effort requirements.

One of the four Congressional purposes of PRWORA was to "end the dependence of needy parents on government benefits by promoting job preparation, work and marriage." Iowa's PROMISE JOBS and Family Development and Self Sufficiency (FaDSS) programs meet this purpose and are part of the FIP/JOBS appropriation.

The strong economy in the 1990s and the new welfare laws and expectations, as well as PROMISE JOBS and FaDSS, resulted in dramatic reductions in TANF caseloads. Most states, including Iowa, used the freed-up TANF funds previously used for cash payments to families for other human service programs, including child care subsidies and certain child welfare services.

When both cash assistance provided under AFDC and then TANF and child-care subsidies are considered, there has been a shift from cash assistance to child care in Iowa's support to poor families with children over the last 15 years, but not an overall increase in funding. In fact, both in inflation-adjusted dollars and as a share of Iowa's total general fund, these programs decreased in size from FY1980 to FY2001, as shown in Chart 1, taken from a more detailed report on Iowa's child care system*, The Iowa Child Care Experience Since 1996: Implications for Federal and State Policy.*



As the chart shows, between 1980 and 2001, overall state commitments to welfare payments and child care subsidies declined by 60 percent in terms of overall state and federal spending (from $298 million in 2001 dollars to $126.5 million) and by nearly two-thirds as a proportion of the state general fund (from 7.6 percent down to 2.6 percent).

FIP Cash Payments. In part as a result of the recession that began in 2001, caseloads under TANF have increased slightly, and cash payments under TANF have risen slightly. The average cost per FIP case has increased from $326.17 per month in FY2001, to $331.34 in FY2004, however there has not been an increase in the FIP payment standard since 1990. Over the fiscal years from 2001 to 2004, state spending increases for FIP were very modest, but the state used a greater share of its TANF block grant to cover the increased FIP caseload and payments. It is likely that FIP caseloads would have increased more during this period and cash payments increased even more, given the recession, but since January 2002, when the five-year time limits on eligibility for FIP became effective, a number of families lost eligibility during this period, even though their economic need had not changed. However, state general funds did not change significantly because these funds are required in order to meet the state's TANF maintenance of effort requirement.

Actual cash payments under AFDC and then FIP have continued to be eroded by inflation. The last cost-of-living adjustment to cash payments occurred in 1990, when the payment for a three-person family went to $426 per month. Since that last cost-of-living adjustment, the cash payment has lost one-third of its purchasing value.

Child-care subsidies. With respect to child care subsidies, there has been significant growth in funding over the last 15 years and even over the last three years, but only as a result of increased federal funds. The $5.05 million provided in state general fund expenditures in both 2001 and 2004 represents the minimum amount the state is required to provide under federal law as a maintenance of effort payment. This amount is required for the state to receive full federal funding under the Child Care and Development Block Grant (CCDBG). It is also used by the state to meet the TANF maintenance of effort requirement. The federal government has continued to increase the size of this block grant, which is the reason for the growth in nongeneral fund expenditures for economic assistance and child care from 2001 to 2004. Iowa partially offset this increase, however, by devoting fewer TANF funds to child care for this period.

The child care subsidy program funded through TANF, Child Care Development Block Grant (CCDBG), and Iowa maintenance of effort general funds provides subsidies to both TANF recipients and other working, low income families. With the recession from 2001 to 2004, demand for child care support also has increased. While the increased federal funding has enabled Iowa to provide child care subsidies to more families and to raise the payment levels to providers slightly, Iowa's overall support for child care remains among the lowest in the country, both in terms of eligibility limits (140 percent of federal poverty) and in terms of state general fund appropriations. Iowa's subsidy level is one of the five lowest in the country. Meanwhile, Iowa has the second largest percentage of families with young children where both parents or the only parent works outside the home. Iowa's low eligibility level for child care produces a huge "cliff effect" when family incomes go from below 140 percent of poverty to

above 140 percent of poverty (see: *The Iowa Child Care Experience Since 1996* for a much more detailed discussion of this issue).

Emergency assistance and Individual Development Accounts. While TANF and CCDBG, both funded largely with federal funds, were continued, another long-standing program designed to provide emergency assistance to families was eliminated during this period. Emergency assistance had provided housing, repair, and other emergency assistance to TANF and TANF-related families, which many advocates believe has averted families from becoming homeless. This program was phased out during the 2003 fiscal year. Individual development account funding, which provided incentives for families to save, also was eliminated from funding, in 2004.

Child Support Recovery Unit. The Child Support Recovery Unit provides assistance in determining and collecting child support both for families receiving TANF and for other families requesting that help. Virtually all of the 30 percent increase in the FTEs in this area has been the result of additional state workers in this unit, replacing county workers or contract staff who no longer wanted to do this work. It does not represent more workers involved in child support recovery unit efforts, but simply a relocation of those responsibilities.

Summary. In short, over the last three years, while the state's economic position has worsened and Iowans generally have greater needs for economic assistance:

- Overall state general fund expenditures have remained virtually unchanged over the three-year period (although non general fund expenditures have increased).
- Two state-supported efforts to help families – emergency assistance and individual development accounts – have been eliminated.
- Iowa has not raised its payment benefits under TANF to reflect the impacts of inflation. Additionally, although Iowa has adopted standards for FIP hardship exemptions, a number of TANF recipients have reached their five year eligibility limits and no longer quality for assistance at all.
- Iowa's child care subsidy program remains among the least well-funded in the country, with major cliff effects due to the low eligibility limits for participation, and Iowa has done the minimum in meeting its maintenance of efforts requirements for child care.
- A declining share of state funding has been devoted to economically supporting families with children, when child care subsidies and payment benefits are combined, a trend that has continued from 1980 to the present.

