

**Program Budget Comparison**

The following table summarizes the total proposed budget by year, type of expenditure, and source of funding.

Program Budget Comparison								
Budget Item	Base Fiscal 2014	Approp. Fiscal 2015	Budget Fiscal 2016	Budget Fiscal 2017	Biennium Fiscal 14-15	Biennium Fiscal 16-17	Biennium Change	Biennium % Change
FTE	54.00	54.00	51.62	51.62	54.00	51.62	(2.38)	(4.41)%
Personal Services	2,941,704	3,591,880	3,783,548	3,781,330	6,533,584	7,564,878	1,031,294	15.78 %
Operating Expenses	9,569,124	8,777,561	10,261,158	10,286,516	18,346,685	20,547,674	2,200,989	12.00 %
Benefits & Claims	640,048,260	659,061,176	749,275,017	803,567,697	1,299,109,436	1,552,842,714	253,733,278	19.53 %
<b>Total Costs</b>	<b>\$652,559,088</b>	<b>\$671,430,617</b>	<b>\$763,319,723</b>	<b>\$817,635,543</b>	<b>\$1,323,989,705</b>	<b>\$1,580,955,266</b>	<b>\$256,965,561</b>	<b>19.41 %</b>
General Fund	136,047,384	137,311,959	169,125,480	184,746,330	273,359,343	353,871,810	80,512,467	29.45 %
State/Other Special Rev. Funds	67,041,676	69,165,712	72,298,529	74,155,299	136,207,388	146,453,828	10,246,440	7.52 %
Federal Spec. Rev. Funds	449,470,028	464,952,946	521,895,714	558,733,914	914,422,974	1,080,629,628	166,206,654	18.18 %
<b>Total Funds</b>	<b>\$652,559,088</b>	<b>\$671,430,617</b>	<b>\$763,319,723</b>	<b>\$817,635,543</b>	<b>\$1,323,989,705</b>	<b>\$1,580,955,266</b>	<b>\$256,965,561</b>	<b>19.41 %</b>

**Program Description**

The Health Resources Division (HRD) administers Medicaid primary care services, Healthy Montana Kids (formerly the Children’s Health Insurance Program), and Big Sky Rx. The purpose of the division is to improve and protect the health and safety of Montanans. The division reimburses private and public providers for a wide range of preventive, primary, and acute care services. Major service providers include: physicians, public health departments, clinics, hospitals, dentists, pharmacies, durable medical equipment, and mental health providers. The division develops tools, measurements and reports necessary to allow division management to administer and control programs and expenditures in the division, and to report those results in an accurate and timely manner to others. The division strives to provide superior customer service in a respectful, fair, and timely manner.

The majority of services in the division are funded through Medicaid. Medicaid is a voluntary state/federal partnership that reimburses for medical services for the aged, blind, disabled, children and low-income families.

The division administers Healthy Montana Kids (HMK) as a separate health insurance program and contracts with Blue Cross Blue Shield to provide third party administrator services. HMK dental and eyeglasses benefits are reimbursed directly by the department. HMK is a voluntary state/federal partnership that reimburses for medical services for children at or below 250% of poverty.

Big Sky Rx is a state funded program that helps Montanans, who are at or below 200% of poverty and who are eligible for the Medicare Part D prescription drug program, pay for their Medicare premium. Big Sky Rx eligibility is determined by division staff. A related program, PharmAssist, pays for prescription drug counseling by a pharmacist and provides drug information and technical assistance to all Montanans.

**Program Highlights**

**Health Resources Division  
Major Budget Highlights**

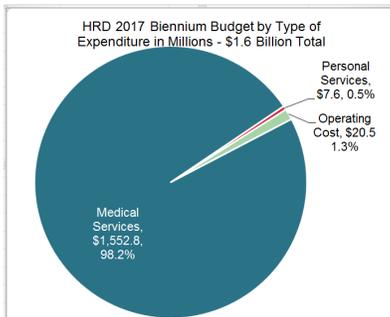
- The 2017 biennium Health Resources Division (HRD) budget is \$257.0 million, including \$80.5 million general fund, higher than the 2015 biennium budget due to:
  - Medicaid enrollment and service utilization increases and changes in the state match rate - \$194.3 million total funds, including \$70.9 million general fund
  - Enrollment and cost growth in the component of Healthy Montana Kids funded from the federal Children's Health Insurance Program grant - \$46.8 million total funds, including \$3.9 million general fund
  - A 2% annual provider rate increase - \$19.8 million, including \$6.3 million general fund
- The biennial difference for HRD using the FY 2015 legislative base budget is \$238.1 million total funds, including \$79.2 million general fund
  - The FY 2015 legislative base budget is \$18.1 million total funds, including \$1.3 million general fund, higher than the FY 2014 base budget used to develop the executive budget
  - The most significant difference between the two base budgets is the legislatively authorized funding increases for Medicaid services costs between FY 2014 expenditures and the FY 2015 appropriation

**Major LFD Issues**

- The Children's Health Insurance Program (CHIP) will not continue beyond September 30, 2015 without Congressional action to reauthorize it
  - The executive budget includes continued funding for CHIP
- The Affordable Care Act authorizes a 23% increase in the federal CHIP match rate, which would be effective October 1, 2015 if CHIP is reauthorized
  - The executive budget does not include the CHIP federal match rate change, which would lower the required state special revenue matching funds by up to \$50.2 million over the 2017 biennium
  - The legislature could use the freed up state special revenue to offset and replace general fund appropriated in HB 2 as state Medicaid match for other enrollees in the Healthy Montana Kids plan
- Enrollment increases in the CHIP component of the Healthy Montana Kids program appear to be overstated based on current enrollment trends
- The fund balance of the health and Medicaid initiatives state special revenue account, which funds multiple divisions in DPHHS including HRD, is not adequate to fund the executive budget request with an estimated shortfall of \$4.5 million over the biennium

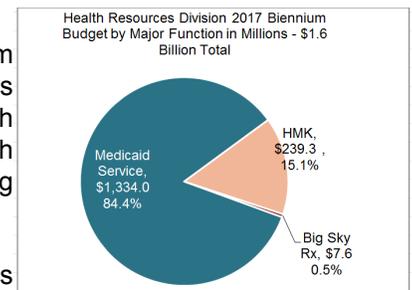
**Division Budget Discussion**

The Health Resources Division (HRD) 2017 biennium budget is \$1.6 billion. The figure on the left shows the HRD budget request by major type of expenditure.

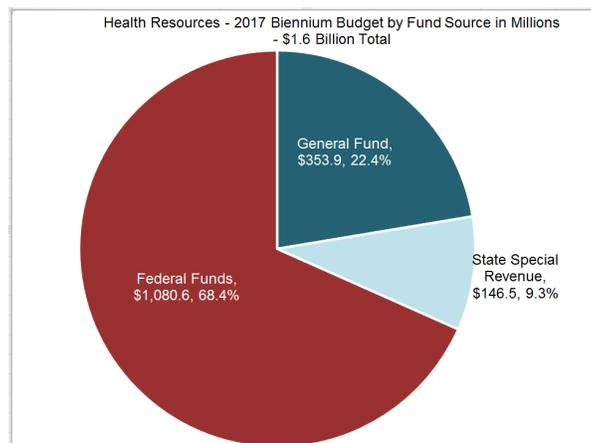


The vast majority – 98% - of the HRD budget request supports payments for medical services. Operating costs are just over 1% and personal services are less than 1% of the total. Other divisions include personal services and operating costs that support administration of some HRD programs. For instance, eligibility determination for Medicaid and Healthy Montana Kids (HMK) services is managed by the Human and Community Services Division, and funding for MMIS (Medicaid Management Information System) claims payment is budgeted in the Technology Services Division.

