Follow-up report
February 2017

Distribution of State General Fund Dollars to Public Health Districts

Office of Performance Evaluations
Idaho Legislature

Rakesh Mohan
Director

Office of Performance Evaluations

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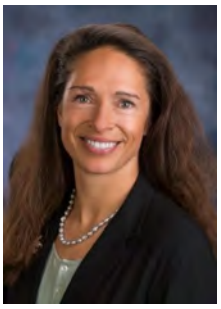
Senator Cliff Bayer (R) and Representative Mat Erpelding (D) cochair the committee.

Senators

Cliff Bayer

Mark Harris



Michelle Stennett

Cherie Buckner-Webb

Representatives

Mat Erpelding

Maxine Bell

Caroline Nilsson Troy

Elaine Smith

Follow-up report

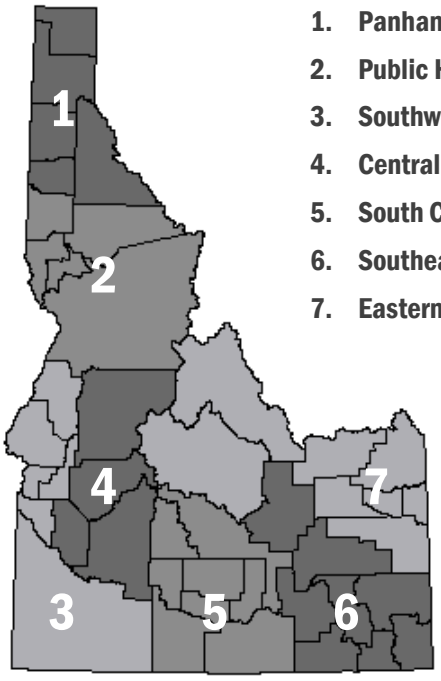
954 W. Jefferson Street,
Suite 202
Boise, ID 83702
Ph. 208.332.1470
legislature.idaho.gov/ope

Overview of evaluation

We released the report *Distribution of State General Fund Dollars to Public Health Districts* in December 2015. The report responded to concerns about recent changes to the formula that distributes state general funds among Idaho's seven public health districts. In fiscal year 2015, 17 percent or $8.5 million of the districts' $50.4 million budget came from the state general fund.

Exhibit 1

Idaho's seven public health districts serve all 44 counties.



1. Panhandle Health District
2. Public Health-Idaho North Central District
3. Southwest District Health
4. Central District Health Department
5. South Central Public Health District
6. Southeastern Idaho Public Health
7. Eastern Idaho Public Health

We appreciate the assistance we received from the seven public health districts.

Bryon Welch conducted the study.

Tony Grange conducted the quality control review.

Margaret Campbell copy edited and desktop published the report.

The formula is developed and administered by the Trustees of the Boards of Health, who are either county commissioners or appointed by county commissioners. The formula comprises three differently weighted measures. Of the $8.5 million appropriated in fiscal year 2015, 67 percent ($5.7 million) was distributed based on county contributions, 18 percent ($1.5 million) on district population, and 15 percent ($1.3 million) on district poverty rates.

Idaho Code § 39-411 gives the Trustees of the Boards of Health the authority to set and change the distribution formula. In fiscal year 2014, the Trustees' changes to the formula caused a shift in distribution. Two districts saw a decrease in state funding from the previous fiscal year despite increases in their county contributions.

Even though the distribution amount a district receives may shift each year depending on changes in the formula measures (population, poverty rates, and amount of county contributions), the Trustees' elimination of one of the formula measures and reweighting of the remaining measures for fiscal year 2014 raised questions from policymakers about the rationale and fairness of the formula.

Idaho's public health districts support 69 categorized programs

9 programs are mandated or delegated to districts, such as environmental health, restaurant inspections, and sewage disposal.

6 programs are considered by districts as core or fundamental to their mission, such as epidemiology, STD testing, and HIV prevention.

18 programs are contracted to districts—the Department of Health and Welfare is the most prevalent contract partner. Other programs not included in the 18 may also involve contracting. Examples include the federal WIC program, immunizations, and fit and fall prevention courses for senior citizens.

36 programs are optional—programs that each local district board has chosen to meet the needs of their districts.

We highlighted several key findings in the report:

The formula was not clearly or consistently linked to district program needs.