Medical Services

The Department of Human Services administers the state Title XIX (Medicaid) program and the companion children's health insurance program (Healthy and Well Kids in Iowa, or HAWK-I). The Department also administers the state supplemental assistance program. Overall, medical services constitute by far the largest portion of the Department of Human Services' budget. The figures above show the state and trust fund share of expenditures; matching federal funds from Medicaid (in 2001 the federal government paid 62.77 cents of every dollar spent on Medicaid, and, under a one-time increase paid 66.77 cents in 2004, going down to 63.64 in 2005) are not reflected here (but in a general non-governmental funding line item in the overall department budget).

Table 3. Iowa Department of Human Services
General Fund Appropriations and Non-General Fund Expenditures and FTEs
FY2001 and FY2004, Medical Services

	FY2001	Estimated FY2004	% Change FY01-04
GENERAL FUND APPROPRIATIONS			
Medical Services			
Medicaid	$ 400,662,028	$ 333,486,073	-16.8%
Health Insurance Premium Payment	438,384	606,429	38.3%
Medical Contracts	8,426,282	8,990,035	6.7%
State Supplemental Assistance (SSA)	19,985,747	19,198,735	-3.9%
State Children's Health Insurance (SCHIP,HAWK-I)	3,684,508	11,118,275	201.8%
Pharmaceutical Case Management Study	414,000		-100.0%
County Hospitals		312,000	0.0%
Total Medical Services	**$ 433,610,949**	**$ 373,711,547**	**-13.8%**
NON-GENERAL FUND EXPENDITURES			
Medical Services			
Senior Living Trust (SLTF) Funded Services[7]	$ 39,990,034	153,283,406	283.3%
Tobacco/Healthy Iowans Tobacco Trust Services	20,385,000[8]	35,213,803	72.7%
Medical Assistance Fund	6,600,000	6,600,000[9]	0.0%
Medicaid Hospital Trust Fund		29,000,000	
Risk Pool Funds[10]		2,000,000	
HAWK-I Trust Fund[11]	3,759,299	2,794,312	-25.7%
Total Medical Services	**$ 70,734,333**	**$ 228,891,521**	**223.6%**
Gen. Fund and Non-Gen. Fund Expenditures for Medical Services	**$ 504,345,282**	**$ 602,603,068**	**19.5%**
Total Authorized Medical Services FTEs	**21.00**	**21.00**	**0.00%**

[7] Both year's figures include $20,000,000 in conversion grants.
[8] This Department of Human Services figure is $4.4 million above that reported by the Legislative Fiscal Bureau and is used here.
[9] The Department of Human Services reported that the $6,600,000 received in 2001 was also received in 2004, and is the amount received from property tax relief.
[10] The Department of Human Services reported $2.0 million from the risk pool.
[11] The Department of Human Services provided figures on the contributions from the HAWK-I Trust Fund.

Source: Legislative Fiscal Bureau, unless noted otherwise

As with medical costs generally, the costs in Iowa's Medicaid program increased significantly over the last three years. While general fund expenditures for Medicaid declined, the overall spending on medical services has increased, due in large part to expanded use of the Senior Living Trust, the Tobacco Trust, and the Hospital Trust to fund expanded costs. The Senior Living Trust and the Hospital Trust were established largely through Medicaid maximization efforts that increased overall reimbursement rates to providers (county and city hospitals and intermediate care facilities) and then collected transfer fees from those providers for the increased rates they received, thereby drawing down additional federal Medicaid funding for the state. These efforts appear to increase state spending but actually reduce net state costs, as the state receives additional federal Medicaid reimbursements that more than make up the cost of the increased reimbursement.

While Table 4 gives an accurate fiscal accounting of state appropriations on medical services, a better way of examining actual Medicaid spending is through looking at total Medicaid expenditures by major categories of service. Table 4 provides a breakout of overall Medicaid spending (state plus federal funds) in FY2001 and FY2004, by different categories, as well as showing enrollment figures for both Medicaid and HAWK-I.

Table 4 needs to be examined in the context both of state policy changes and demands for medical services. During the period from FY2001 to FY2004, Iowa did not make major moves to reduce Medicaid program eligibility or to cut services for which persons were eligible, although it did pursue a wide variety of cost containment options for medical care.

At the same time, however, the economic recession and rising health care costs placed major demands upon Medicaid. Latest census reports show that the number of uninsured Iowans has risen over the period from 2001 to 2004, with a number of employers dropping health insurance coverage or limiting that coverage. The percentage of Iowans covered under employer coverage dropped from 76 percent to 71 percent during that period. Premiums have risen dramatically, as medical inflation over the period from 2001 to 2004 has far outstripped general inflation.

While most employers continued to cover their workers, they often sought to control overall costs by having employees pay a greater share of the costs or pick up a part of increased premiums, particularly for any family coverage provided through the employer.

Child Medicaid and HAWK-I Coverage. Children are a relatively inexpensive group to cover through health insurance (much medical expense is devoted to care and treatment in the last year or years of life). At the same time, they are not covered as employees under private health insurance policies, and, until Congress and the President expanded funding for children's health insurance coverage under the state children's health insurance program (SCHIP) in 1997, children were the age group most likely to be without health coverage.

