Office of State-Based Initiatives

Annual Report 2019

The goal of the Office of State-Based Initiatives is to help ensure Indiana's strong financial health by reviewing federal grant applications and working with agencies to ensure federal grant opportunities align with the state's fiscal and policy priorities.

Executive Director,
Luke Kenworthy

Highlights of 2018

It is evident from fiscal year 2018 that Indiana state agencies have become more proactive in seeking grants and more focused on priorities of the state. The overall result is increased federal funding for Indiana. Consequently, the state has also been required to spend more state revenue on state match requirements for federal programs.

In federal fiscal year 2018, OSBI saw a significant increase in the number of new grants agencies applied for. Last year, state agencies requested 70 new federal grants, compared to 46 in federal fiscal year 2016. Of these 70 new grants requested, 12 focused specifically on mental health and the drug epidemic, totaling $25,592,958. The only federal grant that Indiana was not awarded for this area was the Rural Communities Opioid Response Program ($200,000).

Since most of the federal funding Indiana receives has a match requirement, it is only natural that our increase in federal funding also necessitated an increase in state match spending. It is OSBI's observation that there has become a larger disparity in what agencies estimate Indiana will receive in federal funding (and be required to spend in match requirements) than what has been concluded at the end of our fiscal year.

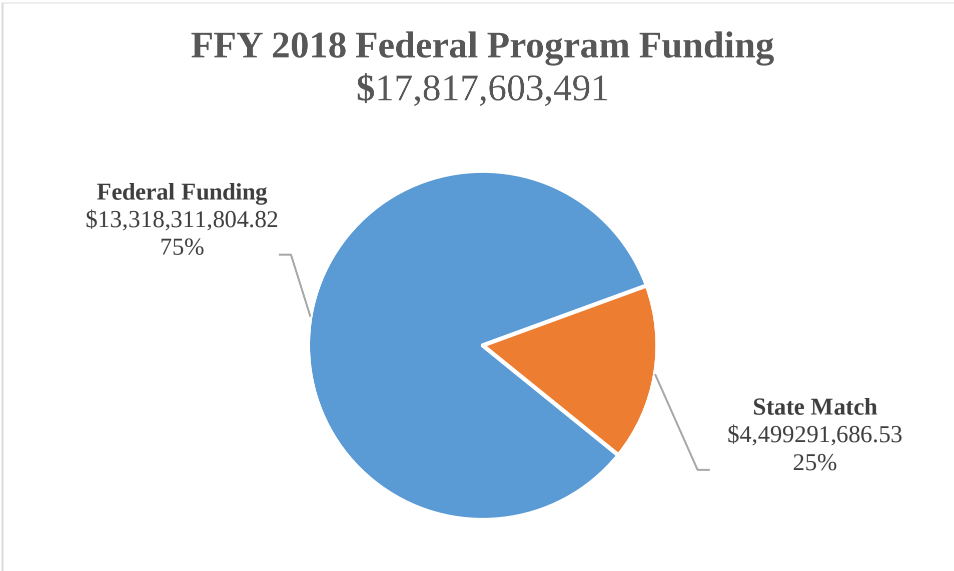
IN fiscal year 2016, OSBI received requests that included state match requirements totaling $3.5 billion; however, Indiana spent $3.8 billion on state match requirements. In fiscal year 2017, OSBI received request that included state match requirements totaling $2.3 billion, however, Indiana spent $4.4 billion on state match requirements. In fiscal year 2018, OSBI received requests that included state match requirements totaling $2.6 billion, however, Indiana spent $4.4 billion on state match requirements. With an increase of federal funding from $12.2 billion in FY16 to $13.3 billion in FY18, an increase in the match requirements is predictable. However, the anticipated match requirement compared to what the state actually has spent year to year, is less predictable.