The figure on the right shows the HRD 2017 biennium budget request by major function. Medicaid services are 84% of the budget, while HMK services funded from the federal Children’s Health Insurance Program (CHIP grant) are about 15% of the total. Big Sky Rx, a program which helps low-income Medicare eligible persons pay the premium cost for Medicare Part drug coverage, is less than 1% of the total.



The figure below shows the 2017 biennium funding by major fund type. General fund is about 22% of the total and is used to pay the state Medicaid match and some of the state match for the federal CHIP grant.



State special revenue is about 9% of the total and includes several sources of revenue. State special revenue is used to pay the state match for Medicaid and CHIP, and it fully funds the Big Sky Rx program.

Federal funds include Medicaid and CHIP funds. Medicaid is an entitlement fund source, meaning that the federal government will match all allowable costs. CHIP is funded from a fixed federal grant. The state has three years to spend each individual year grant. The amount of funding requested by individual source is shown in the Funding section and there is more detailed discussion about selected funding sources.

**Biennial Change Based on FY 2015 Legislative Budget**

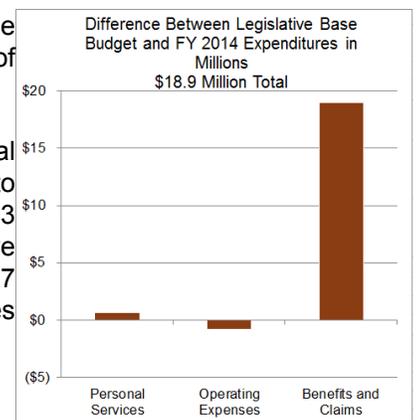
The main table shown at the beginning of the HRD budget analysis calculates the 2017 biennium change using FY 2014 expenditures and the FY 2015 appropriation compared to the executive budget request. However, the legislative budget analysis is based on the FY 2015 appropriation in HB 2 and selected other bills, with adjustments to reflect the annual cost of legislative appropriations for the pay plan. The figure below shows the 2017 biennium budget request compared to the legislative FY 2015 legislative base budget. Using the FY 2015 appropriation as a base budget lowers the biennial

change from \$257.0 million to \$238.1 million. The FY 2015 legislative appropriation is equal to the FY 2015 appropriation as implemented by the executive.

Health Resources Division Biennial Change Using FY 2015 Legislative Base Budget								
Expend/Fund	FY 2015 Leg		FY 2016	FY 2017	2015 Bien	2017 Bien	Difference	%
	Base							
FTE	54.00	51.62	51.62	51.62	54.00	51.62	(2.38)	-4.4%
Personal Services	\$3,591,880	\$3,783,548	\$3,781,330	\$7,183,760	\$7,564,878	\$381,118	5.3%	
Operating Expenses	8,777,561	10,261,158	10,286,516	17,555,122	20,547,674	2,992,552	17.0%	
Benefits and Claims	<u>659,061,176</u>	<u>749,275,017</u>	<u>803,567,697</u>	<u>1,318,122,352</u>	<u>1,552,842,714</u>	<u>234,720,362</u>	<u>17.8%</u>	
Total Expenditures	671,430,617	763,319,723	817,635,543	1,342,861,234	1,580,955,266	238,094,032	17.7%	
General Fund	137,311,959	169,125,480	184,746,330	274,623,918	353,871,810	79,247,892	28.9%	
State Special Revenue	69,165,712	72,298,529	74,155,299	138,331,424	146,453,828	8,122,404	5.9%	
Federal Funds	464,952,946	521,895,714	558,733,914	929,905,892	1,080,629,628	150,723,736	16.2%	
Total	\$671,430,617	\$763,319,723	\$817,635,543	\$1,342,861,234	\$1,580,955,266	\$238,094,032	17.7%	

**Legislative Base Budget Compared to FY 2014 Expenditures**

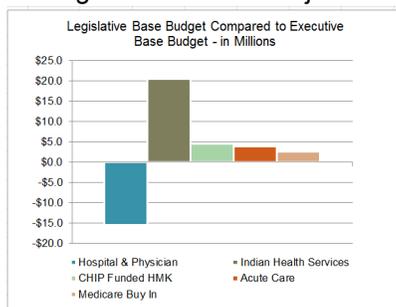
The legislative base budget is \$18.9 million higher than FY 2014 expenditures. The adjacent figure shows the differences between the two fiscal years by type of expenditure.



The most significant difference is in benefits and claims, which are payments for medical services for eligible persons. The legislative base budget is \$19.1 higher due to enrollment and service utilization increases in Medicaid and HMK anticipated by the 2013 Legislature, which appropriated more funds in FY 2015 than FY 2014. The legislative base budget for personal services is slightly higher than FY 2014 expenditures - \$0.7 million, while operating costs are lower by about \$0.8 million. Personal services differences are discussed in more detail in the "Present Law Adjustments" section.

**Differences in Benefits and Claims**

The figure shows the major differences between the legislative base budget and FY 2014 expenditures in benefits and claims. Although the legislative base is higher overall, it is \$15.4 million lower in hospital and physician Medicaid services than FY 2014 expenditures. The biggest difference is in hospital services, which exceeded the amount originally appropriated by the legislature in FY 2014 by \$18.0 million. Each of the differences between the legislative base and FY 2014 expenditures is discussed in greater detail and in relationship to the 2017 executive budget request.



**LFD COMMENT**

**Reasons for Hospital Cost Growth**

DPHHS staff provided information to the interim Legislative Finance Committee regarding the reasons for hospital services cost growth. Reasons cited include:

- An increase in the number of eligible Medicaid recipients due to implementation of the Affordable Care Act (shown in the graph below)
- An increase in patient acuity, which drove higher reimbursements since the Medicaid rate for a specific service increases as caring for the patient becomes more complex

The legislature will be able to discuss hospital cost growth, the reasons that costs are increasing, and what actions DPHHS may take when it considers Medicaid cost estimates and establishes appropriations for the 2017 biennium.

The legislative base budget is \$20.0 million higher than FY 2014 expenditures for Medicaid reimbursements to Indian Health Services (I.H.S.) providers, which are funded 100% from federal funds. These reimbursements help offset the shortfall in federal I.H.S. grants, which are usually fully expended prior to the end of the grant year. FY 2014 expenditures for I.H.S. services were \$18.9 million lower than the amount originally appropriated by the 2013 Legislature. I.H.S. reimbursements and legislative appropriation issues are discussed in greater detail in the Present Law Adjustments section.

Other differences between the legislative base budget and FY 2014 expenditures are due to enrollment and service utilization changes as well as a 2% annual provider rate increase for some services in FY 2015.

