



Quick Reference Handout 5.6: Reallocation

Reallocation Overview

Reallocation is the process of moving funds from one prioritized service category to another after initial allocation, to reflect actual funding received and ensure that all funds are expended on needed services. The planning council/planning body (PC/PB) carries out two kinds of reallocation:

- **Initial reallocation** occurs right after the jurisdiction receives a partial or final Ryan White HIV/AIDS Program (RWHAP) Part A grant award, since the amount received is usually somewhat higher or lower than the amount requested in the annual application. Initial reallocation finalizes amounts for each funded service category, which are used by the recipient in contracting with providers.
- **Reallocation during the program year** occurs as needed to move funds from one service category to another, so that all available Part A program funds are used to provide services, and money is not left unspent at the end of the program year.

The Health Resources and Services Administration's HIV/AIDS Bureau (HRSA HAB) expects the PC/PB and the recipient to work together to manage reallocations:

- A planning council must approve the reallocation of funds across service categories as part of its legislative responsibility for the "allocation of funds"; a planning body should recommend reallocations using a similar process.
- Timely reallocation during the program year is extremely important because it moves funds that could otherwise go unused, so they are spent on needed services. Reallocation should happen as soon as it becomes clear that funds in a particular service category will not be fully spent. This enables the recipient to revise subrecipient contracts as necessary, and gives a subrecipient receiving additional funds the time needed to spend those funds appropriately before the end of the program year.
- The PC/PB should have a written reallocation process in place, including a special "rapid reallocation" process for use late in the program year.

Timely reallocations prevent legislative penalties for "unobligated balances." "Unobligated balances" are funds that remain unspent at the end of the program year. The legislation provides for penalties when a RWHAP Part A or Part B program ends the program year with more than 5% of its formula award unobligated, as shown in its final financial report. The penalties are severe:

- The amount over 5% that was not spent is deducted from the amount awarded the following fiscal year.
- The EMA/TGA cannot compete for supplemental funds in the next application cycle – it receives only formula funds, which comprise two-thirds of total Part A funding.

The EMA/TGA can request use of the unspent funds as “carryover” for the following year, but approval is not assured. The process is described in *PCN 12-02, Part A and Part B Unobligated Balances and Carryover*.¹ The details of managing the process are the recipient’s responsibility, but the PC/PB needs to understand the very serious financial consequences of failing to work with the recipient to reallocate funds from underspent service categories to other service categories where the funds are needed and can be spent by the end of the program year.

Reallocation Process Options

Initial reallocation adjusts allocations to each funded service category so that total allocations equal the actual grant award received from HRSA HAB. When a notice of award is received by the Eligible Metropolitan Area (EMA) or Transitional Grant Area (TGA):

- Using its most appropriate funding scenario, the PC/PB could choose to recalculate dollar amounts but maintain the same percent of funding it allocated for each service category. This can be done easily if the PC/PB used multiple funding scenarios during its original Priority Setting and Resource Allocation (PSRA) process, most often “flat” funding assuming the amount will be unchanged from the current year, plus “5% increase” and “5% decrease” from current year funding. In these situations, the PC/PB does not have to rethink its allocations. It simply chooses the scenario that is closest to the actual amount of funding received and uses the percent allocations to recalculate the dollar amounts. If the EMA or TGA received 2% more or less funding than the prior year, it would use the percent allocations used in its “flat” funding scenario. If it received a cut of 3% or more, it would use the “5% decrease” scenario, and if it received an increase of 3% or more, it would use the “5% increase” scenario.
- The PC/PB might choose instead to rethink and refine its allocations based on the actual award amount, reviewing allocations for specific service categories rather than using the percentages from an existing scenario. This might mean making a few adjustments or redoing all resource reallocations based on the actual funding received. This approach is most likely where the PC/PB used only one scenario, or conditions and needs have changed substantially since the application was submitted, or the EMA or TGA received a funding increase or funding cut of more than 5%.
- Reallocations during the program year are needed when some service categories are underspent and/or others have higher than expected demand or utilization. Reallocations must be approved by the PC/PB when they require moving funds from one service category to another. They generally involve only a small number of service categories. For example, after seven months, the Non-Medical Case Management service category, which has three funded providers, is severely underspent. The recipient reports the low rate of spending and explains that one provider’s main facility was damaged in a tornado and another has had trouble filling staffing vacancies, and it is very unlikely that overall monthly spending by all three non-medical case management providers will exceed the normal monthly amount for the rest of the year. While the recipient has done some internal transfers among funded providers for that service category, staff believe that about \$42,000 will be left over at the end of the year unless they are reallocated to another service

category. At the same time, the demand for Food Bank services and Emergency Financial Assistance (EFA)-Food have greatly increased. The recipient reports that this is a direct result of the closure of the area’s largest food bank, and the demand is expected to remain high for the rest of the year. The PC/PB might vote to move those excess funds from Non-Medical Case Management into Food Bank and EFA-Food service categories, to meet needs and avoid “unobligated balances” at the end of the year.