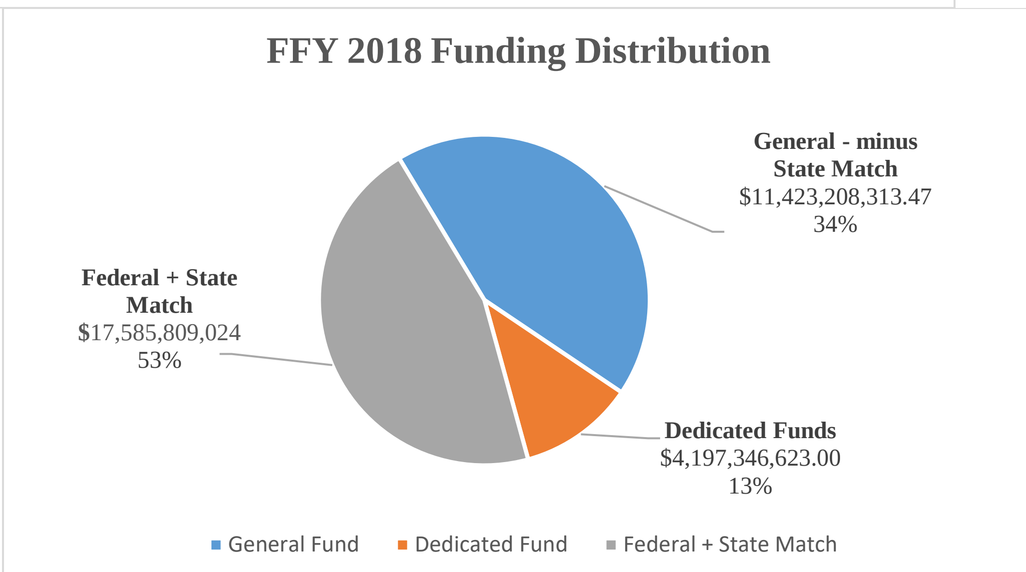
A primary reason for this, is because so many of the federal programs that Indiana runs are reimbursed based on a formula; the largest being Medicaid. A formula grant essentially promises to reimburse Indiana for services we provide based on a formula, specific criteria for which the services can be provided (based on population, qualified beneficiaries under the federal poverty line, unemployment levels, etc.). After agreeing to a grant, Indiana will spend state revenue on the program based on the criteria in the grant, and request reimbursement of these expenses by the federal government. Because these grants function on a formula (changing circumstance and needs of Hoosiers), our original estimated expenditures could change. As the primary federal funding for programs change (increase or decrease) the set percentage of state match spending will also change.

Federal Fiscal Year (FFY) 2018 Recap

Indiana's budget totaled $20.1 billion for State Fiscal Year (SFY) 2018 ($15.9 billion in General Funds and $4.2 billion in Dedicated Funds) while maintaining reserves of $1.8 billion. In addition, Indiana received $13.3 billion in federal grants, making up 39.8 percent of total government spending in Federal Fiscal Year (FFY) 2018.

When combining the state match requirements ($4.5 billion) with federal grants received, the amount Indiana spends on federal programs becomes $17.8 billion, which is 53% of all Indiana state government spending.





Of the 351 federal grants requested by state agencies, 343 were approved and 8 were withdrawn by the agency. As noted earlier, while there was a decrease in total number of grants requested in

FY18, there was an increase in the number of new federal grants requested by agencies for the first time. This could indicate that there is was some lag in requests in FY18 and could result in a significant overall increase in requests in both FY19 and FY20.

