



Legislative Fiscal Bureau

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May 21, 2001

Joint Committee on Finance

Paper #462

Income Augmentation Revenue (DHFS -- Departmentwide and Management and Technology)

CURRENT LAW

Income augmentation funds are unanticipated federal funds the Department of Health and Family Services (DHFS) receives under Titles IV-E (foster care), XVIII (Medicare) and XIX (medical assistance) of the federal Social Security Act as reimbursement for costs that were initially paid with state or local revenue, or revenue from one of these sources that would not otherwise have been available, had it not been for activities conducted specifically to augment federal income.

DHFS currently contracts with a private firm, Maximus, Inc., to conduct activities that will increase the amount of revenue the state receives under these federal programs. Maximus assists counties and DHFS in identifying costs that were paid with county or state funds that could have been claimed for federal reimbursement.

Under federal law, there are no restrictions on the use of income augmentation revenue. These funds can be expended by the state for any purpose. Under the terms of the contract with Maximus, DHFS pays the first 10% of the total amount of income augmentation revenues the state claims to Maximus.

Current law specifies that income augmentation revenues can be expended in the following manner:

Title IV-E Income Augmentation Revenue to the Counties. After accounting for the 10% fee paid to Maximus, any additional income augmentation revenue claimed under Title IV-E must *first* be used to meet the state's commitment to fund the basic county allocation under community aids with revenue claimed under Title IV-E. Once the state's commitment to fund the basic county allocation is met, current law provides that at least 50% of the remaining Title IV-E

income augmentation funds are distributed to counties (other than Milwaukee County) as "incentive funds." (In Milwaukee County, DHFS, rather than Milwaukee County, generates Title IV-E claims because DHFS administers the child welfare system in that county.) Counties must expend the incentive funds on projects to assist children and families. At least 50% of the incentive funds must be expended for services for children who are at risk of abuse or neglect to prevent the need for child abuse and neglect intervention services. Counties may not use these funds to supplant other funds expended by a county for services and projects to assist children and families.

Income Augmentation Revenue Expended by DHFS. Income augmentation revenues that are not provided to counties as community aids or Title IV-E incentive funds are deposited in a DHFS federal continuing appropriation and can be expended by DHFS in the following manner:

- DHFS may expend income augmentation funds to support costs that are exclusively related to the operational costs of income augmentation activities that are not paid to Maximus under its contract. These costs could include salaries for limited-term employees, federal claims processing costs, rent, telephone services and miscellaneous supplies and services.
- If DHFS proposes to expend any income augmentation revenues for any purpose other than to support costs that are exclusively related to augmenting federal income, then DHFS is required to submit a proposed plan for the use of these remaining funds to the Department of Administration (DOA) by September 1 of the fiscal year after the fiscal year in which the revenues were received. If DOA approves a plan, the DOA Secretary must submit it to the Joint Committee on Finance, by October 1 of that same fiscal year for approval under a 14-day passive review process.

GOVERNOR

No provision.

DISCUSSION POINTS

1. Approximately \$102 million in augmentation revenues have been received since these revenues were first identified in the 1997-99 biennial budget. This revenue has been expended for several of purposes, including: (a) county incentive funds and community aids base funding; (b) a variety of DHFS programs and services; (c) payments to Maximus, Inc.; (d) required lapses to the general fund. The following table identifies how much of the revenue has been spent for these purposes.

Use of Income Augmentation Revenues

County Incentive Funds and Community Aids	\$45,249,800
DHFS Programs and Services	16,372,800
Maximus Contract	9,728,900
General Fund Lapses	<u>30,891,000</u>
 Total Income Augmentation Expenditures	 \$102,242,500

2. It is estimated, based on preliminary reconciliation of county spending for calendar year 2000, that a total of \$6,750,000 in income augmentation revenue will be received in 2000-01 and can be used for any purpose. The final estimate of available revenues will not be available until July, 2001, when DHFS completes the final reconciliation of community aids expenditures for 2000.

3. The administration indicates that it intends to request, under the process for using income augmentation funds available under current law, approval to allocate \$2,933,700 of these revenues for costs associated with the Bureau of Milwaukee Child Welfare in the event Milwaukee County chooses not to renew contracts to provide services to children in out-of-home care in Milwaukee County for 2001. The County continues to provide services to children in out-of-home care under extensions of the 2000 contract. In that event, DHFS would be required to transition cases currently under the supervision of the County to private vendors. DHFS indicates that the Milwaukee County Board of Supervisors is not expected to make a decision on the contract until its June, 2001, meeting.

DHFS estimates the one-time cost of this transition would total \$2,933,700. Using income augmentation revenue for these costs would prevent the need to provide additional funding for these costs or DHFS from finding ways to absorb these costs within the amounts budgeted for the Bureau of Milwaukee Child Welfare.

4. The Committee could require DHFS to lapse \$6,750,000 in income augmentation revenues by June 30, 2003. Doing so would bypass the process in current law which requires an annual review of the proposed use of this revenue by DOA and the Committee before DHFS could spend it.

5. Alternatively, the Committee could require DHFS to lapse \$3,816,300 in income augmentation revenues by June 30, 2003 and retain \$2,933,700 in DHFS for use in funding transitional costs for the Bureau of Milwaukee Child Welfare in the event Milwaukee County does not renew its contracts for 2001. The Committee could direct DOA to place these funds in unallotted reserve for use only if the County does not renew its 2001 contract. If the County chooses to renew the contract, these revenues would lapse to the general fund.

6. If the Committee wants to ensure that income augmentation revenues are deposited

to the general fund in the future, it could delete the current provision that authorizes DHFS to use income augmentation revenue for purposes other than operational costs exclusively related to augmenting federal income. This would require DHFS to credit any additional income augmentation revenue to the general fund as GPR-earned revenue. Under this alternative, the Committee could maximize the amount of income augmentation revenue that would be deposited to the general fund, without affecting the current requirement that 50% of these revenue be provided to counties as incentive funds to ensure that counties continue to generate additional IV-E revenues.

7. Alternatively, the Committee could take no action and maintain the current process for using these revenues. If the current process is retained, for revenue received in 2000-01, DHFS would be required to submit a plan by September 1, 2001, to DOA for its approval. If DOA approves the plan, it must submit the plan to the Committee for its approval under a 14-day passive review by October 1, 2001.

ALTERNATIVES TO BILL

1. Require DHFS to lapse \$6,750,000 in income augmentation revenues by June 30, 2003.

Alternative 1	GPR
2001-03 REVENUE (Change to Bill)	\$6,750,000

2. Require DHFS to lapse \$3,816,300 in income augmentation revenues by June 30, 2003. Further, require that \$2,933,700 in income augmentation revenue be placed in unallotted reserve for costs associated with transferring cases of children in out-of-home care to private vendors in the event Milwaukee County chooses not to renew its contract for services.

Alternative 2	GPR
2001-03 REVENUE (Change to Bill)	\$3,816,300

3. In addition to Alternatives 1 or 2, delete the current provision authorizing DHFS to propose the use of income augmentation revenues for purposes other than operational costs exclusively related to augmenting federal income.

4. Maintain current law.

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