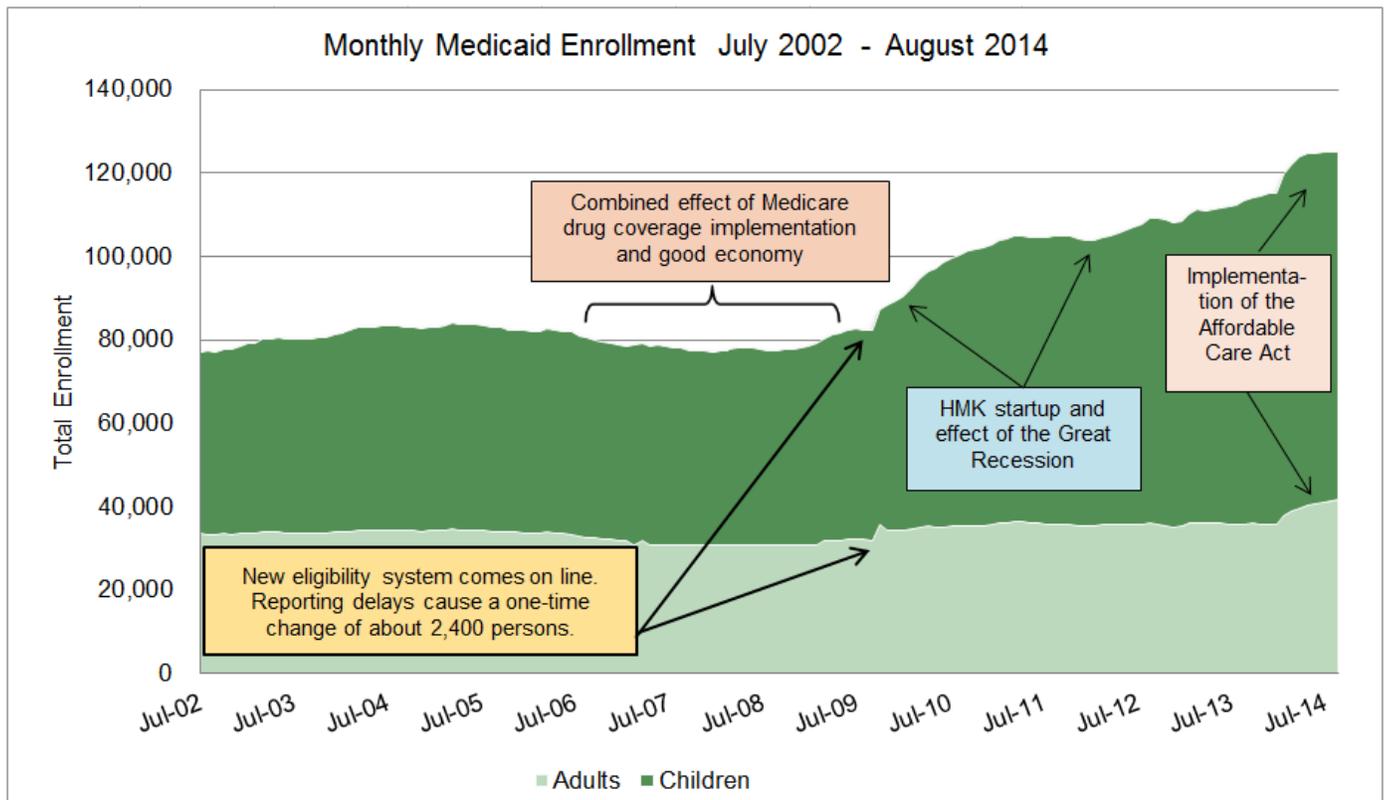
HRD 2017 Biennium Budget Request

The HRD budget request is \$238.1 million higher than the FY 2015 legislative base due to:

- Medicaid enrollment and service utilization increases - \$180.5 million total funds, including \$71.0 million general fund
- Enrollment increases in CHIP funded HMK services - \$27.2 million, including \$3.9 million general fund
- A 2% annual provider rate increase - \$19.8 million, including \$6.3 million general fund

**Enrollment in Medicaid**

One of the cost drivers in Medicaid services is the number of enrollees. The figure on the right shows total enrollment in Medicaid from July 2002 to August 2014. Enrollment over that time period has grown from 77,000 to about 125,000 persons. The majority of enrollees are children.



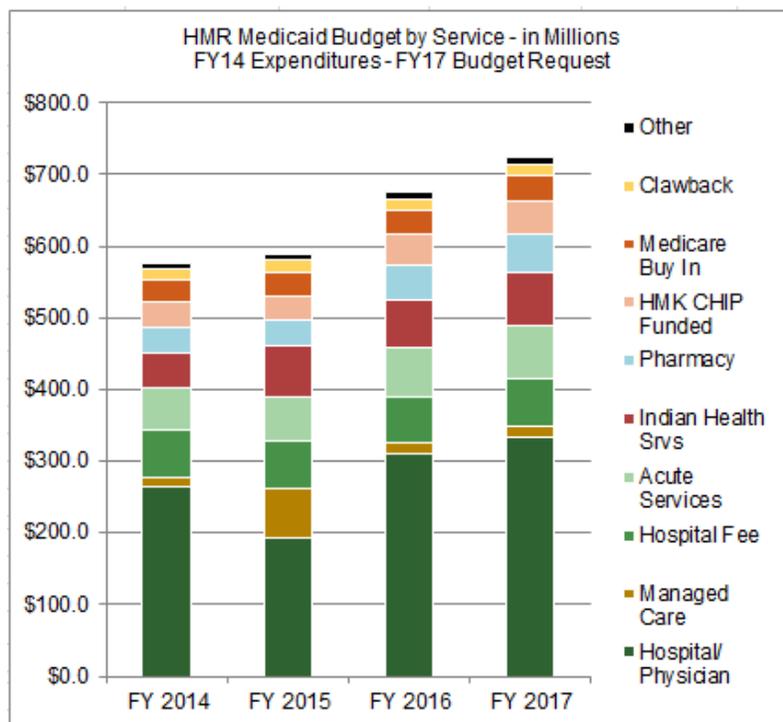
Enrollment levels have been influenced by several factors, including economic programmatic changes. Most recently, implementation of eligibility changes included in the Affordable Care Act (ACA) that were effective January 1, 2014 coincided with an increase in both the number of low-income adults and children enrolled in Medicaid. Specifically ACA removed consideration of assets (eg checking and savings account balances) for eligibility for low-income parents.

In addition, persons who applied for insurance coverage through the federal health insurance market place could be determined eligible for Medicaid. In some instances, these families were eligible for Medicaid prior to the changes implemented by ACA but either did not know or chose not to apply for Medicaid.

**Medicaid Services**

The figure below shows the present law Medicaid budget by major service for FY 2014 expenditures compared to the FY 2015 legislative base budget and the 2017 executive budget request.

The most significant component - hospital and physician services - is 55% of the total when hospital utilization fees are included. In FY 2014, DPHHS reorganized to combine management of hospital and physician services. Previously, physician services had been included in the managed care category (also called member services). That is why the amount for managed care in the FY 2015 appropriation is higher than shown in any other year, and the hospital/physician combined amount appears to be significantly lower in FY 2015 than any other year.



**Hospital Services**

The DPHHS estimate for hospital services in FY 2015 exceeds the appropriation amount shown in the adjacent figure by \$32.6 million total funds, including \$11.1 million general fund. The 2013 Legislature heard testimony from DPHHS staff about the challenges in estimating hospital expenditures and some of the cost drivers are noted in the discussion about the difference between the FY 2014 expenditures and the FY 2015 legislative base budget. Hospital services increase from the FY 2014 expenditure level of \$183.6 million to the request for \$223.6 million in FY 2017, or about 7% per year. As noted previously, the legislature can discuss with DPHHS what actions, if any, it is taking to moderate cost growth.

**Physician Services**

Physician services, not including specialty or group practices, grow from \$54.7 million in FY 2014 to \$66.2 million in FY 2017 or about 5% per year. The main reasons for growth and the biennial amounts are due to utilization increases and the executive proposal to increase provider rates by 2% annually - \$3.5 million.

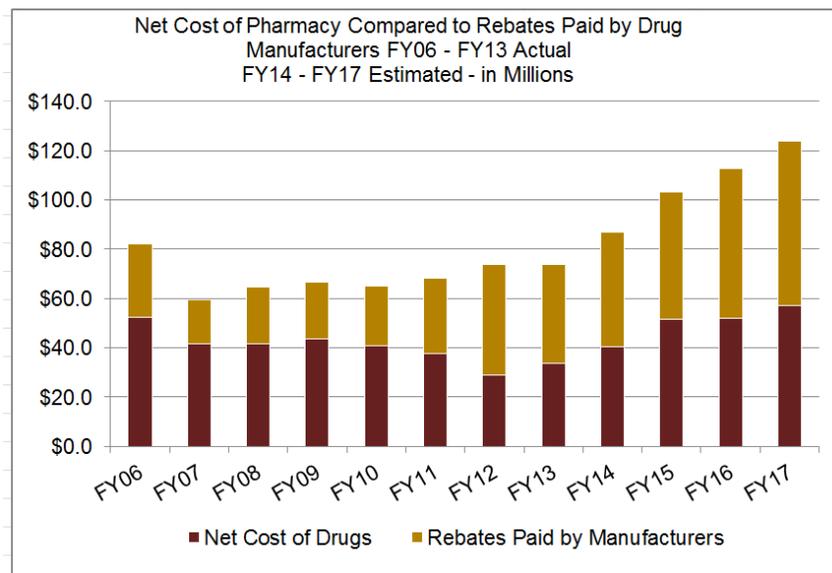
**Other Major Medicaid Services**

The hospital utilization fee – a \$50 assessment for each day of inpatient hospital care – is expected to remain relatively constant. The fee income is used as state Medicaid match and then the total is redistributed to hospitals.