Indiana FFY 2018 Federal Grants (October 1, 2017 – September 30, 2018)								
Agency	**Requests**	**Approved**	**Withdrawn**	**Amount Approved**	**% of total**	**State Match**	**Match %**	**% of total**
FSSA	43	43	0	$10,830,071,778.78	81.32%	$2,441,004,585.37	18.39%	97.78%
INDOT	11	11	0	$1,049,437,909.13	7.88%	$21,191,389.02	1.98%	0.36%
DOE	20	20	0	$611,263,367.00	4.59%	$494,000.00	0.08%	0.01%
ISDH	86	85	1	$244,147,679.00	1.83%	$11,577,161.54	4.53%	0.19%
DCS	9	9	0	$136,172,911.00	1.02%	$30,842,894.80	18.47%	0.52%
DWD	16	16	0	$123,617,017.00	0.93%	$434,700.00	0.35%	0.01%
CJI	17	17	0	$93,938,436.00	0.71%	$21,405,822.00	18.56%	0.36%
AGO	18	18	0	$57,057,933.00	0.43%	$6,092,145.00	9.65%	0.10%
OCRA	3	3	0	$58,605,580.00	0.44%	$1,098,415.00	1.84%	0.02%
DNR	35	35	0	$37,791,001.89	0.28%	$13,330,946.68	26.08%	0.22%
IDHS	11	11	0	$13,635,722.78	0.10%	$7,232,443.55	34.66%	0.12%
ISP	14	7	7	$12,877,312.60	0.10%	$1,615,808.40	11.15%	0.03%
IDEM	15	15	0	$12,111,432.42	0.09%	$2,980,497.00	19.75%	0.05%
AG	1	1	0	$5,822,776.00	0.04%	$1,940,924.00	25.00%	0.03%
DOC	9	9	0	$4,574,946.00	0.03%	$0.00	0.00%	0.00%
ISL	2	2	0	$3,285,323.00	0.02%	$1,672,584.58	33.74%	0.03%
DOL	3	3	0	$3,284,900.00	0.02%	$2,715,884.00	45.26%	0.05%
IPAS	9	9	0	$2,679,426.00	0.02%	$0.00	0.00%	0.00%
IEDC	2	2	0	$2,525,194.52	0.02%	$3,013,327.26	54.41%	0.05%
BOAH	5	5	0	$2,272,743.00	0.02%	$1,907,821.00	45.64%	0.03%
IDOI	2	2	0	$1,637,204.00	0.01%	$0.00	0.00%	0.00%
GCPD	1	1	0	$1,488,546.00	0.01%	$446,563.80	23.08%	0.01%
ICRC	3	3	0	$1,377,694.80	0.01%	$0.00	0.00%	0.00%
IURC	4	4	0	$1,377,207.00	0.01%	$680,914.00	33.08%	0.01%
DMHA	1	1	0	$1,250,000.00	0.01%	$0.00	0.00%	0.00%
IODD	1	1	0	$1,128,910.00	0.01%	$196,610.00	14.83%	0.00%
BMV	2	2	0	$948,400.00	0.01%	$0.00	0.00%	0.00%
DVA	2	2	0	$841,008.00	0.01%	$35,562.00	4.06%	0.00%

IAC	1	1	0	$766,300.00	0.01%	$766,300.00	50.00%	0.01%
ISDA	2	2	0	$733,454.00	0.01%	$47,500.00	6.08%	0.00%
IPSC	1	1	0	$700,000.00	0.01%	$175,000.00	20.00%	0.00%
SNAP**				~$1,260,000,000.00				
Totals	**351**	**343**	**8**	**$13,318,311,804.82**	**100%**	***$4,499,291,686.53**	***25.3%**	**100%**

*While the total state match requirement included in grants requested by agencies totaled $2.4 billion, the $4.5 billion in the total shown above is the actual total matching funds transferred for programs in FFY18.
**Funding for the Supplemental Nutrition Assistance Program (SNAP ~$1.26 billion) is not included in this budget, because these funds are direct benefits to Hoosiers who qualify. FSSA only receives federal funds to administer the distribution of benefits.

Block Grant Contingency Plans (BGCP) Review

According to IC 4-3-24-6, state agencies that receive federal funding must submit a Block Grant Contingency Plan (BGCP) to OSBI by November 1, 2017, and every other year thereafter. These plans identify federal grants that Indiana received, what the key federal requirements are, and what changes could be made for our agencies to improve the program. The policy recommendations below focus on four programs from that review: Medicaid, the Mental Health and Substance Abuse Prevention and Treatment Block Grant, the Older Americans Act, and Vocational Rehabilitation.

