Health & Human Services: Related Reserve Fund Accounts

Four reserve fund accounts within the realm of Health and Human Services fiscal policy received considerable attention during the 1999 Legislative Session -- the Federal Reserve in the Health Care Access Fund, the federal Temporary Assistance for Needy Families (TANF) reserve, the state TANF reserve, and the reserve account in the Consolidated Chemical Dependency Treatment Fund (CCDTF). This paper will explain the rationale for these reserve fund accounts, describe their allowed uses and highlight recent legislative activity.

Introduction ................................................................. 1

Health Care Access Fund – Federal Reserve ................................................................. 2
   Background .................................................................................. 2
   Reserve Fund Description and Amount ......................................................... 3
   Chart 1: Federal Funds Reserve ................................................................. 3
   Recent Legislative Activity ......................................................................... 3

State and Federal TANF Reserve Accounts ............................................................... 3
   Background ...................................................................................... 3
   Reserve Fund Description and Amount (Federal TANF reserve) ....................... 4
   Chart 2: Federal TANF Reserve ................................................................. 4
   Recent Legislative Activity (Federal TANF reserve) ........................................ 4
   Reserve Fund Description and Amount (State TANF reserve) ......................... 5
   Recent Legislative Activity (State TANF Reserve) .......................................... 5

Chemical Dependency Reserve Account ................................................................. 5
   Background ...................................................................................... 5
   Table 1: CCDTF Eligibility ...................................................................... 5
   Reserve Fund Description and Amount ......................................................... 6
   Table 2: CD Reserve Account, Example I ..................................................... 6
   Table 3: CD Reserve Account, Example II .................................................... 7
   Recent Legislative Activity ......................................................................... 7

Conclusion ................................................................................. 7
Introduction

Whether to protect the state's commitment to health care in the era of devolution, provide funding for otherwise unfunded chemical dependency services, or prepare for future caseload increases, Minnesota lawmakers have established reserve funds for a variety of reasons and have used them for many purposes. Reserve accounts are often created to address a future need, obligation, or circumstance. Two reserve funds that satisfy this definition and should be familiar to most legislators are the state's general fund budget reserve and the property tax reform account. The former is designed to ensure the state maintains a balanced budget in the event that revenues are less than expected and the latter to reform the state's property tax system. Policymakers may be less familiar with the reserve accounts in the Health and Human Services area, which have been discussed many times in the House Health and Human Services Finance Committee during the past three legislative sessions.

In 1997, Governor Arne Carlson proposed that a growing surplus in the Health Care Access Fund (HCAF) be held in reserve to safeguard against possible reductions in federal Medicaid funding. During the same legislative session, two reserve accounts - the federal TANF reserve and the state TANF reserve - were created in response to the passage of federal welfare reform legislation. Also that year, the chemical dependency treatment fund's reserve account was tapped to shore up several budget initiatives of the Carlson Administration.

The balances in these reserve accounts vary from several million to hundreds of millions. For instance, the state TANF reserve never exceeded $15.0 million while the chemical dependency reserve account has rarely approached $25.0 million. On the other hand, the federal reserve in the Health Care Access Fund is projected to reach $150.0 million in fiscal year 2002 while the federal TANF reserve is expected to approach $214.0 million in fiscal year 2003. Balances retained in reserve accounts are not sacrosanct, they can be appropriated, reallocated, or eliminated at the discretion of the legislature, as evidenced by recent legislative activity. Finally, it is important to point out that as self-contained entities, reserve account balances for each of these funds are kept separate from general fund totals. Consequently, reserve totals should be added to any amounts retained in the general fund budget reserve.

All of these reserve accounts were the subject of legislative scrutiny during the 1999 session. The HCAF's federal funds reserve would have been eliminated under separate legislative proposals, leveraging funds retained in the account for other purposes. Legislation proposed by Governor Jesse Ventura would have automatically returned unobligated funds in the chemical dependency reserve account to the general fund in future biennia. And, the federal TANF reserve account was used to provide additional funding for a variety of government services, while the state TANF reserve was repealed.