Indian Health Services or I.H.S. reimbursements are fully funded by federal funds and account for 10% of the total biennial request. The payments are for Medicaid services. With limited exceptions, I.H.S. services expenditures have been consistently lower than appropriations. I.H.S. services grow from the FY 2014 expenditure level of \$48.4 million to \$73.6 million in the FY 2017 executive request.

Acute care (also called allied health services) is 10% of the 2017 biennium request and includes services such as dental, audiology, speech and occupational therapy, social workers, and private duty nursing. Acute services rise from \$57.9 million in the executive base budget to \$74.6 million in FY 2017 due to enrollment and service utilization increases.

Pharmacy costs are about 7% of the biennial Medicaid services request and total \$103 million. The amount included in HB 2 is net of rebates paid by drug manufacturers as a federal condition of participating in the Medicaid program. The figure below shows the total Medicaid drug costs broken into the net cost of drugs and the total cost including the amount reduced due to rebates paid by drug manufacturers. Rebates have ranged from a low of 30% of the total cost in FY 2007 to a high of 61% of the cost in FY 2012. The executive budget request is based on rebates offsetting 54% of the total cost of drugs. A 1% change in the amount of drug rebates paid by manufacturers changes the HB 2.



**LFD COMMENT** Rebate Estimate

The legislature may wish to examine the level of rebate revenues for FY 2015 through FY 2017 when it reviews updated Medicaid caseload costs.

HMK CHIP funded services are Medicaid services provided to children in households with incomes from 110% of the federal poverty level (FPL) to 143%. These services comprise about 6% of the 2017 biennium Medicaid services request and are funded with the federal CHIP grant, which has a lower state match requirement than Medicaid. There were about 8,500 children eligible in this group over the most recent 12 months that eligibility information is available (August 2013 to August 2014). The budget request for this group rises from \$34.6 million in FY 2014 to \$44.9 million in FY 2017. Funding for this group of services is discussed in greater detail in the fund balance estimate for HMK state special revenue in the Funding section, while the 2017 biennium cost estimate is discussed in greater detail in the Present Law Adjustments section.

The Medicare buy in is 5% of the 2017 biennium request. Some low-income persons are eligible for both Medicaid and Medicare. If it is cost effective, DPHHS pays the Medicare premiums and co-payments for these individuals. Then Medicare is the first payer for services and Medicaid only pays for services that are not covered by Medicare. The Medicare buy in benefit expenditure was \$30.3 million in FY 2014 and rises to \$36.8 million in the FY 2017 executive request. The executive budget documentation regarding the number of persons and the estimated cost for Medicare premiums is discussed in greater detail in the Present Law Adjustments section.

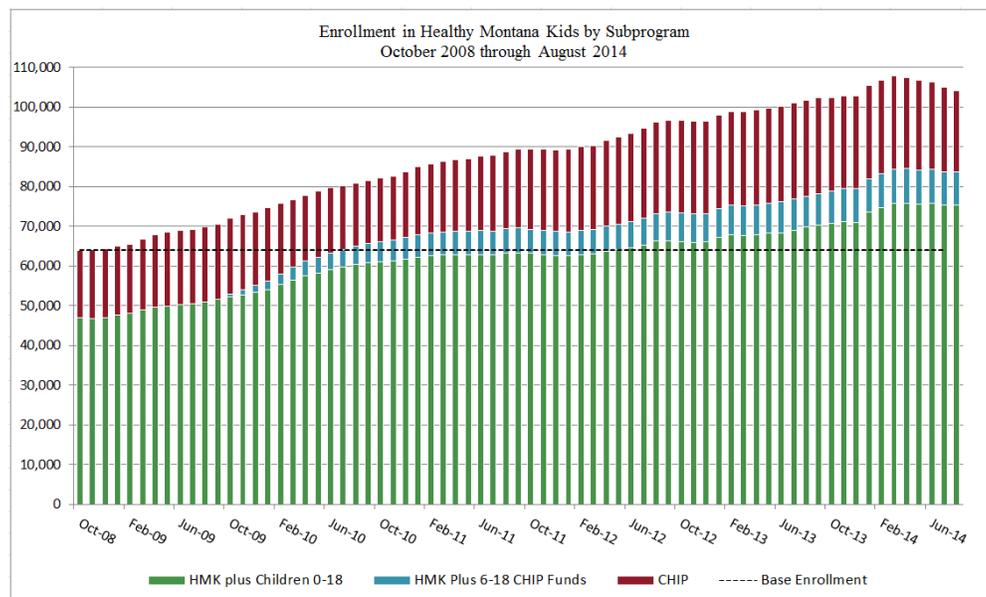
The clawback is funded from 100% from general fund. It is the state's payment to the federal government for a portion of the savings to the state Medicaid program when the Medicare Part D drug benefit was enacted. Prior to Part D, Medicaid paid the drug costs for persons who were eligible for both Medicare and Medicaid. The clawback represents state savings due to Medicare assuming those costs. The clawback is 2% of the HRD Medicaid services request and increases from \$15.7 million in FY 2014 to the FY 2017 request of \$16.3 million.

Other benefits are 2% of the total request and include payments for breast and cervical cancer for persons with incomes below 200% of the federal poverty level and federal reimbursements to schools that provide physical health services to Medicaid eligible children. Together these services comprise \$16.6 million of the 2017 biennium HRD Medicaid services request.

<b>LFD COMMENT</b>	<p><b>New Medicaid Initiatives</b></p> <p>DPHHS implemented a new initiative, the patient centered medical home (PCMH) model of care, on December 1, 2014. The department started the program on a limited basis. It contracted with five providers that represent both urban and rural areas of Montana. Legislative staff has requested that DPHHS discuss the PCMH program with the legislature and specifically address the providers it selected, how many persons will be served, the rate structure for the program, the estimated cost, and how outcomes will be measured. The legislature may wish to consider recommending that this initiative be monitored by a legislative interim committee during the 2017 biennium.</p>
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**HMK Enrollment**

The figure below shows enrollment in HMK since the initiative was enacted. Total enrollment has grown from about 64,000 children in October 2008 to about 104,000 children in August 2014. Enrollment peaked in March 2014 at about 108,000 children, but has declined recently. Most of the enrollment in HMK has occurred in the HMK Plus group funded from Medicaid. Most of the enrollment in HMK has occurred in the HMK Plus group funded from Medicaid.



**Budget Request for HMK Groups Funded with Federal CHIP Grant**

The executive budget includes \$46.8 million in additional funding for HMK services funded with the federal CHIP grant above the FY 2014 expenditure level. A portion of this increase - \$17.5 million for children receiving Medicaid services funded from the CHIP grant – was also discussed in the Medicaid services request. The CHIP funded caseload and budget request is discussed in more detail the Present Law Adjustments section. The state special revenue account created by the citizen initiative to pay increased enrollment costs in HMK is reviewed in greater detail in the Funding section.

**LFD  
ISSUE**

Federal CHIP Match Rate not Included in Executive Present Law Request and Risk

The Affordable Care Act (ACA) raises the federal match rate for CHIP by 23% beginning October 1, 2015 and ending September 30, 2019. That change effectively lowers the Montana state match rate from about 24% each year of the 2017 biennium to about 1%. The enhanced federal match rate would reduce the state funds needed to support the executive budget request by \$50.2 million over the 2017 biennium. Although the executive budget includes the change in the federal Medicaid match rate in its present law HB 2 funding request, it does not include the CHIP match rate change. Instead, the executive budget includes the enhanced federal CHIP match rate as part of its proposal to expand Medicaid (LC 631).

