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Dear Partner:

This letter is to provide you with an up-to-date summary of the DHS budget situation. Please keep in mind that these ideas and plans are continually evolving, just as the budget figures are. Many of the ideas we are evaluating are decidedly distasteful; some will prove to be unworkable or will not pass a cost-benefit test; but also, many cuts detrimental to clients, employees and our partners will have to be implemented.

Our fiscal circumstances are so serious that we must examine the potential for reductions in every administrative, service, benefits and program area in this agency. This news cannot be sugar-coated—the results will be painful, barring what would be some kind of fiscal miracle.

The DHS leadership team has been working virtually non-stop for months preparing for ever-worsening budget projections in this current state fiscal year (SFY16) and for the next fiscal year. The impacts on DHS are cumulative, and began to hit us hard starting this year. You may recall that to balance our budget for SFY16, we cut \$64 million total from our budget (3 percent). This was accomplished by eliminating more than 200 DHS positions (many of which were filled), reducing contracts, cutting rates to Medicaid providers, and reducing budgets for services.

Next, the two revenue failures since December reduced our state funding by seven percent--\$44 million state dollars. Counting the associated federal funds, that was a total reduction of \$58 million. These changes necessitated a hiring freeze, delaying state supplemental payments, and making another round of cuts to contracts and client services such as child care subsidies and services for older Oklahomans. The cuts have also virtually eliminated any funds we normally hold for emergencies and most of the carryover funds that would have been available to maintain expenditure levels in the coming fiscal year.

On top of those reductions, we also are projecting an additional shortfall for SFY17 of about \$46 million due to increased costs of serving children in child welfare services, loss of federal funds for Medicaid programs in aging and developmental disabilities, and changes in the child care subsidy program for working families.

The combined effect of these shortfalls in our budget means our budget hole already exceeds \$100 million state dollars (about \$150 million total with lost federal dollars) of the funds we need to continue our current level of services. Compounding those known budget problems, we will not know our actual appropriation for SFY17 for several more

weeks. Obviously, any additional reduction to our budget will only exacerbate this significant shortfall.

On the optimistic front, Governor Fallin has proposed a plan to balance the State's budget that includes an 8.6 percent increase for DHS next year; however, this plan is dependent upon the Legislature increasing revenues, eliminating some tax incentives and passing a bond measure—ideas the Legislature has not yet embraced. If the Legislature does not act upon these ideas or find other ways to raise revenues for the State by the end of this session, DHS will be facing even deeper budget cuts we simply cannot make without significant consequences for people who depend on our assistance and for our many service partners whom we count on to supplement and complement our mission. Even if the Legislature follows the Governor's lead, our available funds will be dramatically less than what is needed to continue our agency in its current form.

Because of this uncertainty we must plan for the worst and hope for the best. That means we must prepare for unprecedented cuts to programs and services. For example, we may be forced to reduce provider rates and service authorizations in the Advantage Waiver and the Developmental Disabilities Home and Community-based Waivers, as well as reduce other services that support people who are aged and who have developmental disabilities. None of these options are things we want to do, but expenditures in these two programs represent 28 percent of the DHS budget. We understand that any additional rate reductions in these programs are certain to have devastating effects on the community service agencies that provide these services and our clients who so greatly benefit from being able to stay in their homes or in community placements. We are currently holding meetings with providers to discuss these potential cuts as well as gather other ideas as we move forward.

Oversight, licensing, and collections programs such as child care licensing and child support services would be reduced and fee structures are being considered in those areas to generate modest revenue to offset some of the costs of operating these programs. Most states have fee structures supporting their licensing and collections programs. Because of the state's budget crisis, these services in Oklahoma can no longer afford to operate solely upon state appropriations. Child care subsidies for low-income working families would also be limited.

Many contracts with outside vendors are being reduced yet again while others are being phased out and eliminated altogether. If your contract is slated for elimination, you will be contacted by your DHS contract monitor or programs administrator. DHS Contracts and Purchasing will contact all contractors in the near future to advise them of the reduced contract amounts for SFY2017.

Some reductions are even being considered for Child Welfare Services that would save funds while not jeopardizing progress made in reforms and obligations in the Pinnacle Plan.

In addition to cuts in programs, services, and contracts, we are again looking first within DHS for more internal reductions than its proportionate share. Obviously, personnel-related costs comprise the largest share of our internal administrative budget. That

requires us to plan for continued, significant reductions in the number of employees at DHS. We have already reduced 1,200 non-child welfare positions during the past two fiscal years and will have to reduce several hundred more positions depending upon the amount of cuts to our agency.

We are also evaluating the potential for consolidating DHS county offices around the state. No decisions have been made at this time as to which offices may be affected. The continued reduction of employees and possible office closures are causing the need to reorganize DHS and rethink how we conduct business in all of our programs. As this reorganization takes place, we will communicate details with all affected providers and key stakeholders.

These dire circumstances are forcing us to make significant cuts now while we plan with utmost seriousness for implementing potentially disastrous actions that will most assuredly compromise our ability to carry out the core services of DHS—primary “safety net” services. In the coming weeks as reorganization plans are confirmed and the state budget is decided, we will provide you with more definitive details.

Sincerely,

Ed Lake, Director
Oklahoma Department of Human Services