Iowa used SCHIP both to expand coverage under Medicaid to children in families with incomes at or below 133 percent of the federal poverty level and to establish a public-private HAWK-I health coverage program for children up to 200 percent of the poverty level. As Table 2 shows, both these programs grew dramatically from 2001 to 2004, both through greater outreach efforts and through the results of both medical cost increases and the recession. This 31 per-

Table 4. Medicaid Expenditures and Number of Clients — FY 2001 and FY 2004

	Expenditures			Clients			Expenditure per client
Service Category	**FY2001**	**FY2004**	**Change**	**FY2001**	**FY2004**	**Change**	**Change**
Inpatient	$ 201.54	$ 229.64	13.9%	35,105	41,199	17.4%	-2.9%
Outpatient	79.43	110.52	39.1%	125,985	167,312	32.8%	4.8%
Skilled Nursing Facility	25.75	14.01	-45.6%	4,358	2,019	-53.7%	17.4%
Intermediate Care Facility	339.26	391.75	15.5%	21,296	21,663	1.7%	13.5%
Elderly Waiver	15.40	31.27	103.0%	5,306	8,590	61.9%	25.4%
Intermediate Care Facility for People with Mental Retardation	199.16	207.37	4.1%	2,347	2,341	-0.5%	4.4%
Mental Retardation Services (MR) Waiver	100.08	159.01	58.9%	5,419	7,519	38.8%	14.5%
Residential Care Facility	8.81	7.70	-12.6%	3,975	3,416	-14.1%	1.7%
Home Health	46.94	70.45	50.1%	17,180	22,273	29.64%	15.8%
Physician	75.32	121.70	61.6%	189,977	245,366	29.2%	25.1%
Clinic	13.36	23.71	77.8%	46,512	60,561	30.2%	36.3%
Dental	28.93	37.10	28.2%	96,578	128,822	33.4%	-3.9%
Opt./Chir./Pod.	7.57	11.64	53.7%				
HMO	91.52	92.21	0.8%	96,149	96,844	0.7%	0.03%
Pharmaceutical	223.06	357.85	60.4%	224,833	276,866	23.1%	30.3%
Medical Supplies	23.44	29.43	25.6%	36,987	46,965	27.0%	-1.1%
Iowa Plan	68.92	90.26	30.9%	260,830	327,357	25.6%	4.4%
Residential Treatment Services (RTS) — Child Welfare	40.69	46.99	15.5%				
Local Education Agency (LEA) Services	0.02	13.71	68,450.1%	11	2,269	20,527.3%	232.3%
Early Periodic Screening, Diagnosis and Treatment	7.73	9.34	20.8%	76,480	89,779	17.4%	2.9%
Enumerated Services Total	**1,643.82**	**2,159.14**	**31.4%**	**328,076**	**389,806**	**18.8%**	**10.6%**
Children on Medicaid				162,350	203,303	25.2%	
Adults on Medicaid				165,726	186,503	12.5%	
Children on HAWK-I				5,911	17,184	190.7%	
Total Children				**168,261**	**220,487**	**31.0%**	

Source: Iowa Department of Human Services

cent growth in the number of children served accounted for most of the growth in the numbers of Medicaid and HAWK-I recipients over this period, with Medicaid or HAWK-I serving 220,487 children, over 1 in 4 children in the state. This increase has meant that, during the period from 2001 to 2004, the number of uninsured children in the state did not increase, even with the recession and the increase in uninsured among the population as a whole.[12]

The Medicaid and HAWK-I programs are by far the largest insurers of children of working families in the state. They have moved well beyond traditional conceptions of a "welfare program" to representing the only affordable health coverage program for many low and moderate income families (200 percent of poverty for a family of four in 2004 is $37,700). This is particularly true for families with young children (under six), with 41percent of all Iowa children under 6 at or below 200 percent of poverty, according to the 2000 census. Private sector health coverage simply has not been able to offer affordable health care for dependents, particularly for low- and moderate-wage workers.

At the same time that there has been an expansion in the number of children covered under Medicaid, there has not been an equivalent increase in the number of recipients/users of some specific services that all children need — particularly comprehensive health screens (Early Periodic Screening, Diagnosis and Treatment or EPSDT under Medicaid) and dental services. While users increased in both categories over the period from 2001 to 2004, they did so at a much slower rate than the increase in covered children would suggest they should. Payment rates and other factors have led to a crisis in the state in securing dental care for children covered under Medicaid, with few dentists willing to accept new patients who have Medicaid as their source of payment. EPSDT provides the opportunity for cost-effective preventive health care, but its use and scope in Iowa have not been broad, again with payment rates an issue.

Long-term care. Long-term care expenditures (for nursing facility or "nursing care") constitute the largest portion of state Medicaid spending, although children constitute the largest eligibility group. Taken together, nursing facility and Intermediate Care Facility for People with Mental Retardation (ICF-MR) expenditures totaled $599 million in FY2004, 30 percent of all Medicaid expenditures. When waiver and home health care expenditures (which represent efforts to reduce reliance upon nursing care) are added in, over $900 million of Medicaid expenditures are for long term care. Overall growth in Medicaid spending in these areas largely has been for alternatives to nursing facility care, although nursing facility payments have received payment increases to reflect increased costs of care. The Senior Living Trust Fund was designed to further reduce reliance upon nursing facility or nursing home care, but its funds have been redirected largely to meet growth in overall Medicaid expenditures, with only a small portion ($20 million) going to conversion grants.