The lower CHIP state match rate would free up state special revenue used to match the federal CHIP grant. The freed up state special revenue could be used in place of general fund to pay the state share of Medicaid matching costs for children enrolled in HMK. The legislature could consider including the enhanced federal match in HB 2 as a present law adjustment in the same manner it historically has included the federal Medicaid and CHIP match rate changes.

There is a risk in whether the enhanced federal CHIP match will be implemented. Although the ACA authorizes the increase, the federal authorization for the CHIP program sunsets September 30, 2015 – one day prior to implementation of the enhanced match. Congress will need to reauthorize the CHIP program in order for states to receive the enhanced match. Despite the need to reauthorize CHIP, the executive budget continues funding for the CHIP component of HMK during the 2017 biennium.

**Funding**

The following table shows proposed program funding by source from all sources of authority.

Medicaid and Health Services Branch, 11-Health Resources Division						
Funding by Source of Authority						
Funds	HB2	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds	
01100 General Fund	353,871,810	0	0	353,871,810	22.38 %	
02053 Medicaid Nursing Home Match	174,544	0	0	174,544	0.12 %	
02142 Medicaid Third Party Revenue	2,564,454	0	0	2,564,454	1.75 %	
02164 MT Univ System Grad Med Ed	0	0	0	0	0.00 %	
02311 6901-02 Indrct Activty Prog 11	39,284	0	0	39,284	0.03 %	
02597 Montana Healthy Kids Initiative	51,606,583	0	0	51,606,583	35.24 %	
02772 Tobacco Hlth & Medicd Initiative	31,765,963	0	0	31,765,963	21.69 %	
02789 6901-CHIP/MCHA Tobacco Sett Fd	9,743,102	0	0	9,743,102	6.65 %	
02987 Tobacco Interest	4,748,192	0	0	4,748,192	3.24 %	
02989 69010-Hospital Utilization Fee	45,811,706	0	0	45,811,706	31.28 %	
<b>State Special Total</b>	<b>\$146,453,828</b>	<b>\$0</b>	<b>\$0</b>	<b>\$146,453,828</b>	<b>9.26 %</b>	
03127 Montana Within Us Grant	0	0	0	0	0.00 %	
03426 CHIP Program Fed	181,024,678	0	0	181,024,678	16.75 %	
03580 6901-93.778 - Med Adm 50%	15,736,453	0	0	15,736,453	1.46 %	
03582 93.778 - Med Ben 100%	138,859,755	0	0	138,859,755	12.85 %	
03583 93.778 - Med Ben Fmap	744,402,022	0	0	744,402,022	68.89 %	
03611 6901-03 Indrct Activty Prog 11	606,720	0	0	606,720	0.06 %	
<b>Federal Special Total</b>	<b>\$1,080,629,628</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,080,629,628</b>	<b>68.35 %</b>	
<b>Proprietary Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00 %</b>	
<b>Total All Funds</b>	<b>\$1,580,955,266</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,580,955,266</b>		

HRD is funded from general fund, state special revenue, and federal funds. General fund is 22% of the total and pays:

- State Medicaid match
- State CHIP match

State special revenue is 9% of the HRD budget request. Functions supported by state special revenue sources and the major source of funds are:

- State Medicaid match
  - Hospital utilization fee (\$50 per day assessed for each day of an inpatient stay)
  - Tobacco revenue from the health and Medicaid initiatives account
  - Insurance tax proceeds allocated to the HMK account
  - Tobacco settlement trust fund interest
- State CHIP match
  - Insurance tax proceeds allocated to the HMK account
  - Tobacco state special revenue from the health and Medicaid initiatives account
  - Tobacco settlement funds
  - Tobacco settlement trust fund interest
- Big Sky Rx (premium assistance for low-income persons to purchase Medicare Part D drug coverage)
  - Tobacco revenue from the health and Medicaid initiatives account

**LFD ISSUE**

HMK State Special Revenue Account Can Offset General Fund Costs

A portion of insurance tax proceeds – 33% – is deposited to a state special revenue account to pay the state share of Medicaid and CHIP costs for children enrolled in the HMK program after November 4, 2008. Use of HMK state special revenue directly affects general fund outlays for Medicaid services. DPHHS has traditionally allocated HMK state special revenue first to pay the state match for CHIP costs with remaining funds available to pay Medicaid matching costs. There is not enough revenue in the HMK state special revenue account to fully fund the state share of the cost of services for children eligible for funding from the account, and other state sources, most notably general fund, are then utilized (see “Healthy Montana Kids Primer” at:

[http://leg.mt.gov/content/Publications/fiscal/interim/2014\\_financemty\\_March/HMK-Report.pdf](http://leg.mt.gov/content/Publications/fiscal/interim/2014_financemty_March/HMK-Report.pdf)).

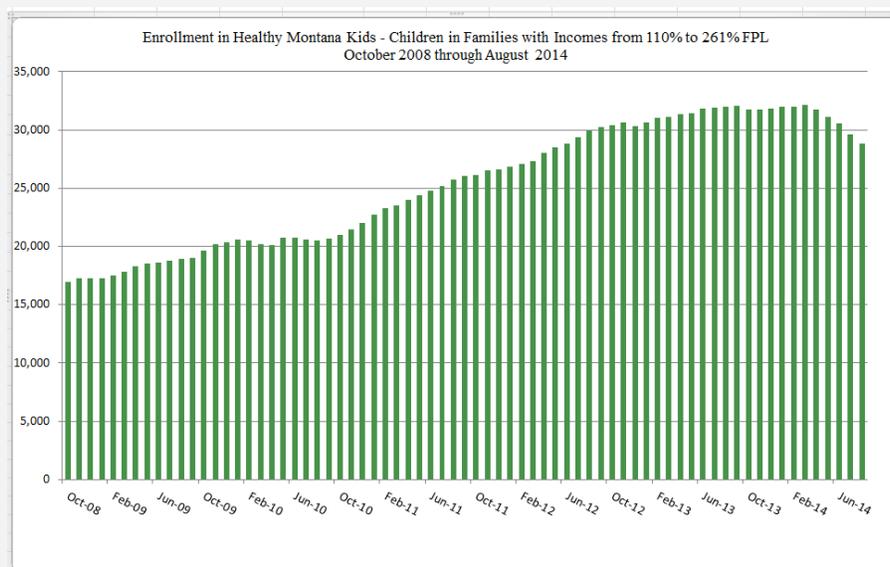
2015 Biennium Costs

The figure below shows the FY 2014 fund balance in the HMK account compared to the DPHHS FY 2015 estimated expenditures and the executive budget request. In FY 2014, there was a \$3.7 million ending fund balance in the HMK account. DPHHS opted to spend general fund for state Medicaid matching funds for HMK instead of using the state special revenue available for that purpose.