Medicaid

Under the Family and Social Services Administration (FSSA), the Office of Medicaid Policy and Planning (OMPP) oversees several health insurance programs including Medicaid, the Healthy Indiana Plan (HIP) and the Children's Health Insurance Program (CHIP). Medicaid is a federal-state partnership that provides health coverage to children, pregnant women, parents, seniors and individuals with disabilities. While Medicaid establishes its own eligibility standards and the scope of services provided, the federal government sets strict federal requirements that impact program administration.

As mentioned before, Medicaid functions under a formula grant. The federal government pays states for a specified percentage of program expenditures, called the Federal Medical Assistance Percentage (FMAP). Indiana's FFY 2018 FMAP is 65.59%, meaning Indiana funds nearly a third of cost of most Medicaid services.

HIP and CHIP are also Medicaid programs, but they have different FMAP percentages. Moving to a block grant system would allow Indiana use federal dollars regardless of the associated FMAP, and utilize the funds in ways to best administer the programs for Hoosiers.

In addition, under the federal Medicaid drug rebate program, Indiana is able to opt to cover outpatient prescription drugs. However, Indiana must cover all FDA-approved prescription drugs under agreements with the Secretary of HHS. These top-down restrictions hinder Indiana from exploring innovative ways to reduce Hoosiers' drug costs and as well as Indiana's budget.

With these issues in mind, OSBI recommends two federal policy changes to Medicaid:

- Move to a block grant system which would allow states to use federal dollars regardless of the associated FMAP, and utilize the funds in ways to best administer the programs for their citizens.

- For states that opt to cover outpatient prescription drugs, remove the requirement to cover all FDA-approved prescription drugs, allowing Indiana to be selective to cover less costly alternatives, such as generic drugs.

Mental Health and Substance Abuse Prevention and Treatment Block Grants

The Division of Mental Health and Addiction (DMHA), also under FSSA, focuses on seven priority areas: Substance abuse prevention and mental health promotion; Recovery supports; Integration of primary and behavioral health care; Safe and affordable housing in the community for all consumers; Women during pregnancy and/or with dependent children; Outreach and priority admission for intravenous drug use (IVDU); and Tuberculosis screening, assessment, education and treatment services. They primarily uses the Mental Health Block Grant (MHBG) and Substance Abuse Block Grant (SABG) to perform in these policy areas.

The Mental Health Block Grant (MHBG) ($12,300,809 program) and the Substance Abuse Block Grant (SABG) ($32,514,482 programs) are federally funded programs for community-based services for mental health and substance abuse. The mental health block grant provides approximately 6% of the mental health funding for the state of Indiana, and the SAPT block grant provides approximately 57% of the funding for substance abuse treatment and prevention.

Like Medicaid, these programs also function under a federal formula. While they are styled as block grants, there are a significant number of requirements and restrictions limiting how this money can be spent.

Requirements for the mental health block grant include:

- Maintenance of effort for community services and for children's services
- 10% Set-aside for Early Psychosis
- Services provided only through qualified community programs
- State is required to have a planning council with membership requirements identified in rule

Requirements of the substance abuse block grant include:

- Maintenance of effort
- 20% minimum for prevention programs
- Women's services MOE
- Tuberculosis MOE
- Intravenous drug use outreach and capacity monitoring
- Synar requirements to prevent minor access to tobacco

As highlighted in OSBI's 2018 Annual Report, drug addiction is a critical issue in Indiana that has a real impact on our communities, law enforcement, and public health system. Such restriction on what and how this funding is utilized significantly restricts Indiana's ability to respond to critical issues in real-time. Indiana saw the benefit of the "State Targeted Response to the Opioid Crisis Grant" functions under the Substance Abuse and Mental Health Services Administration (SAMHSA) and lessened some restriction in order to allow more funding to go toward the opioid crisis.[i] However, Indiana would greatly benefit from more freedom to prioritize this funding to properly respond to a crisis when it happens, without having to wait on Congress.

Therefore, OSBI recommends the following federal policy changes to The Mental Health Block Grant (MHBG) and the Substance Abuse Block Grant (SABG):

- Remove the maintenance of effort requirements.