Hospitals and health care providers. Hospitals and health care providers, including HMOs and mental health services provided under the Iowa Plan, represent the second largest overall part of the Medicaid budget, constituting over $660 million in expenditures in FY2004. Growth in inpatient hospital care has been slow, with much more of a movement to outpatient care. Both HMO and Iowa Plan services — designed as cost containment measures — have had

[12] According to the most recent census report, the percentage of uninsured Iowans increased from 8.6% to 9.6%, when comparing the 2000-2002 period to the 2001-2003 period.

almost no growth in expenditures, on a per recipient basis. Physician and clinic services have grown substantially, but in large measure due to the increase in children being covered by Medicaid. In general, the increases in costs under Medicaid, on a unit of service basis, have been modest over the three-year period and much below those experienced in the private sector.

Pharmaceuticals. Pharmaceutical costs have represented the area of greatest growth in Medicaid spending from FY2001 to FY2004, from $223.1 million to $357.8 million. The increase in drug therapies and costs is a national, as well as an Iowa and Medicaid, area of concern. While new drugs have provided new and better treatments for a variety of health conditions, they have greatly increased overall pharmaceutical costs. The Department of Human Services has actively pursued a number of approaches to reducing the costs of pharmaceuticals and continues to do so, but this remains a major source of concern in the health care field as a whole.

Rehabilitative Treatment Services and Local Education Agency Services. The Medicaid budget is one of the most difficult to disentangle among all general fund expenditures, as it actually is part of a number of different line items in the overall Department of Human Services budget, not all of which are shown under the medical services division of the budget. Those shown as general fund appropriations under medical services at the top of this section cover only a part of the overall expenditures that are used to match federal funding. Similarly, the non-general funds that show up under medical services are only a part of the federal Medicaid match.

In addition, the state general fund appropriations for rehabilitative treatment services (RTS) are located in the children and family services division of the Department's budget. They largely will be discussed in that section of this report, but it needs to be noted that they are one of a number of areas within Medicaid that are under federal scrutiny for continued financial involvement. The "Medicaiding" of these child welfare services in the 1990s enabled Iowa to draw down additional federal funding to expand its support of child welfare services, but federal audits have challenged significant portions of Iowa's claims.

Similarly, the local education agency services funded under Medicaid, which grew from $200,000 in FY2001 to $13.71 million in FY2004, involve local education agency efforts to expand federal funding for services which previously had been provided with entirely state and local tax funds.

Managing Iowa's Medicaid Growth. As Table 4 shows, there was a $515.4 million total increase in Medicaid spending from FY2001 to FY2004, as well as a $7.4 million increase in HAWK-I funding. At the same time, Table 3 indicates that Iowa actually reduced its general fund commitments to medical services by $59.9 million over this period. Iowa managed to cover the increased state matches required for the overall increased Medicaid and medical service expenditures largely through several different actions:

- Drawing upon funds available in the Senior Living Trust Fund, which the Governor and the General Assembly have committed to replenish;
- Drawing additional resources from the Tobacco Trust Fund; and

- Increasing the use of intergovernmental transfers (IGTs) to capture additional federal funds.

While Iowa has managed the Medicaid budget in this fashion for the last three years, future years will see continued challenges in addressing the Medicaid part of the state budget, for several reasons:

- Medical inflation continues to be considerably higher than either inflation or state budget growth.
- The federal Centers for Medicare and Medicaid (CMS), which oversees the Medicaid program, is seeking to restrict state uses of intergovernmental fund transfers by State Medicaid programs, which could result in tens of millions of fewer dollars in federal support.
- The Senior Living Trust Fund is nearly depleted and cannot be a continued source of funding for general Medicaid services.
- The Office of Inspector General has completed an audit of rehabilitative treatment services (RTS) in Medicaid that could result in significant disallowance in Medicaid claims for child welfare services.[13]
- The one-time relief provided by Congress in increased federal match for the Medicaid program for five quarters including all of FY2004 will not be available for future years, and as Iowa's economy improves, Iowa's federal Medicaid match could decline further.
- Federal requirements for the active treatment of clients at state resource centers could add substantially to overall Medicaid costs.

While state actions to date have avoided substantial reductions in services provided or in the number of people eligible to receive services, and the Department has undertaken a number of cost containment measures to hold down expenditures, most of these have been stop gap solutions. In the long run, maintaining services will require general fund commitments.

At the same time, even under the current Medicaid program, compensation and incentives are insufficient to ensure that dental services are available to children in the state. The state's EPSDT program does not provide sufficient financing or direction to insure that complete screenings occur, particularly around behavioral screenings and guidance to parents. Some of the cost containment strategies that have reduced state costs may also have resulted in cost shifting to the private sector, and could increase the amount of medical debt that Iowans hold.