Healthy Montana Kids State Special Revenue Fund Balance 2013 Biennium Appropriations and 2015 Biennium Legislative Action					
Fund Balance Revenue/Expenditures	Expenditures FY 2014	Appropriation FY 2015	Budget Request FY 2016	FY 2017	Biennial % Total
Beginning Fund Balance	\$390,573	\$3,693,005	\$0	\$580,220	
Revenue - Insurance License Tax**	26,121,261	27,732,526	28,487,903	28,882,086	
Total Revenue	26,511,834	31,425,531	28,487,903	29,462,306	
Estimated Interest Earnings	-	87,991	313,367	742,450	
Total Funds Available	26,511,834	31,513,523	28,801,270	30,204,757	
Expenditures**					
HMK Benefits (110% - 261% FPL)	9,763,672	12,621,193	13,597,976	15,308,548	49.9%
Medicaid Services (Under 109% FF)	11,153,598	18,199,586	11,446,793	11,153,598	39.0%
Children's Mental Health	1,154,754	1,154,754	1,154,754	1,154,754	4.0%
HMK Direct Administration	96,903	98,881	99,482	99,502	0.3%
Indirect Administrative Costs	1,743,351	1,830,519	1,922,044	2,018,147	6.8%
Total Expenditures	23,912,278	33,904,933	28,221,049	29,734,549	100.0%
Adjustments/Spending Reductions***	1,093,449	(2,391,410)			
Ending Fund Balance	\$3,693,005	\$0	\$580,220	\$470,208	

\*FY 2015 amounts are the estimated expenditures included in the DPHHS November 2014 budget status report.  
 \*\*Revenue based on estimates adopted by the Revenue and Transportation Interim Committee.  
 \*\*\*Adjustments are accounting transactions at fiscal year end for FY 2014. In FY 2015, DPHHS has estimated it will spending \$2.4 million more from the account than is projected to be available.

In its November 2014 budget status report, DPHHS has allocated \$2.4 million more in expenditures to the account than is projected to be available. FY 2015 DPHHS estimates may be overstated since enrollment in the upper income group has been declining since January 2014 (see HMK State Special Revenue Fund Balance Figure ). In order for FY 2015 spending for this group to reach the \$12.6 million DPHHS estimate, enrollment would need to increase an average of 540 children per month, which is higher than any historic change in any 12 month period since November 2008.



The legislature may wish to review projections for the higher income HMK group. If enrollment for that group continues to decline or does not increase substantially, it could offset the shortfall in the state special revenue account and potentially be available to offset some general fund Medicaid costs. DPHHS estimates for enrollment in the CHIP component of HMK are discussed in greater detail in the Present Law Adjustments section.

2017 Biennium Costs

As noted in the Division Budget Discussion, the ACA authorizes a 23% increase in the federal CHIP match rate beginning in the second quarter of FY 2016. Therefore, most of the revenue allocated to the higher income group from the HMK account could be used to offset general fund costs of Medicaid services for children in lower income groups.

**LFD COMMENT** Tobacco Settlement Funds and Health and Medicaid Initiative Funds Discussed in DPHHS Budget Summary

Two sources of state special revenue – tobacco settlement funds and trust fund interest and health and Medicaid initiatives – are discussed in greater detail in the DPHHS Budget Summary. These sources of state special revenue support multiple programs and functions in DPHHS. The executive budget requests \$4.5 million more than is estimated to be available in the health and Medicaid initiatives account. Executive requests from this account are identified for legislative consideration and action in the discussion of present law adjustments.

Federal funds support 68% of the 2017 biennium budget request. Federal funding sources include:

- Federal Medicaid matching funds
- Federal CHIP grant

**Budget Summary by Category**

The following summarizes the total budget utilizing the FY 2015 Legislative base, present law adjustments, and new proposals.

Budget Item	-----General Fund-----				-----Total Funds-----			
	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget	Leg. Budget Fiscal 2016	Leg. Budget Fiscal 2017	Leg. Biennium Fiscal 16-17	Percent of Budget
2015 Budget	137,311,959	137,311,959	274,623,918	77.61 %	671,430,617	671,430,617	1,342,861,234	84.94 %
PL Adjustments	29,717,204	43,219,558	72,936,762	20.61 %	85,282,763	132,992,239	218,275,002	13.81 %
New Proposals	2,096,317	4,214,813	6,311,130	1.78 %	6,606,343	13,212,687	19,819,030	1.25 %
<b>Total Budget</b>	<b>\$169,125,480</b>	<b>\$184,746,330</b>	<b>\$353,871,810</b>		<b>\$763,319,723</b>	<b>\$817,635,543</b>	<b>\$1,580,955,266</b>	

**Present Law Adjustments -**

The “Present Law Adjustments” table shows the changes from FY 2015 legislative appropriation to the budget proposed by the executive. PSPL adjusts all personal services. LGPL provides for adjustments to other expenditures such as operating expenses. Each is discussed in the narrative that follows. Total funds in the Present Law Adjustments table do not include proprietary funds budgeted in House Bill 2.

Present Law Adjustments										
-----Fiscal 2016-----					-----Fiscal 2017-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 98 - LEG. Personal Services Present Law										
0.00	57,568	(150,610)	284,710	191,668	0.00	59,428	(150,286)	280,308	189,450	
DP 99 - LEG. Present Law										
0.00	29,659,636	3,164,173	52,267,286	85,091,095	0.00	43,160,130	4,860,760	84,781,899	132,802,789	
<b>Grand Total All Present Law Adjustments</b>										
<b>0.00</b>	<b>\$29,717,204</b>	<b>\$3,013,563</b>	<b>\$52,551,996</b>	<b>\$85,282,763</b>	<b>0.00</b>	<b>\$43,219,558</b>	<b>\$4,710,474</b>	<b>\$85,062,207</b>	<b>\$132,992,239</b>	

DP 98 - LEG. Personal Services Present Law -

The Personal Services Present Law Adjustments (PSPL) in the following table includes all present law adjustments related to personal services, including statewide present law personal services adjustments. This adjustment has been broken out by some of its component parts for a more detailed understanding of the adjustments. FY 2016 and FY 2017 contain the reductions in FTE made by the executive to implement the boilerplate language in HB 2.

The executive budget for personal services increases by about 5% each year of the 2017 biennium when compared to the FY 2015 legislative appropriation. As shown in the table, about half of the change is due to costs associated with HB 13 approved by the 2013 Legislature. Other adjustments include:

- Longevity changes
- Broad band pay increases
- Full funding of positions that were unfilled during a portion of the year

Personal Services Present Law Adjustments					
FY 2016					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	51.62	\$7,255	\$950	\$16,883	\$25,087
Executive Implementation of 2015 Pay Increase		18,869	2,027	43,704	64,601
Fully Fund 2015 Legislatively Authorized FTE		3,193	1,943	9,456	14,592
Other		28,251	(155,531)	214,667	87,387
<b>Personal Services Present Law Adjustments</b>	<b>51.62</b>	<b>\$57,568</b>	<b>(\$150,610)</b>	<b>\$284,710</b>	<b>\$191,668</b>
FY 2017					
CP 98 PSPL Item	FTE	General Fund	State Special	Federal Special	Total Funds
State Share Health Insurance	51.62	\$7,255	\$950	\$16,883	\$25,087
Executive Implementation of 2015 Pay Increase		18,869	2,027	43,705	64,601
Fully Fund 2015 Legislatively Authorized FTE		3,193	1,943	9,456	14,592
Other		30,111	(155,207)	210,265	85,169
<b>Personal Services Present Law Adjustments</b>	<b>51.62</b>	<b>\$59,428</b>	<b>(\$150,286)</b>	<b>\$280,308</b>	<b>\$189,450</b>

DP 99 - LEG. Present Law -

The following table outlines various components of the changes included in the LGPL adjustments. The table shows the difference between the FY 2015 legislative appropriation and the executive present law budget request. Each of the items is discussed in greater detail.