When Reallocations Do and Do Not Require PC/PB Approval

- **DO NOT:** Moving funds from underspent providers to other providers in the same service category that are spending at a higher level – Decision is made by the recipient and the PC/PB is not involved.
- **DO:** Moving funds from underspent service categories to different service categories that are spending at a higher level, or need additional funds to meet the need for services – The planning council must approve this type of reallocations (a planning body makes recommendations to the recipient).

Typical Steps in Reallocation

Managing reallocation so that all program funds are used to provide needed services and there are no unobligated funds requires careful recipient and PC/PB monitoring of expenditures and needs, and the implementation of a consistent process, including a rapid reallocation process for use near the end of the program year. Here are six suggested steps for reallocation:

1. **Develop a reallocation policy and process** that specifies how the PC/PB will decide on reallocations, indicates what (if any) percent or maximum amount of funds can be moved by the recipient without prior PC/PB approval, and includes a rapid reallocation process for use in the last 3-4 months of the program year (usually November to February). For example, the PC/PB might allow the recipient to move funds across service categories without prior PC/PB approval at any time during the year if the total amount is not more than 5% of the total allocation for that service category, or \$150,000, whichever is less.
2. **Think about reallocation priorities during the initial PSRA process.** When making allocations, consider where the PC/PB would like to be able to put additional funds to meet identified needs. Consider developing a “reallocation priorities list” to use if and when funds become available. When the PC/PB finishes refining allocations after the final award is received, identify any prioritized service categories that the PC/PB feels were underfunded and review/refine that reallocation priorities list. During the year, use the list along with information on waiting lists or service delays as a starting point in deciding where to transfer funds from underspent service categories.

3. Establish a monthly expenditures review process, based on:

- A PC/PB committee responsible for monitoring expenditures
- A monthly expenditure report from the recipient that provides, overall and by service category:
 - Amounts allocated, currently contracted, and expended for the current month and the year-to-date.
 - Percent of contracted funds expended to date.
 - A monthly report from the recipient that both highlights over- and underspent service categories and identifies reasons for over- and under-spending.

Some Factors That May Contribute to Underspensing by a Funded Service Provider

- Reduced demand for services
- Long-term staff vacancies
- Natural disasters or sustained bad weather that prevents clients from accessing services
- Damage to facilities that prevents or reduces ability to provide services
- Management issues

4. Have the designated committee carefully review spending by service category each month with the recipient and summarize results to the full PC/PB, including:

- Whether overall and service category expenditures reflect expected spending levels – e.g., 50% after 6 months;
- What categories are seriously over- or underspent and why; and
- Which “variances” from expected spending seem likely to continue and should be closely watched.

The PC/PB should not discuss individual subrecipients, just service categories.

5. Follow a flexible reallocation schedule:

- Consider possible reallocation at least three times during the program year – plus anytime expenditures and needs make this necessary or recipient requests reallocations.
- Review and discuss with the recipient any service categories with continuing large “variances” between expected and actual expenditures.
- Working with the recipient, agree on changes needed to avoid unobligated balances (due to underspending) or waiting lists/service gaps (due to high demand).
- Refer to the PC/PB’s reallocation priorities list to identify service categories that were expected to need additional funds.
- Develop proposed reallocations – amounts for the recipient to move from underspent service categories to other service categories, based on PC/PB review and approval. If the recipient provides such recommended amounts, review and discuss them.

6. Be sure your process allows for rapid reallocation late in the program year. Many EMAs and TGAs have developed rapid reallocation policies and procedures to ensure that funds can be reallocated quickly during the last three or four months of the program year, when going through the normal reviews and discussion by the responsible committee, Executive Committee, and PC/PB would take too long and perhaps make it impossible for funds to be moved and spent by the end of the year. Rapid reallocation typically allows the recipient to move funds across service categories without prior PC/PB approval, under specified conditions such as the following:

- The process applies only after a certain point in the program year.
- Funds are to be moved only into service categories that are among the PC/PB's identified reallocation priorities (based on its list) or have serious wait lists or service delays.
- The PC/PB is to be informed immediately once such reallocations are made, and to review and confirm the reallocation at its next meeting.
- The PC/PB might place a limit on the percent or amount of funds that can be moved under this process.

End Notes

¹Available at <https://ryanwhite.hrsa.gov/sites/default/files/ryanwhite/grants/hab-part-uob-policy.pdf>