Programs with regulatory fees were subsidized with state and county funds and were not subsidized equally.[1]

Payment for contract services did not fully cover the cost of some programs and the difference was made up with state and county funds.

Insufficient funding of regulatory programs reduced funding available for other public health services.

The required state match of state general funds to county contributions is 67 percent. In fiscal years 2011–2015, the state match had been much higher than the statutory requirement, slightly more than 100 percent of county contributions.

1. Districts attributed variations in subsidization rates among districts to the number of permits issued, different geographic considerations, and varying time spent issuing permits.

Assessment of status

We assessed the status of recommendations within three categories:

Complete: Measurable steps have been taken to meet the intent, or an approach that diverged from the recommendation has been taken to meet the intent.

In process: Measurable steps have been taken that begins to meet the intent.

No change: No measureable steps have been taken to meet the intent.

We made four recommendations to the Trustees of the Boards of Health and two recommendations to the Legislature. This follow-up report assesses the implementation status of those recommendations: one is completed, two are in process, and three have seen no change. In a few instances, we provided updated information based on fiscal years 2016–2017 data from the districts.

Agency response

We made the following four recommendation to the Trustees of the Boards of Health.

Establish formula objectives

Trustees have begun incorporating formula objectives into their bylaws.

The Trustees may intend to distribute state funds equitably so that districts are provided a fair share to meet their goals; however, objectives of the funding formula are not explicitly articulated. With objectives that are well-defined and measurable, the Trustees would better know when the formula needs periodic adjustment.

Recommendation: The Trustees of the Boards of Health should consider adopting objectives against which the formula can be measured. Then, if the Trustees decide to make changes to the formula, they could determine whether the changes align with the objectives. The objectives would also help with periodic reviews to ensure the formula still meets its intended purposes.

Status: In process

After the report was released, the Trustees incorporated three formula objectives into their bylaws:

> Assure delivery of public health to residents in all 44 counties
>
> Review the formula annually
>
> Distribute state funds appropriated for change in employee compensation (CEC) or insurance increases by district full-time equivalents instead of through the formula

The Trustees are creating measures to gauge their ongoing progress in meeting these objectives. By doing so, the Trustees can regularly determine whether the formula is meeting goals and objectives.

Phase in future changes to the formula over several years

Before changes were made to the formula in fiscal year 2014, we found some volatility in funding. After the changes were made, we found notable impact on some districts.

When the state changed vendors for its Medicaid billing in 2010, the change led to major shifts in the estimates of individuals on public assistance, a component used in the distribution formula to determine the amount of state funds a district received.

Exhibit 2 shows how the formula measures have changed over the years. For fiscal year 2014, the Trustees voted to change the distribution formula. They eliminated public assistance enrollment from the formula and changed weights for the three remaining measures. In addition, districts were required to implement this funding change all in one year.

Exhibit 2

The formula's measures and their relative weights have changed twice since the early 1990s.

Measure	Before 1993 (%)	1993–2013 (%)	2014–2017 (%)
County contributions	100	60	67
Population	0	20	18
Poverty rates	0	10	15
Public assistance	0	10	0

Because districts 3 and 4 had the largest percentages of individuals receiving public assistance, this change decreased their state general fund dollars from 2013 levels despite an increase in their county contributions. Overall, the amount of state general fund dollars that district 3 received in 2014 was 2 percent less than the 2013 amount, and for district 4, it was 1 percent less.