<u>Legislative Present Law Adjustments</u>				
CP 99 Item	FY 2016			
	General Fund	State Special	Federal Special	Total Funds
1111001 Med Ben Breast & Cervical	(\$206,060)	\$0	(\$764,728)	(\$970,788)
1111002 Med Ben Cload Clawback	(1,602,608)	-	-	(1,602,608)
1111010 Med Admin Contract Adj.	158,137	-	158,137	316,274
1110013 HMK CHIP Funded Services	147,900	3,947,744	10,492,967	14,588,611
1111021 Med Ben Hospital Util. Fee	-	276,733	(1,208,927)	(932,194)
1111030 Med Ben Cload Indian Health	-	-	(3,949,036)	(3,949,036)
1111031 School Based Physical Health	-	-	(1,487,083)	(1,487,083)
1110060 Med Ben Hospital, Physician	21,189,440	1,168,373	35,412,547	57,769,821
1110061 Med Ben Acute Services	6,191,422	(3,501,263)	3,461,779	6,151,938
1110062 Med Ben Medicare Buy In	151,453	-	1,113,688	1,265,141
1110063 Med Ben Cload Pharmacy	3,300,871	2,391,343	6,390,482	12,082,696
Other	329,081	(1,118,757)	2,647,460	1,858,323
<b>Legislative Present Law Adjustment</b>	<b>29,659,636</b>	<b>3,164,173</b>	<b>52,267,286</b>	<b>85,091,095</b>
<u>FY 2017</u>				
CP 99 Item	General Fund	State Special	Federal Special	Total Funds
1111001 Med Ben Breast & Cervical	(\$244,582)	\$0	(\$928,051)	(\$1,172,633)
1111002 Med Ben Cload Clawback	(1,364,254)	-	-	(1,364,254)
1111010 Med Admin Contract Adj.	158,137	-	158,137	316,274
1110013 HMK CHIP Funded Services	642,455	5,880,526	16,718,030	23,241,011
1111021 Med Ben Hospital Util. Fee	-	493,663	(1,425,857)	(932,194)
1111030 Med Ben Cload Indian Health	-	-	4,324,467	4,324,467
1111031 School Based Physical Health	-	-	(1,487,083)	(1,487,083)
1110060 Med Ben Hospital, Physician	29,159,058	875,178	46,737,679	76,771,379
1110061 Med Ben Acute Services	8,065,555	(3,501,263)	6,299,787	10,864,079
1110062 Med Ben Medicare Buy In	1,190,373	-	2,736,540	3,926,913
1110063 Med Ben Cload Pharmacy	5,218,742	2,391,343	9,457,956	17,068,041
Other	334,646	(1,278,687)	2,190,294	1,246,789
<b>Legislative Present Law Adjustment</b>	<b>\$43,160,130</b>	<b>\$4,860,760</b>	<b>\$84,781,899</b>	<b>\$132,802,789</b>

**LFD COMMENT**

Federal/State Medicaid Match Rate Changes

Legislative decision points for Medicaid services in the present law table combine service utilization and enrollment increases with funding adjustments due to federal Medicaid match rate changes, which occur annually. The two items will be separated into distinct decision points for legislative consideration when Medicaid cost estimates for the 2017 biennium are updated.

1111001 - Med Ben Other Cload Breast and Cervical - This present law adjustment represents the difference between the 2017 biennium budget request and the FY 2015 legislative budget, which is higher than the executive request. The adjustment includes funds to account for changes to the federal and state Medicaid matching rates.

1111002 - Med Ben Other Cload Clawback - This present law change removes general fund. The FY 2015 legislative base budget is higher than the amount in the executive request for the 2017 biennium. The funding is 100% general fund and represents the payment to the federal government for Medicaid program savings due to implementation of the Medicare Part D drug benefit.

DP 1111010 - MED Admin Contractual Adjustments - This present law adjustment increases contracts related to administration of the Medicaid program. The request adjusts the base year expenses from the FY 2014 level of \$4.7 million to \$5.0 million in FY 2017.

DP 110013 - HMK CHIP Funded Services - This present law adjustment adds funding for anticipated enrollment and service utilization increases for health services provided to children. The services are funded from the federal CHIP grant.

**LFD COMMENT**

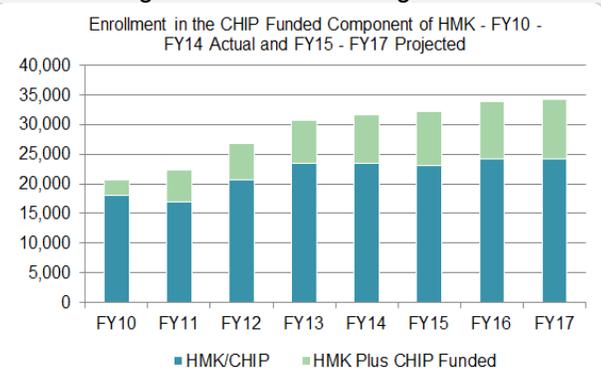
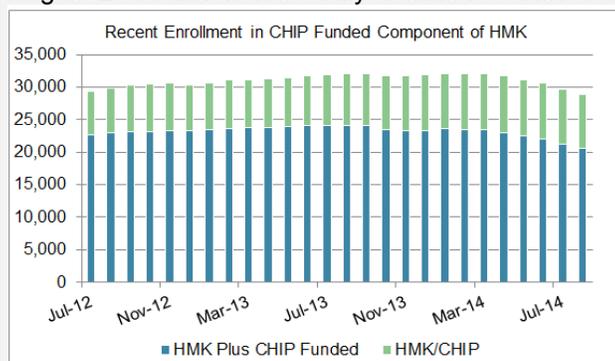
Enhanced Match, Caseload Projection, Average Cost per Enrollee

There are several issues related to the CHIP funded component of HMK. As discussed previously, the executive budget does not include the enhanced federal CHIP match rate that is effective October 1, 2015. The legislature could include an adjustment to HB 2 appropriations to incorporate the enhanced match rate, offsetting up to \$50.2 million general fund over the biennium if it accepts the executive estimate of CHIP funded caseload projections.

**Enrollment Levels**

The adjacent figure shows the average annual enrollment in the CHIP funded component of HMK from FY 2010 through FY 2014 compared to the average annual enrollment estimated in the executive budget for FY 2015 through FY 2017. The projected enrollment appears reasonable based on historic trends. However, recent enrollment has shown month over month declines.

The figure below shows enrollment over the most recent 13 months. The number of children in the HMK/CHIP group peaked at 24,136 in August 2013 and then steadily declined to a level of 20,559 in August 2014. The HMK/Plus group peaked at 8,736 in April 2014 and declined each month to a level of 8,233 in August 2014.



HMK/CHIP Enrollment

In order for average enrollment in the HMK/CHIP group to reach the DPHHS estimate of 23,108 in FY 2015, it would need to increase about 540 children per month. The highest historic month over month increase in a continuous 12 month span was about 360 children from October 2010 through November of 2011.

It seems unlikely that the FY 2015 enrollment estimate for this group will be achieved. Similarly, for enrollment to grow from current levels to the 24,120 estimated for FY 2016 and FY 2017, the monthly increase from August 2014 to June 2015 would need to be about 220 children per month. That sustained rate of change occurred in the program from November

2010 to August 2012. After that time, monthly increases were highly variable and lower than the 220 average needed to achieve the executive estimate.

#### HMK Plus

In order for average enrollment in the HMK Plus group to reach the DPHHS estimate of 9,072 in FY 2015, it would need to increase about 170 children per month. Since June 2011, the 12 month rolling average enrollment change never exceeded 145 and the majority has been below 100. It seems unlikely that the FY 2015 enrollment estimate for this group will be achieved.

Similarly, for enrollment to grow from current levels to the 10,153 estimated for FY 2017, the monthly increase from August 2014 to June 2017 would need to be about 65 children per month, which is more in line with historic enrollment changes. However, using a 65 average monthly increase over that time frame would yield an average enrollment of 9,306 in FY 2016 compared to the executive estimate of 9,842, which would lower the amount of funding needed in FY 2016.

#### Average Cost per Child

The executive request for CHIP funded HMK enrollees is based on an increase in the average cost per child of 6% per year. That does not include the 2% annual provider rate increase requested for certain services.

#### Legislative Review of Updated Information

There will be an additional 2 to 3 months of enrollment data and DPHHS will publish updated per child costs prior to legislative consideration of the appropriation for the CHIP funded component of HMK. Legislative staff will provide a revised enrollment and cost projection for legislative consideration.