With the exception of the chemical dependency reserve, there has frequently been some confusion among legislators about which committee controls the appropriations out of these separate reserve fund accounts. While no committee in the Minnesota House of Representatives has jurisdiction over appropriations from the federal reserve in the Health Care Access Fund, the federal TANF reserve, or the state TANF reserve, historically the Health and Human Services Finance Committee has been seen as the steward of these funds. However, as long as appropriations adhere to prescribed uses contained in federal law, there is nothing that prohibits another committee from allocating funds out of these accounts. Although as a practical matter, it is necessary to coordinate proposed spending initiatives to ensure that adequate resources are available when budget bills are assembled by different committees.

1 The chemical dependency reserve is a by-product of biennial appropriations contained within the Health and Human Services Appropriations Act and, therefore, irrelevant to this discussion.
**Health Care Access Fund - Federal Reserve**

**Background**

In 1997, the Legislature established a federal reserve account within the Health Care Access Fund (see Minnesota Statutes 1998, section 16A.76). The reserve account was established in response to a proposal by Governor Carlson to have HCAF monies set aside to protect the state's commitment to health care in the event that federal allocations for health care spending were reduced. At the time, the Health Care Access Fund was generating a sizeable surplus, projected to reach $721.6 million in fiscal year 2001, based on the February 1997 forecast.

Governor Carlson’s budget initiative grew out of proposals that circulated in Washington, D.C. during 1995 and 1996 that would have created a block grant for the federal portion of the jointly-funded, state-federal Medicaid program. If the program’s funding was converted to a block grant, state policymakers feared that the federal government might reduce its commitment to the Medicaid program, potentially jeopardizing future funding for Minnesota’s low-income insurance programs. Conventional wisdom suggested that if the federal government could succeed in transforming the decades-old, entitlement program, Aid to Families with Dependent Children, into a block grant program, it could do the same with the Medicaid program. To ensure the state was prepared for the possible ramifications of Medicaid being switched to a block grant, a reserve fund was created.

**Reserve Fund Description and Amount**

The reserve account consists of Health Care Access Fund dollars equivalent to the amount of federal financial participation the state has received since July 1, 1995 for the jointly-funded component of the MinnesotaCare program and related activities. The Legislature limited the amount that could be set aside in the fund to $150.0 million. Based on the end of session forecast (June 1999) for the Health Care Access Fund, the federal funds reserve will reach the statutory limit in fiscal year 2002 (see Chart I: Federal Funds Reserve).

**Recent Legislative Activity**

During the 1999 Legislative Session, a number of bills were heard in the House Health and Human Services Finance Committee and the House Tax Committee that would have reduced or eliminated the federal funds reserve in the Health Care Access Fund. Most of these proposals would have decreased or abolished the reserve amount requirements to free up funds to either reduce or phase-out the 2% provider tax, which currently stands at 1.5% or to offset the cost of other tax relief proposals. Ultimately, no changes were made to the federal reserve, and the reserve fund remains in place.

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According to Minnesota Statutes 1998, section 16A.76, the federal reserve funds may be used “to protect access to basic health care services that are publicly funded” in the event that federal funding is significantly changed. However, the reserve may not be used to a) restore funds lost due to changes in federal current law funding formulas, b) provide funding for long-term care services, or c) supplant general fund obligations.
State and Federal TANF Reserve Accounts

Background
Similar to the reserve in the Health Care Access Fund, federal action also spurred the Legislature to create reserve accounts in the area of welfare policy. With passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Congress and the President agreed to overhaul the nation’s primary cash assistance program – AFDC. One of the fundamental changes to the program was to replace its entitlement designation with a block grant. Concerns among state policymakers that the new federal funding mechanism would be less responsive to economic fluctuations and that general fund allocations might otherwise cancel back to the general fund led legislators to establish two reserve accounts to address contingencies that might arise.

Since its inception, AFDC was funded as an entitlement, meaning anyone who met the program’s eligibility requirements could receive benefits. The cost of the program was jointly-shared by federal and state governments. As AFDC caseloads would rise and fall, federal and state spending would fluctuate accordingly, but the burden of financing was always shared. The new financing arrangement, the Temporary Assistance for Needy Families block grant program, changed that scenario. In exchange for granting state’s more flexibility in establishing and operating their own public assistance programs, the federal government limited its financial commitment to the program for low-income individuals.