[13] The OIG audits requested Iowa refund $6.3 million, of the $24.9 million that Iowa claimed for RTS Medicaid services in FY 2001. These four OIG audits are: Iowa's Family Preservation RTS Program: *Title XIX Federal Financial Participation Claimed for Rehabilitative Treatment Services Family Preservation, Department of Health and Human Services Office of the Inspector General, April 2004, A-07-02-03024.* Iowa's Family Foster Care RTS Program: *Title XIX Federal Financial Participation Claimed for Rehabilitative Treatment Services Family Foster Care, Department of Health and Human Services Office of the Inspector General, May 2004, A-07-02-03025.* Iowa's Family Centered RTS Program: *Audit of Medicaid Claims for Iowa Rehabilitation Treatment Services Family-Centered Program, Department of Health and Human Services Office of the Inspector General, July 2004 A-07-02-03023.* Iowa's Group Care RTS Program: *Audit of Medicaid Claims for Iowa Rehabilitation Treatment Services Group Care Program, Department of Health and Human Services Office of the Inspector General, September 2004 A-07-02-03026*. These reports can be found at the Department of Health and Human Services Office of the Inspector General web site at: http://oig.hhs.gov/oas/oas/cms.html

Summary. In short, medical services:

- represent the largest and fastest growing part of the Department of Human Services' overall budget;
- have become the source for medical coverage for a large share of children from Iowa's working families whose health coverage needs are not being met by the private, employer-based health care system, yet are needed to enable those families to work;
- increasingly have been funded by resources that will not be there in the future;
- in some places (dental care and EPSDT services, in particular) do not provide sufficient financial incentives for comprehensive or accessible care; and
- will require significant and ongoing new general fund expenditures if needs are to be met.

While stop-gap measures to fund Medicaid between FY2001 and FY2004 have avoided major service or client eligibility cuts, meeting the future health care needs of persons covered under these programs will require significant and ongoing, new general fund expenditures.

Child and Family Services

Child and family services (with the placement of child care within economic assistance) cover most of the state's child welfare and juvenile justice services, as well as some smaller prevention-oriented services. In particular, they cover services to children who have been identified as abused or neglected.

Over the period from 2001 to 2004, there was significant growth in the number of children with both reported and confirmed instances of child abuse. The number of child abuse reports increased from 23,731 to 25,490, or 7.4 percent. The number of confirmed cases increased from 8,283 to 9,509, or 14.8 percent, and the number of children with confirmed reports (one report can involve more than one child) increased from 11,362 to 14,936 children, or 31.5 percent. These figures represent the best available indicator of the demand for services in child welfare, which is known to increase during times of economic recession, as family stress levels rise. Clearly, demand and need for response has increased over this period.

Iowa's appropriations in this area, however, have experienced a substantial reduction, both in state general fund appropriations (-10.6 percent) and overall expenditures (-5.6 percent),

Table 5. Iowa Department of Human Services
General Fund Appropriations and Non-General Fund Expenditures and FTEs
FY2001 and FY2004, Child and Family Services

	FY2001	Estimated FY2004	% Change FY01-04
GENERAL FUND APPROPRIATIONS			
Child and Family Services			
Iowa Juvenile Home at Toledo	$ 6,533,335	$ 6,061,266	-7.2%
State Training School at Eldora	10,809,260	9,570,563	-11.5%
Child and Family Services	108,788,161	105,124,317	-3.4%
Family Support Subsidy	2,028,215	1,936,434	-4.5%
Community Based Services	281,415		-100.0%
Child Welfare Redesign (total)		(7,800,000)	
Total Child and Family Services	**$ 128,440,386**	**$ 114,892,580**	**-10.6%**
NON-GENERAL FUND EXPENDITURES			
Child and Family Services			
Provider Increases/Tobacco HITT	$ 3,100,000	4,257,623	37.3%
Child and Family Services/TANF	23,586,793	27,223,507	15.4%
Pregnancy and Prevention/TANF	2,517,477	2,514,413	0.1%
Child Abuse Prevention/TANF	731,000	250,000	-65.8%
Fatherhood and Marriage/TANF		120,000	
HOPES/TANF		200,000	
Total Child and Family Services	**$ 29,935,270**	**$ 34,565,543**	**15.5%**
Gen. Fund and Non-Gen. Fund Expenditures for Child and Family Services	**$ 158,375,656**	**$ 149,458,123**	**-5.6%**
Total Authorized Child and Family Services FTEs	**366.07**	**349.07**	**-4.6%**

Source: Legislative Services Agency, Fiscal Division; Iowa Department of Human Services

during this period. On a total expenditure basis, this represents the largest area of decline in Iowa expenditures within the Department of Human Services' program areas. If expressed in real (inflation adjusted) dollars, the percentage reduction in this area would be in double digits at the same time that demand growth was in double digits.

During this period, the Governor and the Department have recommended different reforms. Following the tragic death of Shelby Duis, the Governor recommended a package of reforms in FY2001 that involved an expansion in the number of child welfare workers and supervisors involving $6 million in additional state funds (included in the managing and delivering services budget) and other changes, but the General Assembly did not approve most of these recommendations, including any substantial increases in the numbers of child welfare workers or supervisors. At that time, both the Governor and the General Assembly considered Iowa's child welfare system to be overburdened, and significantly underfunded. This was confirmed by an outside evaluation of the system conducted by the American Humane Association (AHA). The AHA report called for significant increases not only in department workers, but also in both preventive and treatment services, with particular increases in the child and family services appropriation. The General Assembly directed the Ombudsman's office to do a detailed investigation of the Shelby Duis case, and the Ombudsman made a number of recommendations for changes as well, some calling for increased funding. There was no overall agreement between the Governor and the General Assembly on the direction that should be taken, however, and no significant funding increases were authorized.

