EXHIBIT 4
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HB 3

DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES

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To: David Ewer, Director
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Joan Miles, Director
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From: John Chappuis, Deputy Director
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Subject: FY2007 Supplemental Status

The anticipated FY2007 general fund shortfall for the Department of Public Health and Human Services is projected to be $10,954,714. As shown in the attached spreadsheet, the supplemental was generated primarily by changes in the federal medical assistance percentage and from increased costs in two of our state institutions. These areas are discussed further below and on the attached spreadsheet.

As you may recall, the Department reported the potential for a much greater shortfall last year. In March of 2006, with the President's budget proposals still on the table, we were looking at a possible deficit of $50.3 million. Since that time, many of the budget reductions at the federal level were not implemented and certain costs within the department have declined or were mitigated to some extent. However, we did still experience some significant cost shifts from the federal government.

The following discusses the status of the existing shortfall by major category:

Changes in Medicaid:

- The Federal Medical Assistance Participation (FMAP) rate declined from the budgeted level of 70.08% to 69.29%. This increased the state share of Medicaid and Foster Care costs by 0.79%. While this is a small percentage, Medicaid is an $800 million per year program. The effect of this decline in federal financial participation increased the state's costs by $6.4 million.
- We did experience a decline in Medicaid expenditures of about 1.5% from the budgeted levels. This decreased the state's cost by $4.5 million.

Changes in federal funding:

- The federal deficit reduction act authorized last year eliminated federal financial participation in targeted case management activities for the foster care program. This shifted this cost to the state general fund by $0.9 million this biennium.
- Changes in caseloads, federal funding rates in the foster care program, legal activities and workload distribution influence the federal funding that is available to support the Directors Office, the Business and Financial Services Division and the Technology Services Division. This resulted in a federal funding shortfall of $1.3 million in these divisions for FY2007.

State Institutions:

• Montana State Hospital (MSH): MSH experienced a surge in the daily census in 2006 at the same time they also experienced a staff shortage for certain direct professionals. Modified positions were needed to handle a long-term increased census during FY 2006. Operating costs (food, laundry, drugs, etc.) increased also due to the enhanced census. The same modified positions were continued in FY 2007 (although the census has subsided to licensed capacity) to address CMS certification concerns regarding patient treatment. In addition, MSH psych techs were granted a position reclassification and several direct care positions were authorized for competitive pay exceptions. The General Fund shortfall is $4.9 million.

•The Montana Developmental Center (MDC) in Boulder has a shortfall primarily due to increased overtime incurred when employees are placed on administrative leave and investigations are being conducted with regards to incidents related to staff involvement in altercations between clients. Federal survey and certification recommendations related to surveys at MDC mandated this remedy while incidents are being investigated. As these incident investigations are being conducted, employees are placed on administrative leave, other employees are brought in to cover shifts, often in overtime status. These investigations can last several days or longer, depending on complexity. There is also increasing behavioral issues in the population that are committed to MDC, both under civil and criminal commitments. This requires closer supervision to maintain the health and safety of clients, often resulting in one-on-one staffing. The General Fund shortfall is $1.6 million.

Child Support Enforcement:

• Additional funding is needed to maintain operations at a level that is in compliance with federal Title IV-D regulations. Federal funds and state special revenue funding have declined. The total shortfall is $0.8 million.

Child and Family Services Division:

• The division hired 11.00 additional FTEs in FY07 to handle increasing workloads in the foster care program. This increased the division's expenses by $0.3 million general fund. As a result, the division did experience a decline in the fostercare caseload by a similar amount.

Other Shortfalls include:

• A caseload adjustment in the Human and Community Services division which increased general fund requirements by $0.266 million.

• There was a Public Health emergency where the state had an individual who contracted a contagious case of tuberculosis. The department pursued medical treatment for this individual at an estimated cost of $0.1 million.

• The department also purchased 8,000 Tamilfu vaccine courses to provide minimal coverage for first line health care workers in the event of a major flu outbreak, for a cost of $0.118 million.

The good news:

• The department did pursue a number of administrative cost savings measures, including hiring delays, limits on supplies, travel and equipment. There were also cost overruns due to space needs and to overruns in computer systems and operations costs. Overall savings were $0.66 million.

As noted above, this supplemental appropriation included in HB-3 is necessary to continue services and operations at the current level. We worked diligently to mitigate this supplemental to the extent possible without service reductions to our clients as was advised by the legislative interim committees. Thank you for all your efforts on the Department's behalf, we will continue to do everything in our power to operate in the most efficient manner possible.

HB - 3, Supplemental Bill FY 2006 - 2007 Biennium **Department of Public Health and Human Services** Description	Detail	Totals
Changes in Medicaid		
1. Estimated 2007 FMAP reductions affecting various divisions (See note 1 below)	-$6,422,053	
2. Net reductions in Medicaid Caseload vs Budgeted Level approximately 0.5% (Affects multiple divisions)	$4,567,349	
3. Federal DRA Change to Targeted Case Management in CFSD (Estimated)	-$900,000	
4. Affects on Admin Funding due to Changes in Medicaid, Title IV-e, Legal and Fiscal workload (See note 2 below)	-$1,292,584	
Total Shortfall Due to Changes in Medicaid and Federal Funding		-$4,047,289
Net Budget Shortfalls at State Institutions		
Staffing Changes at the Montana State Hospital Due to Census Increase	-$4,674,364	
Staffing Changes at the Montana Developmental Center due to Federal Survey	-$1,603,291	
Total Budget Shortfalls at State Institutions		-$6,277,655
Budget Shortfalls in the Child Support Enforcement Division		
Shortfall in Federal Incentive Grant at Child Support Enforcement Division	-$355,365	
Net Shortfall in Special Revenue Funds related to TANF caseload reductions	-$460,365	
Total Budget Shortfalls in Child Support Enforcement revenue		-$815,730
Child and Family Services Division		
CFSD Reductions in Caseload	$344,081	
11 Additional Field Staff	-$333,634	
Total Budget Shortfalls in Child and Family Services		$10,447
Other Shortfalls		
Human and Community Services Division Caseload Adjustment		-$266,010
Public Health Emergency - TB Case		-$100,000
Tamiflu Purchases		-$118,000
Other Savings		
Net Savings Due to additional vacancy savings and other Admin Efforts (See note 3 below)		$659,523
Net Shortfall in General Fund necessary for Supplemental Appropriation (See note 4 below)		-$10,954,714

1. The Federal Medical Assistance Percentage was reduced by the Federal government based on a comparison of economic conditions in Montana to the nation as a whole. The reduction was from the budgeted 70.08% to 69.29% on Medicaid FMAP expenditures of approximately $813 million.

2. The federal financial participation is dependant upon a number of factors, including workload distribution, IV-e participation in foster care, and Medicaid caseloads. These factors influence funding switches which can have major impacts on how federal funds participate in the Director's Office, CFSD, BFSD and TSD.

3. Net Savings includes savings efforts including hiring delays, limits on supplies, travel and equipment. It also includes cost overruns due to space needs and to overruns in computer systems and operations costs. This number is estimated and includes both increases and decreases from several divisions.

4. This amount has been reported to the interim Child and Family Services and Legislative Finance committees. The department received advise to make administrative reductions where possible but not to implement reductions that would reduce services provided to people.