Under the block grant program, each state’s allocation from the federal government is capped. Minnesota’s annual allocation from the federal TANF block grant is fixed at $268.0 million through federal fiscal year 2002. This funding scenario presents the state with significant financial advantages when the economy strengthens but poses substantial financial risks as the economy weakens. Because welfare caseloads typically decline during vibrant economic times, fewer resources have been needed for low-income Minnesotans in recent years. When the economy begins to sputter, caseloads will likely increase and more federal and state funding will be needed to provide public assistance. However, contrary to the way public assistance has been financed in the past, federal funding will not increase automatically when caseloads rise.

In addition, the new federal block grant contained time limits for receiving benefits. A welfare recipient can only receive assistance from the TANF block grant for five years, although state’s may exempt up to 20% of the caseload from this requirement. When a program recipient exhausts his or her benefits, they are no longer eligible for benefits funded with federal TANF dollars. A state may choose to provide cash assistance beyond 60 months, but it cannot use federal money to do so. Cognizant of this new financial landscape, Minnesota policymakers decided not to spend all of the state’s federal TANF allocation, and instead opted to create a rainy day fund that could be used to continue providing benefits during future economic downturns.

Minnesota’s federal TANF allocation and state general fund dollars are used to fund the Minnesota Family Investment Program (MFIP), the state’s response to federal welfare reform; the program provides cash assistance, employment and training services, and early childhood services to low-income families. Federal TANF dollars and state monies are also used to pay for state and county administrative activities related to the program. According to federal law, federal TANF funds may be used:

"...in any manner that is reasonably calculated to accomplish the purpose of this part (i.e., the TANF program), including to provide low income households with assistance in meeting home heating and...

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2 As of January 1, 1999, the state’s block grant amount was reduced by $824,000 annually when the Mille Lacs Band of Ojibwe received federal approval to operate its own TANF program. This amount will be transferred directly to the tribe.

HHS Reserve Fund Accounts, Page 3
cooling costs; or ...in any manner that the state was authorized to use amounts received under [the old AFDC program or JOBS employment and training program for AFDC recipients].”  

Reserve Fund Description and Amount (Federal TANF reserve)
Until recently, the TANF reserve account actually consisted of two separate accounts - the federal and state reserves. The federal TANF reserve, permitted under the new welfare reform law, allows states to retain unspent federal block grant allocations at the U.S. Treasury.

The federal TANF reserve has grown considerably as welfare caseloads have continued to plummet - far beyond initial expectations. Because the state has reduced its general fund commitment to the minimum amount required under the new federal law ($192.0 million), additional reductions in spending obligations have translated into larger increases in the federal reserve. Based on projections made in June 1997, the federal TANF reserve would grow to $15.5 million at the end of fiscal year 2001. However, by April 1998, the size of the reserve was projected to be $38.8 million in fiscal year 2001. With the release of the November 1999 forecast, the federal TANF reserve is projected to grow to $164.0 million at the end of fiscal year 2001 and $214.3 million at the end of fiscal year 2003 (see Chart II: Federal TANF Reserve).

Recent Legislative Activity (Federal TANF reserve)
For the biennium beginning July 1, 1999, the legislature allocated $211.5 million additional federal TANF funds for a variety of initiatives including:

- $25.9 million to counties for additional job counselors and employment-related services;
- $28.7 million to exclude from income calculations payments made for subsidized housing for 18 months for program recipients. A limited exemption will apply to certain populations beginning January 1, 2001;
- $76.0 million to refinance the Basic Sliding Fee program with general funds;
- $30.0 million to leverage general fund spending on county social services; and
- $12.4 million to counties to replace reductions in federal Title XX (Social Services Block Grant) funding.

Reserve Fund Description and Amount (State TANF reserve)
The state TANF reserve was created by the Legislature in 1997 to recapture general fund appropriations for legal non-citizens in the event that the federal government restored benefits to some of these individuals. With the adoption of the 1996 federal welfare reform law, some legal non-citizens, who were legally residing in the country, were determined to be ineligible for federally-funded programs such as food stamps or Supplemental Security Income.