In 2003, the Governor contracted with a private firm, the Public Strategies Group (PSG), to "reinvent government" and review and make recommendations on changes to government financing of services. One of the most controversial recommendations by PSG was in child welfare, where PSG recommended a reduction in child welfare funding of $20 million through a new form of results-based contracting that PSG claimed would save the state $30 million without affecting services. In direct opposition to prior recommendations of the Governor and the American Humane Association report, PSG's recommendations called for a reduction in child welfare funding by moving to outcomes-based contracting with providers, which presumed some increases in efficiency and effectiveness, although PSG had very limited detail on how these savings would be secured, particularly in light of federal regulations limiting the flexibility of the state to make some of the adjustments recommended. PSG recommended that $10 million of the $30 million in savings be reinvested to improve the system.

Subsequently in the 2003 session, PSG revised its estimates of savings downward to $10 million, with that reduction adopted by the General Assembly along with $2.2. million in enhancements to the system and direction that the Department could make up the $7.8 million loss if it could find other sources for that funding. Although not shown in this table, the Department of Human Services was able to secure additional, one-time Title IV-E (the federal child welfare and foster care funding program) and Medicaid funding to make up this amount, based upon increased claiming on existing child welfare cases. While there is general agreement that the system is underfunded and vulnerable, the fiscal situation within child welfare has worsened substantially between FY2001 and FY2004.

In an effort to manage the system with fewer overall resources, the Department drew upon a pool of decategorization funding that provided incentives at the community level to develop

cost-effective community-based approaches to serving children in the child welfare system, weakening this nationally-recognized project. Although not large in financial terms, the Department recommended additional changes to its adoption subsidy program in the fall of 2003, through administrative rules, to control adoption subsidy costs. A compromise set of reductions was adopted for the 2005 fiscal year by the General Assembly, along with an interim study of the subject. Over the last five years, Iowa has increased the number of special needs children who have been adopted rather than remain in foster care, but this also has resulted in significant increases in the costs of the adoption subsidy program — with a 300 percent increase between FY1998 and FY2004 reflecting these increases in adoptions.

Currently, the child welfare redesign work continues within the Department, with initial future plans to remove more minor instances of abuse or neglect from departmental supervision to community agencies, expansion of the Community Partnership for Protecting Children, expansion of the use of family team meetings, and policy changes to make the family centered services program more flexible to better match the needs of abused and neglected children and their families. The redesign has also resulted in grants to two local communities to address disproportionality within child welfare.

At the same time, the Department of Human Services is faced with a number of challenges to simply maintaining its federal funding for child welfare services. Both Title IV-E and Medicaid match state funding for a good share of Iowa's child welfare services. Iowa recently passed a second level Title IV-E review[14], but like other states Iowa did not pass its federal Child and Family Services Review (CFSR), which relates to service provision in child welfare. While that does not have immediate federal fiscal consequences, Iowa is expected to improve the quality of services it provides, particularly in terms of family and community involvement in case planning. While many states have invested new state funds into activities in their CFSR Program Improvement Plan (PIP), DHS has not received any funds for PIP activities.

Second, Iowa's RTS system, funded by Medicaid, has long been under federal scrutiny, and the Office of Inspector General (OIG) conducted a detailed examination of Iowa's claiming for that system. Four of their reports have been completed to date, with recommendations to CMS that approximately one-quarter of Iowa's claims should be disallowed in those areas. The report with the largest potential fiscal impact, regarding group care, has yet to be issued. While Iowa has reached a settlement with the federal government on claims through 2001, the state has substantial liability on its RTS claiming since that year. The stakes regarding these OIG audits and resulting settlements are high and conceivably could have impacts as great as $6.3 million annually in reduced federal draw-down.[15]

At the same time, gaining more flexibility and retaining federal funding under both Title IV-E and Medicaid have been regarded as key to successful redesign of the child welfare system by the various work groups and task forces and outside consultants who have looked at Iowa's

[14] Initially, Iowa did not pass its Title IV-E eligibility review in 2002, largely based upon an inadequate system for determining client eligibility (which is based upon 1996 AFDC eligibility determinations, no longer used for any other eligibility determination). This triggered a secondary review, which was completed in the summer of 2004. Actions by the Department to strengthen its IV-E eligibility process, through work with an outside consulting firm, were successful in passing this audit, and in increasing the state's Title IV-E claim.
[15] See footnote 13.

system over the last eight years, including the PSG-initiated child welfare redesign group. The OIG audit may make it more difficult for the Department to receive a waiver under Medicaid to pursue the child welfare redesign.

Most of child welfare services are provided through purchase of service under child and family services. Most of the FTEs are for the two state institutions, Eldora and Toledo. Budget reductions have caused Eldora to close 20 beds over this period (from 209 to 189 beds, a 9.6 percent reduction) and for Toledo to close six beds (from 102 to 96 beds), with another 12-bed reduction scheduled for FY2005. Authorized FTEs in child and family services have declined from 366.07 to 349.07, but the actual number of filled positions has declined even more dramatically — from 346.13 to 299.79, a 13.4 percent overall reduction.

Summary. In short, while Iowa's child welfare system is generally considered to be underfunded and to face challenges in meeting federal expectations related to protecting children and achieving permanency and well-being goals:

- Overall child welfare expenditures declined, even though demand increased.
- Specific elements of the system were cut back, with the decategorization reserve funding eliminated, and the adoption subsidy program subject to new restrictions.
- Support for both purchase-of-service providers and institutions has forced real cuts in services and availability.
- Federal funding under Title IV-E and particularly under Medicaid, and the flexibility of that funding, remain a major, unresolved issue with the federal government.