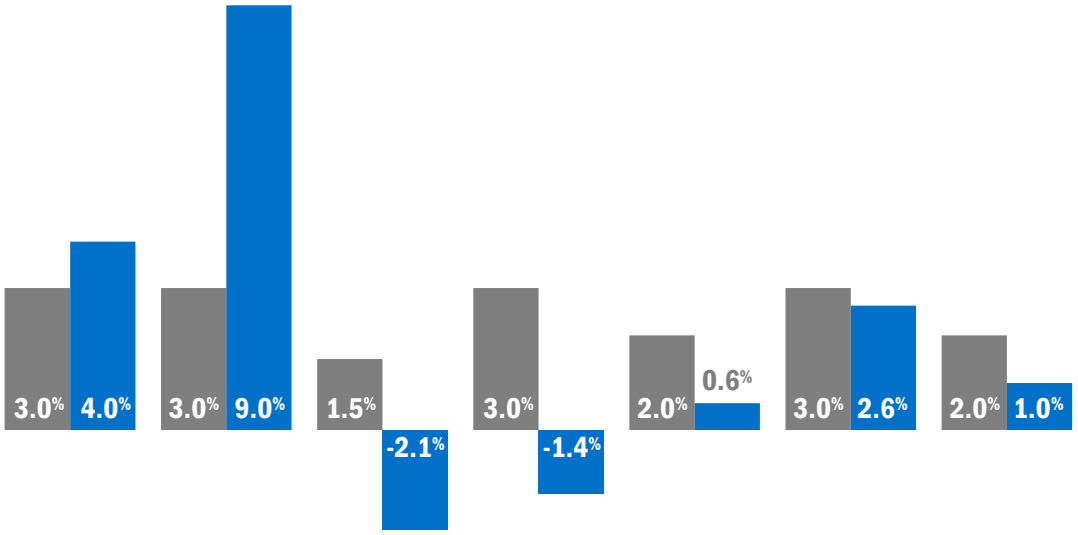
Recommendation: To avoid immediate fiscal impact to districts, the Trustees of the Boards of Health should consider phasing in over several years any future changes to the distribution formula.

Status: In process

In 2014 the weights for county contributions and poverty rates measures were increased.

Exhibit 3

With 2014 changes to the formula, state general fund dollars decreased in districts 3 and 4 from 2013 levels despite increases in county contributions.



	District 1	District 2	District 3	District 4	District 5	District 6	District 7
Change in county contribution	$31,549	$20,631	$16,596	$57,747	$20,233	$30,308	$19,235
Change in state general	$43,100	$62,600	($26,300)	($26,500)	$6,000	$27,000	$10,500

In 2016 the Trustees incorporated an annual review of the formula into their bylaws. This review will look at five-year data trends of general fund distributions. Based on those trends, any changes the Trustees make would be phased in over multiple years so adverse effects to any one district would not be abrupt.

Trustees are making changes to the formula again for fiscal year 2018, which are highlighted in more detail in the next section. The nature of those changes incorporates elements of prior fiscal year distribution amounts to minimize impacts from one fiscal year to the next.

Since the changes to the formula were made by the Trustees in 2014, a district's percentage of the total state general fund appropriation has been fairly close to 2013 levels. In each fiscal year beginning with 2014, the percentage of the total state general fund appropriation a district received, as a result of the formula, has varied from -0.6–1 percentage points when

compared with the percentage a district received in 2013. Similarly, when comparing the three fiscal years before 2013, there was never more than a 0.7 percentage point difference compared to 2013 levels.

Because this recommendation addresses future changes to the formula, we would need to examine the distribution of state funds among districts to determine whether the recommendation has been implemented.

Eliminate weighting of county contributions in formula

Idaho Code § 39-425 states

> The matching amount to be included in the request shall be a minimum of sixty-seven percent (67%) of the amounts pledged by each county

When conducting our evaluation, we found that state funds averaged 135 percent of county contributions in fiscal years 2005–2009. In fiscal years 2011–2015, state funds averaged slightly more than 100 percent. Even with a decrease in matching funds, the state general fund appropriation has been substantially greater than the statutorily required 67 percent.

Under the formula, if the state general fund appropriation were ever equal to the minimum in statute, some districts could receive a percentage lower than the 67 percent match of their county contributions. Each district would receive a portion of the available funds only relative to the county contributions for other districts, not to the minimum specified in state code.

Even when state funds are greater than the minimum statutory limit and all districts have seen an increase in their contributions, the formula increases state general fund dollars for some districts at the expense of others. This condition occurs because the formula weights county contributions in combination with poverty rates and population.