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3 42 United States Code 604(a).
HHS Reserve Fund Accounts, Page 5

The 1997 Legislature provided state-funded food stamps and cash assistance for some groups of individuals who were losing federal benefits. Aware that pressure was building at the federal level to restore benefits for some legal non-citizens, a reserve account was created to recover the previously allocated general fund dollars in the event that federal benefits were restored to certain non-citizens and the state appropriations became unnecessary. When the federal government reinstated food stamp and SSI eligibility for a segment of these individuals, the unneeded state appropriations ($14.7 million) were deposited into the state TANF reserve account.

**Recent Legislative Activity (State TANF Reserve)**

In 1998, Legislators used these recaptured general fund dollars to provide state-funded food stamps under the Minnesota Food Assistance Program and the Minnesota Family Investment Program for individuals who remained ineligible for federally-funded food stamps due to federal restrictions on the receipt of benefits. The 1999 Legislature repealed the state TANF reserve effective July, 1999 and transferred the remaining unused appropriations ($4.7 million) from the reserve fund to the general fund.

**Chemical Dependency Reserve Account**

**Background**

The chemical dependency reserve account was established by the 1986 Legislature, when lawmakers created the Consolidated Chemical Dependency Treatment Fund (CCDTF) (see Minnesota Statutes 1998, section 254B.02, subdivision 4). The CCDTF, a special revenue fund, was created to simplify the payment of services by pooling together resources from the general fund, federal block grant funds, federal Medicaid dollars, county contributions, and private pay collections. Of equal importance, the CCDTF made it easier to tailor chemical dependency treatment services to each individual’s needs regardless of the source of funds being used to pay for those services.

Eligibility for chemical dependency treatment services is divided into three tiers: Tier I-“entitled clients” and Tier II and III-“non-entitled clients” (see Table 1 below). Funding for Tier I services is a forecasted entitlement. In other words, full funding is allocated to provide chemical dependency services for Tier I eligible clients based on current law eligibility and program requirements. On the other hand, Tier II and III funding is based on legislative appropriations. In fiscal year 2000, Tier I funding is projected to be $36.8 million, while Tier II funding is $2.735 million. An additional $4.3 million will be used to fund Tier II services in fiscal year 2000 from reserve account balances ($3.8 million) and an appropriation of $450,000 approved by the 1999 Legislature. Funding has not been provided for Tier III eligible clients in fiscal year 2000, which has not received a direct appropriation in recent years.

Table 1

<table>
<thead>
<tr>
<th>CDDTF Eligibility</th>
<th>(Based on fiscal year 2000 data for a family of three)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tier I</td>
</tr>
<tr>
<td>Categorical Eligibility</td>
<td>Enrolled in M.A., GA M.C., or receiving M.S.A</td>
</tr>
<tr>
<td>Income Eligibility</td>
<td>Meets income standards for M.A. or GA M.C</td>
</tr>
</tbody>
</table>
Reserve Fund Description and Amount

The reserve account is used to set aside funds that are allocated to counties for Tier I eligible individuals who are entitled to chemical dependency treatment services but that remain unspent when the forecasted need for services declines. Counties that do not spend their current year allocation from the Consolidated Chemical Dependency Treatment Fund for Tier I services “reserve” these funds for up to two years. Counties may only draw on their unspent allocations if they exhaust their current year base allocation from the CCDTF and meet their maintenance of effort. This requirement is important because it means that counties may not use their unused reserved fund from prior years to pay for current year obligations. Current year allocations must be used to pay for current year obligations, unless the aforementioned conditions are satisfied.

After 24 months, unobligated reserve account balances are transferred to a general reserve account within the CCDTF. The Commissioner is statutorily authorized to use the reserve account balance to provide chemical dependency treatment services for Tier II clients in excess of the $2.735 million base appropriation. Based on the November 1999 forecast, $6.6 million of the reserve account will be used to provide additional services in fiscal year 2000 ($3.8 million) and fiscal year 2001 ($2.8 million).

Example I

For example, if County A is allocated $1.0 million to serve Tier I clients that are forecast to be eligible for chemical dependency treatment services in fiscal year 1998, but only spends $500,000 of the allocated amount, the unspent amount ($500,000) is placed in reserve for use by the county in the subsequent year. If the county underspends its allocation again in the following fiscal year, the excess amount from the previous year is returned to the general reserve account and is made available to all counties for chemical dependency services. In subsequent years, any amount of underspending would follow the same pattern (Table 2).