- Remove the targeted consumer population restrictions.

- Combine the mental health and substance abuse block grant into one block grant.

- Where appropriate, establish front-loaded funding as opposed to reimbursement for state expenditures.

Older Americans Act

The Older Americans Act (OAA) supports numerous home and community-based services, such as meals-on-wheels, in-home services, legal services, transportation, and elder abuse prevention. There programs promote the dignity of seniors by helping them stay independent, avoiding hospitalization and nursing home care.

In pursuit of these aims, the Division of Aging, under FSSA, received formula grants from the Administration for Community Living totaling $27.2 million in FFY18. These grants come with specific distribution and eligibility criteria for several areas:

Older Americans Act Title III:

- Title III B – Supportive Services
- Title III C1 – Congregate Meals
- Title III C2 – Home-Delivered Meals
- Title III D – Preventive Health
- Title III E – National Family Caregiver Support Program

Older Americans Act Title VII:

- Elder Abuse Prevention
- Ombudsman

Nutrition Services Incentive Program:

- Supplements nutrition funding under Title III C1 and C2

Through a federally mandated intra-state funding formula, these funds are distributed to the 16 Area Agencies on Aging (AAAs). However, according to the Division of Aging, these formulas do not reflect the distribution of needs throughout the state, especially as related to caregiver support and nutrition services. Like the MHBG and SABG, the restrictions on Indiana prevents the state from responding to the real-time needs of seniors in various areas of the state.

Therefore, OSBI recommends the following federal policy changes to programs under the Older Americans Act:

- Remove the pre-formula distribution of funds to our 16 Area Agencies.

- Streamline the different funding mechanisms with a block grant.

Vocational Rehabilitation

The Bureau of Rehabilitation Services (BRS) provides people with disabilities with services to help them gain and retain employment. Through the Vocational Rehabilitation (VR) Grant, VR counselors work with individuals throughout the process to gain a greater level of independence and enhance their quality of life. Indiana received approximately $68 million in federal funding for FFY2018 through the VR grant with an $18 million state match requirement, totaling $86 million.

With the enactment of the Workforce Innovation and Opportunity Act (WIOA), there are two areas that limit the efficiency of BRS: the 15% earmark for qualified pre-employment transition services, and data collection requirements.

Under WIOA, BRS is required to earmark 15% of the Federal grant funds ($10.2 million for FFY18) for qualified pre-employment transition service expenditures. Because of this requirement, BRS must shift a significant portion of funds away from other VR service categories and other VR consumers. Furthermore, there are many limitations on how pre-employment transition services funds may, and may not, be utilized. Regardless of whether BRS actually spends the full 15% of those funds, BRS may not use the remaining funds for other VR services that are needed. This could mean that VR would return funds that could have been used to serve consumers on a deferred list under an order of selection.

Additionally, WIOA has substantially increased both the amount of required data collection and the frequency of required federal reporting, resulting in a significant added burden and cost to BRS. These are the type of requirements that add burdens that are not allows quantifiable, however, are promulgated with unintended cost to the programs they are intended to help.

Therefore, OSBI recommends the following federal policy changes to Vocational Rehabilitation Grant:

- Remove the 15% earmark for qualified pre-employment transition service expenditures or allow more flexibility in how these funds could be utilized in order for the State to maximize the use funding available.

- Reduce the data collection required along with the frequency of the reporting.

Conclusion

While Indiana has seen the benefits of more flexibility in federal grants in a few cases this year, there is clearly still a lot of work to do. It is clear block grants are essential to enabling Indiana to drive greater outcomes. We have also seen how a one-size-fits-all approach in federal grant restrictions does not allow Indiana to address very immediate, and Hoosier-centered problems with federal resources already available. Instead of waiting on Congress to make changes when epidemics emerge, the federal government could be more flexible to allow Indiana to make changes in a time of need.

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[i] https://www.samhsa.gov/grants/grant-announcements/ti-17-014