Mental Health, Mental Retardation, Developmental Disability and Brain Injury Services

The state's system for caring for and meeting the needs of persons with mental health, mental retardation, developmental disabilities, and behavioral issues is a complex web of programs and funding responsibilities. A greater state role in financing these services has evolved over the last thirty years, where services and funding initially were the responsibility of individual counties, funded through property taxes. Medicaid has taken on an increased role in financing mental health and retardation services, in particular, including financing medical services for eligible patients at the state mental health institutes and clients at the state resource centers. Increasingly, federal regulations and litigation have required more active treatment and less restrictive settings for patients served by Medicaid in these institutions. Funding for patients at the state mental health institutes is a combination of state, federal, and county dollars. Medicaid does not cover the cost of care of patients 21 to 64 years of age at the mental health institutes and county costs, which cover only adults, are capped. Determination of fiscal responsi-

Table 6. Iowa Department of Human Services
General Fund Appropriations and Non-General Fund Expenditures and FTEs
FY2001 and FY2004, MH, HR, DD and BI

	FY2001	Estimated FY2004	% Change FY01-04
GENERAL FUND APPROPRIATIONS			
MH/MR/DD/BI			
Conners Training	$ 46,000	$ 42,623	-7.3%
Mental Health Institutions	44,468,208	43,686,875	-1.8%
State Resource Centers	6,339,319	10,639,231	67.8%
DD Special Needs	53,212		-100.0%
Mental Illness/Mental Retardation State Cases	12,608,845	11,014,619	-12.6%
MH/DD Community Services	19,560,000	17,757,890	-9.2%
Personal Assistance	364,000	205,748	-43.5%
Sexual Predator Civil Commitment	1,201,212	2,801,472	133.2%
Mental Health/Developmental Disability (MH/DD) Growth Factor	19,868,987	19,073,638	-4.0%
Mental Illness/Mental Retardation/Developmental Disability (MI/MR/DD) Special Services	121,220		**-100.0%**
Total MH/MR/DD/BI	**$ 104,631,003**	**$ 105,222,096**	**0.6%**
NON-GENERAL FUND EXPENDITURES			
MH/MR/DD/BI			
MH/MRDD/BI Tobacco HITT	$ 2,000,000	146,750	-92.7%
MHDD Comm. Services/TANF	4,620,848	4,349,266	-5.9%
Comm. Mental Health Fund	3,071,528	3,612,827	17.6%
Total MH,MR/DD/BI	**$ 9,692,376**	**$ 8,108,843**	**-16.3%**
Gen. Fund and Non-Gen. Fund Expenditures for MH/MR/DD/BI	**$ 114,323,379**	**$ 113,330,939**	**-0.9%**
Total Authorized MH/MR/DD/BI FTEs	**2,420.06**	**2,367.30**	**-2.2%**

Source: Legislative Services Agency, Fiscal Division; Iowa Department of Human Services

bility of the state or county for persons served at both the mental health institutes and the state resource centers relies on an archaic system of legal settlement. No other state uses this type of determination. Much of the expenditures for the resource centers are matched by Medicaid funds. Sixty to 64 percent of the state resource center operating budgets are reimbursed by the federal Medicaid program. The majority of the remaining resource center funding comes from county reimbursements (18 percent to 20 percent), and state reimbursements (approximately 11 percent).

Over the last decade, the state has assumed more responsibility for funding mental health and retardation services, particularly increases or expansions in program costs, although the counties still have significant costs and control. The MH/MR/DD/BI Commission is charged with redesigning Iowa's mental health and disabilities systems for adults and children. The task is particularly challenging, as the fiscal and management responsibilities in the current system do not necessarily align and there are service differentials across counties that make standardization and movement to a system with common expectations problematic, particularly with no new resources.[16]

Between 2001 and 2004, both general fund and total expenditures have remained virtually unchanged for mental health, mental retardation, and developmental disability services, on a nominal dollar basis, and with significant declines, when adjusted for inflation. This only tells part of the story, however. At the same time, access to mental health services has declined, with fewer mental health beds available in the mental health institutes and with fewer resources available for mental health counseling. Across the state, hospitals are closing mental health beds or restricting patients served in the beds they do have. The one area of expansion in state funding – to the state resource centers – was the result of actions to provide more active treatment at those institutions and avert federal sanctions.[17]

Between 2001 and 2004, all four state mental health institutes closed units or beds in order to deal with state appropriations constraints. At the beginning of FY2002, there were 436 beds at the four mental health institutes; by FY2004 that number had been reduced to 269, a 167-bed reduction and a 38.3 percent reduction in capacity. An additional 37 beds are scheduled for elimination in 2005. At the same time, there was no increase in community-based mental health services.

Finally, several smaller appropriations, generally designed to provide more flexible services — DD special needs, personal assistance, and MR/DD special services — have been eliminated altogether.

Summary. In short:

- Mental health services have not received increased funding to reflect inflation nor to address unmet need or increased demand as exists during recessions;

[16] Child and Family Policy Center, *Redesigning MH/MR/DD Services in Iowa: Synthesis of Recent Reports and Recommendations,* September 13, 2002.
[17] The Iowa Plan also covers mental health services under Medicaid. While funding has not increased for the Iowa Plan, encounter data does show an increase in the provision of community-based services.

- Mental Health Institutes have been able to cope with reduced funding only by instituting major reductions in bed capacity;
- Several small and more discretionary services have been eliminate; and
- Services remain fragmented and of variable availability and quality throughout the state.