Table 2

<table>
<thead>
<tr>
<th>Chemical Dependency Reserve Account (Example I)</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>County A allocation</td>
<td>$1.0 million</td>
<td>$1.0 million</td>
<td>$1.0 million</td>
<td>$1.0 million</td>
</tr>
<tr>
<td>County A expenditures</td>
<td>$0.5 million</td>
<td>$0.8 million</td>
<td>$0.5 million</td>
<td>$0.7 million</td>
</tr>
<tr>
<td>Structural balance (*)</td>
<td>$0.5 million</td>
<td>$0.2 million</td>
<td>$0.5 million</td>
<td>$0.7 million</td>
</tr>
<tr>
<td>Reserve account deposit</td>
<td>$0.5 million</td>
<td>$0.2 million</td>
<td>$0.5 million</td>
<td>$0.2 million</td>
</tr>
<tr>
<td>Undesignated funds (cumulative)</td>
<td>$0.5 million</td>
<td>$0.7 million</td>
<td>$0.5 million</td>
<td>$0.7 million</td>
</tr>
</tbody>
</table>

* Allocation less expenditures.

Example II

If, on the other hand, County A overspends its allocation in 1999, and if the county has accumulated unspent reserves, it can draw on those reserves, provided the county meets or exceeds its base allocation and its maintenance of effort. In this example, the county’s obligation in 1999 is $1.3 million, but its allocation from the CCDTF is only $1.0 million. The county would use $300,000 of the $500,000 held in reserve to provide treatment services, and the difference ($200,000) would be deposited into the general reserve and made available to all counties (see Table 3, next page).
### Chemical Dependency Reserve Account (Example II)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>County A allocation</strong></td>
<td>$1.0 million</td>
<td>$1.0 million</td>
<td>$1.0 million</td>
<td>$1.0 million</td>
</tr>
<tr>
<td><strong>County A expenditures</strong></td>
<td>$0.5 million</td>
<td>$1.3 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Structural balance</strong></td>
<td>$0.5 million</td>
<td>($0.3 million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reserve account deposit</strong></td>
<td>$0.5 million</td>
<td>$0.0 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Undesignated funds (cumulative)</strong></td>
<td></td>
<td>$0.2 million</td>
<td>$0.2 million</td>
<td></td>
</tr>
</tbody>
</table>

In the absence of legislative action, undesignated funds are not returned to the general fund but remain in the general reserve account within the CCDTF to provide Tier II or Tier III chemical dependency services. However, in fiscal years 1998 and 1999, separate riders in the Health and Human Services Finance Bills transferred $11.4 million and $3.0 million, respectively, from the chemical dependency reserve account to the general fund.

**Recent Legislative Activity**

During the 1999 Legislative Session, the governor proposed that undesignated funds in the chemical dependency reserve account, which were allocated but untapped by counties for treatment services, be transferred automatically to the general fund when the two-year statutory limit is satisfied. While the House of Representatives adopted the language included in the Governor’s proposal, the Senate did not. The proposed initiative was not agreed to and was subsequently dropped from the conference committee report, ensuring that future excesses will remain in the chemical dependency reserve account to be used for treatment services.

**Conclusion**

Reserve fund accounts are important fiscal policy tools that enable legislators to plan for future circumstances that may or may not be understood at the time. Reserve accounts also afford lawmakers with additional funding options and opportunities. In Minnesota, reserve accounts have been established to protect the state’s finances in the event that the economy falters or to reform the state’s property tax system. In the Health and Human Services policy area, Legislators have used reserve accounts to protect access to health insurance for low-income Minnesotans and to provide money for otherwise unfunded chemical dependency services. Reserve accounts balances have also been used to set aside federal and state TANF dollars to simultaneously prepare for future economic downturns and invest in services that are designed to move public assistance clients off the state’s welfare rolls and into the workforce. It is clear from deliberations in the Health and Human Services Committee during the past three years that the usefulness of reserve accounts will continue to be debated and discussed by state policymakers during future Legislative Sessions.

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