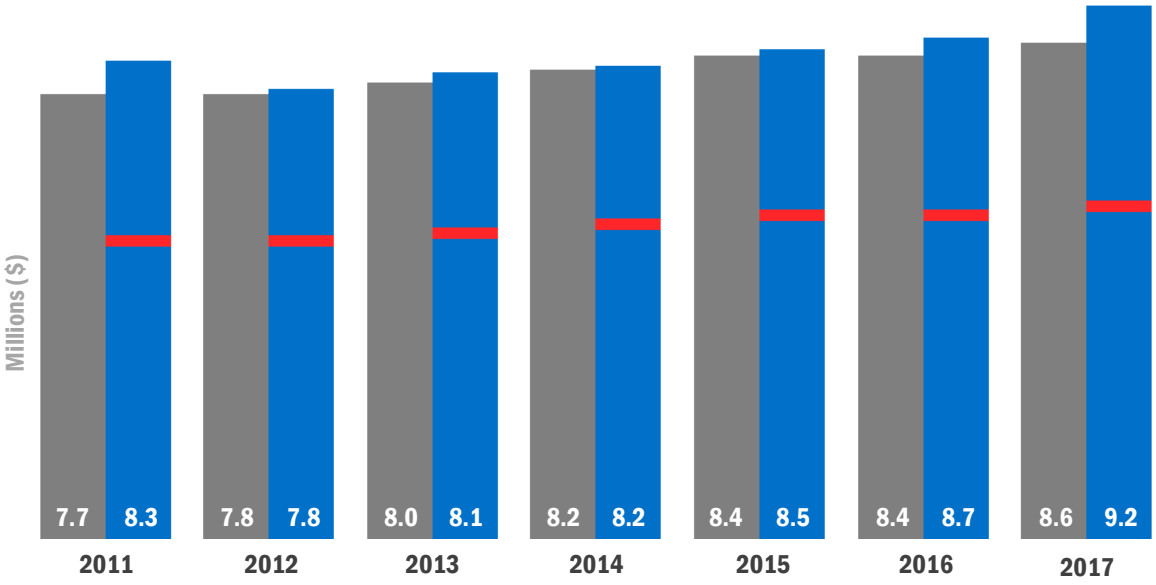
Unweighting the part of the formula for county contributions could change the percentage of general fund dollars that would be available for allocation based on poverty rates and population measures.

Hypothetical scenario:

If the state general fund appropriation were equal to minimum statutory levels, some districts may not receive a 67% match on county contributions.

Exhibit 4

State matching funds exceeded county contributions and were substantially greater than the minimum 67 percent.



Recommendation: The Trustees of the Boards of Health should consider eliminating the part of the formula that weights county contributions and replacing it with one that distributes state general fund dollars for that part of the formula based directly on 67 percent of the county contributions.

Status: No change

The state general fund appropriation has been well above the statutory minimum. As shown in exhibit 4, state general fund appropriations continue to outpace county contributions in fiscal years 2016 and 2017.

In June 2016, the Trustees adopted a new approach to distribute general funds within the formula.

1. If the general fund appropriation is equal to the amount allocated for fiscal year 2017, districts will receive the same funding percentages.

District 1	13.5%
District 2	9.5%
District 3	14.9%
District 4	23.6%
District 5	12.9%
District 6	12.8%
District 7	12.8%

2. When general fund appropriations increase, additional monies will be distributed to districts according to their county contributions (67 percent) and district population (33 percent).

3. When general fund appropriations decrease, each district will receive the same percentage of total state general fund dollars as the prior year.

Beginning in fiscal year 2018, districts will be guaranteed the same percentage of the state general fund appropriation that they received in fiscal year 2017. For example, district 1 received 13.5 percent of the total state general fund appropriation in fiscal year 2017. For fiscal year 2018, if there is no increase, district 1 is guaranteed the same percentage of the total appropriation. If there is an increase, districts are guaranteed at least the dollar amount received in fiscal year 2017.

The formula used in fiscal year 2017 did not eliminate the weighting of the county contributions. Moving forward, districts will continue to receive an amount equal to their district's portion of total statewide county contributions.

With state general fund appropriation levels now outpacing county contributions, none of the districts are receiving less than 67 percent of their county contributions in their district's state general fund distribution. We made this recommendation in the event that if the state general fund appropriation ever decreased to the minimum level, the formula would distribute an amount of state general funds equal to 67 percent of their county contributions.

The Trustees will take a new approach to how state general funds will be distributed in FY 2018.

The Trustees have reaffirmed their commitment to regularly review indirect cost rates.

Unweighting the formula for county contributions would not have significantly changed the amount of state funds a district received in fiscal year 2015. Four districts would have received 0–0.5 percent more in total state funding and three districts would have received 0.3–0.5 percent less. However, this unweighting would ensure that each district received the percentage match of county contributions referenced in statute.