Managing and Delivering Services

The Department of Human Services manages over $2.8 billion in public funds that require staff and administration. The majority of its staff is involved in direct work with the Department's customers at the local level, in field operations — doing eligibility determinations and case plans for assistance programs (including food stamps, FIP, Medicaid, HAWK-I, and Title IV-E) and doing child abuse investigations, adoptions, case management, and service planning in child welfare. DHS also provides services to clients in nine facilities serving juveniles and individuals with mental retardation or mental illness.

Administration of these programs — including monitoring and auditing; rules promulgation and enforcement; training and technical assistance to the field; interpretation of, negotiation with, and plan development for federal programs; review and appeals processing, and planning and program implementation — occurs under general administration at the state and Service Area levels.

In order to deal with the fiscal crisis, in 2003 the Department of Human Services underwent a reorganization of its regional and local offices, reducing some local offices to part-time and establishing an area structure for administration, essentially eliminating three levels (state, five

Table 7. Iowa Department of Human Services General Fund Appropriations and Non-General Fund Expenditures and FTEs FY2001 and FY2004, Managing and Delivering Services

	FY2001	Estimated FY2004	% Change FY01-04
GENERAL FUND EXPENDITURES			
Managing and Delivering Services			
Field Operations	$ 53,382,055	$ 52,727,745	-1.2%
General Administration	15,409,095	11,480,872	-25.5%
Local Administration			
Volunteers	118,250	109,568	-7.3%
Total Managing and Delivering Services	**$ 68,909,400**	**$ 64,318,185**	**-6.7%**
NON-GENERAL FUND EXPENDITURES			
Managing and Delivering Services			
Field Operations/TANF	$ 12,870,415	$ 14,152,174	10.0%
General Administration/TANF	3,227,683	3,238,614	0.3%
Local Administration/TANF	2,147,358	2,122,982	-1.1%
Volunteers/TANF	45,327	42,663	-5.9%
Total Managing and Delivering Services	**$ 18,290,783**	**$ 19,556,433**	**6.9%**
Gen. Fund and Non-Gen. Fund Expenditures for Managing and Delivering Services	**$ 87,200,183**	**$ 83,874,618**	**-3.8%**
Total Managing and Delivering Services Authorized FTEs	**2,457.66**	**2,094.00**	**-14.8%**

Source: Legislative Services Agency, Fiscal Division; Iowa Department of Human Services

regions, 38 local clusters) and replacing them with two levels (state, eight areas). This resulted in a substantial reduction in the number of administrative staff within the field operations structure. It also reduced the direct presence of departmental administrative staff, available for local planning, at the cluster level. The net effect of this reorganization is reflected in the reduction in the general fund appropriation for general administration of 25.5 percent. This also is reflected in the reduction of total FTEs in managing and delivery services of 14.8 percent.

At the same time, while field operations staff and funding remained approximately the same, field staff generally had to deal with larger caseloads, due to increased use of services. As has been shown in previous sections, the number of confirmed child abuse cases and child welfare caseloads has increased, the number of people, particularly children, served by Medicaid and SCHIP has increased, and other program enrollments (food stamps, FIP) also are up. In most of these areas, actual worker caseloads are well above recommended levels.

Summary. In short, between 2001 and 2004, the managing and delivering services component of the Department of Human Services has:

- been dramatically reduced at the general administration level;
- experienced reductions in administrative staff at the local level; and
- not kept pace at the direct field operations level with increases in caseloads, with caseload levels far above recommended levels in child welfare services, in particular.

Conclusion

The impact of the state fiscal crisis from 2001 to 2004 has been felt by DHS clients as resources have been held constant or reduced while service needs have increased. The resource reductions would be even greater if the figures were expressed in inflation-adjusted terms.

Overall state general fund expenditures have declined, but non-general fund expenditures have increased dramatically, almost exclusively the result of medical services expenditures and largely due to increased federal funding. A good share of this federal funding increase, however, is from time-limited funding sources or is under federal review and challenge.

There has been elimination of a number of small, discretionary services, such as emergency assistance and family assistance, and some cutbacks in others, such as adoption assistance, and a departmental reorganization has very significantly reduced general administration. Decategorization reserves were eliminated in order to address the budget crisis, removing one incentive to more community-based and prevention-focused service delivery. The state's commitment to more prevention-oriented services represents a very small part of the overall department's budget, but it has experienced very real cutbacks.

Most of the Department of Human Services' budget is involved in administering services that are supported, at least in part, by federal funding, with attendant federal regulations and requirements with which the state must comply. The state has been successful in leveraging significant additional federal funding, particularly under Medicaid (through RTS services, the Senior Living Trust Fund, and the Hospital Trust Fund), but these have come with restrictions and with challenges. Maintaining the existing funding base, particularly related to intergovernmental transfers (the Senior Living Trust Fund and the Hospital Trust Fund) and RTS, will be a challenge in subsequent years.

While Iowans experienced significant cutbacks in certain services through the 2001 to 2004 fiscal years, and found others to be simply unavailable (such as dental care under Medicaid), the next few years will be critical in determining how much the state will commit to meeting child, family, and senior health care and social needs, and how much support can be secured from the federal government to this end. The enhanced federal Medicaid match has expired, and no salary adjustments were built into the Department's budget, effectively resulting in future staff cutbacks or other reductions in program.

At the same time that Iowans were affected by the recession and in greater need of the services the Iowa Department of Human Services provides, the state effectively cut back on many of the services being provided. Much repair and restoration work needs to be done if the Iowa Department of Human Services is to meet its mandates over the next several years.