Periodically review indirect cost rates

Indirect costs, such as administrative and IT services, benefit all programs and are part of each district's core operational infrastructure. Districts use a method for allocating indirect costs based on direct staff salaries for each program. Although district officials acknowledge some challenges to this approach, they said the simplicity of the approach and its rough closeness to capturing actual indirect costs per program made the approach worth retaining.

Simplicity and effectiveness can be used as criteria for evaluating an existing formula.

When indirect charges are based on salaries alone, charges may not align closely enough with actual indirect uses of the programs. There can be many reasons for misalignment, such as variations in use of space, unequal needs for information technology, and differences in longevity and salaries among employees in these programs as compared with staff in more direct, client-based programs.

In our evaluation, we did not find a compelling need for districts to change the base for calculating the indirect rate. However, circumstances may change, especially if recommendations in this report lead to revisions in the formula or funding approach.

Recommendation: The Trustees of the Boards of Health and districts should consider periodically reviewing the indirect cost rate to ensure that the adopted approach reasonably reflects the actual use of indirect resources by program (e.g., costs of the staff, infrastructure, and services). This review should also take into account the tradeoffs between simplicity and effectiveness.

Status: Complete

For fiscal year 2016, the indirect rates among the seven districts still varied, ranging from 27 to 49 percent.

The Trustees have decided to continue to use the cost allocation methodology as they have in the past as well as the methods for determining indirect cost rates. The Trustees will continue to review those rates and methods annually with district staff.

Legislative response

We made the following two recommendations to the Legislature.

Create separate funding mechanism to make regulatory, fee-based programs more self-supporting

Districts have several programs that are regulatory and fee-based. These programs offer permits, licenses, or inspection services, and the affected businesses, governmental entities, or individuals can be required to pay fees for these services. Sewage disposal and restaurant inspections are two programs that are regulatory in nature and collect fees for service.

The programs that regulate these businesses and activities are heavily supported with dollars distributed by the formula. Their reliance on funding support has little or nothing to do with the two need-related measures in the formula—poverty rates and population. Instead, funding support is needed because fees inadequately cover the full cost of operations.

All districts need state and county support for their regulatory programs. If the Legislature were to devise a separate funding mechanism for regulatory, fee-based programs, it could isolate these issues and potentially resolve them, and at the same time avoid a funding competition with other core programs.

To the extent that regulatory, fee-based programs become more self-supporting, districts can redistribute more county contributions and state general funds to programs that do not receive revenue from regulatory fees.

Devising a separate funding mechanism to make these programs more self-supporting would not add complexity to the formula but would require, at minimum, changes in statute and modifications to the budgeting process. Districts set fees for some programs, such as environmental health, while other fees are established in code.

Recommendation: The Legislature should consider developing a separate funding mechanism to make the regulatory, fee-based programs administered by the health districts more self-supporting. This may include increasing regulatory fees.

Status: No change

If regulatory fees covered more of the cost of programs, state general fund dollars could be used for other core services.

In fiscal year 2016, we continued to see an overall trend in districts' expenditures where state and county funds were being used to offset low revenue in regulatory, fee-based programs, such as food inspection and sewage disposal.

Commission a study linking funding to measures of program need

The two needs-related measures, population and poverty rates, may not allocate funds consistent with actual need.

Districts have discretion to spend funds according to their priorities. Their decisions are not determined by the formula's allocation of funds or by the measures that determine the amount of funds. For example, if a district receives more money because its proportion of citizens in poverty increases, the district is not required to spend proportionally more money on programs that directly benefit those in poverty.

The measures of poverty rates and population are intended to address public health needs. These are broad measures compared with the specific and varied criteria of individual programs.

A key challenge to making the funding formula more effective is to ensure that the allocation of state general fund dollars and county contributions is more clearly linked to need within programs. A major step in making this link would be to separate the regulatory, fee-based programs from the formula.

Addressing need by further changing the formula would require an analysis of the existing array of programs to determine the kinds and amounts of need that are present.

Recommendation: The Legislature should consider commissioning an evaluation to more clearly link funding of districts to measures of need in individual programs.

Status: No change

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