1111021 - Med Ben Other Hospital Util. Fee - This present law adjustment lowers funds to account for the difference between the legislative base budget and the 2017 biennium request for the hospital utilization fee. It also includes additional state special revenue to account for changes to the federal and state Medicaid matching rates.

1111030 - Med Ben Core Cload Indian Health Services - This present law adjustment adds funding for anticipated changes for the level of Medicaid reimbursement for services provided by I.H.S. providers. Funding is 100% federal.

#### LFD COMMENT

I.H.S. Medicaid Reimbursements

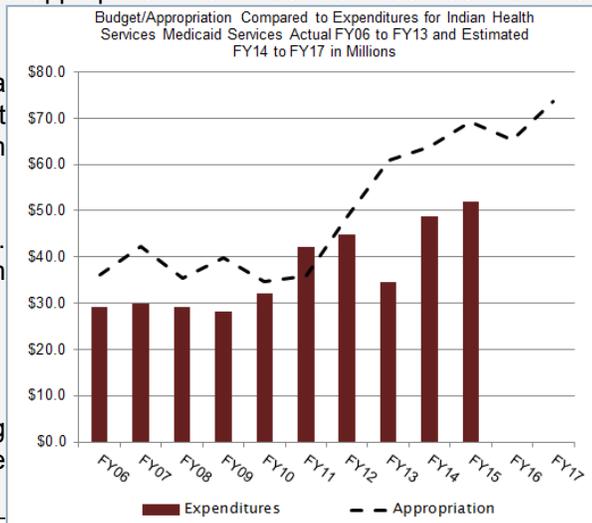
The graph shows historic I.H.S. Medicaid expenditures and appropriations compared to the 2017 biennium budget request. Actual expenditures are those from FY 2006 through FY 2013, while FY 2014 through FY

2017 reflect DPHHS estimates. With the exception of FY 2011, the appropriation for I.H.S. services has exceeded expenditures every year, with the biggest disparity in FY 2013.

The amount shown in the figure for FY 2014 expenditures includes a \$13.6 million accrual for anticipated claims for services that had not yet been received by DPHHS. As of December 1, the accounting system had recorded \$39.3 million in FY 2014 for I.H.S. services.

The legislature may wish to consider several issues related to I.H.S. Medicaid reimbursements before it establishes the 2017 biennium appropriation. The legislature may wish to:

- Review updated 2015 biennium cost projections
- Potentially adjust the amounts for the 2017 biennium
- Request information from DPHHS on what actions it is taking to help insure that reimbursement levels will increase to the level projected in the 2017 biennium



DP 110031 - School Based Physical Health Services - This present law adjustment adds a net funding increase for reimbursements to schools that provide Medicaid physical services to eligible students. Funds are 100% federal since the school budgets provide the state matching funds.

1110060 - Med Ben Core Cload Hospital and Physician Services - This present law adjustment adds funding for anticipated enrollment and service utilization increases for physician and hospital services. It also includes funds to account for changes to the federal and state Medicaid matching rates.

**LFD COMMENT**

**Legislative Consideration of Cost Drivers**

Cost changes for hospital and physician services were discussed previously. As noted in the discussion of the differences between the legislative base budget and FY 2014 expenditures, hospital costs were \$24.0 million - or 12% - above the original FY 2014 appropriation and are projected by DPHHS to exceed the original legislative appropriation in FY 2015 by \$32.6 million or 17%. More persons are eligible for services and patient acuity levels are higher, which are two of the reasons that hospital costs are increasing. However, the legislature may wish to request that DPHHS provide its plan to address hospital cost growth in the 2017 biennium.

Growth in Medicaid physician services is due to rate increases detailed earlier and enrollment increases.

1110061 - Med Ben Core Cload Acute Services - This present law adjustment adds funding for anticipated enrollment and service utilization increases for acute services. It also includes funds to account for changes to the federal and state Medicaid matching rates.

1110062 - Med Ben Core Cload Medicare Buy In This present law adjustment adds funding for anticipated enrollment and Medicare premium increases. It also includes funds to account for changes to the federal and state Medicaid matching rates.

**LFD COMMENT**

**Premium Increase Assumptions not Supported by Recent History**

Medicare buy in costs are determined by the number of people enrolled and the cost of premiums for Part A (inpatient hospital, skilled nursing facility, and some home health services) and Part B (physician, outpatient hospital, and other outpatient services). Part A premiums, which have declined year over year from 2012 through 2015,

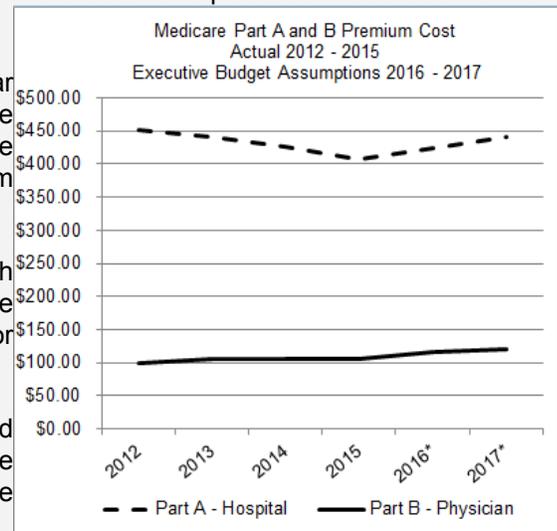
are projected to increase 4% annually in 2016 and 2017 in the DPHHS Medicaid request. Part B premiums, which increased from 2012 to 2013 and then remained constant from 2013 through 2015, are also projected to grow 4% per year.

Actual enrollment grew at a rate from 5% to 6% from FY 2012 to FY 2014. The executive request assumes that enrollment growth will moderate to 3% per year in the 2017 biennium.

The adjacent shows Part A and Part B premium amounts by calendar year compared to the executive request. The turning point in both lines in the graph represents the uptick in premiums assumed by the executive. The executive budget is based on the number of enrollees increasing 4% from FY 2014 to FY 2015 and 3% annually thereafter.

While the executive budget enrollment projections appear to align with recent historic program experience, the premium increases assumed in the executive do not. Part A and Part B premiums have remained constant or declined over the most recent four years.

The legislature can consider several options when it reviews updated Medicare buy in caseload estimates. If the executive request for the Medicare buy in does not change, the legislature could consider the following options:



- Approve the executive budget request and restrict the appropriation to use only for Medicare buy in
- Approve the executive request for enrollment changes, but leave the premium amounts constant from the FY 2015 level
- Approve the executive request and establish a lower percentage premium increase

1110063 - Med Ben Core Cloud Pharmacy - This present law adjustment adds funding for anticipated increases for pharmacy services. It also includes funds to account for changes to the federal and state Medicaid matching rates.

**LFD COMMENT** Rebates and Total Cost

The legislature may wish to review the level of rebate income and total pharmacy costs for FY 2015 year to date experience and the level projected for the 2017 biennium. This issue was reviewed in the Program Budget Discussion.

Remainder of Present Law Adjustment - The remainder of the difference between the FY 2015 legislative appropriation and the executive budget request is listed in the Other adjustment.

**LFD COMMENT** Funding Adjustments Between Personal Services and Other Expenditures

The present law adjustments for personal services and other expenditures such as operating expenses were calculated using an algorithm. While the funding changes for the two adjustments taken together are correct, the allocation of the funding between personal services and other expenditures is not always allocated appropriately. The funding between the two present law adjustments may need to be refined for this division. The Legislative Fiscal Division staff will work with DPHHS staff to adjust the funding appropriately between the two present law adjustments.

**New Proposals -**

Total funds in the New Proposals table do not include proprietary funds budgeted in House Bill 2.

New Proposals	Fiscal 2016					Fiscal 2017				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1111022 - PRI - HMK (CHIP)	0.00	35,000	20,763	174,474	230,237	0.00	35,000	78,553	346,922	460,475
DP 1111023 - PRI HMK (CHIP-Funded)	0.00	0	98,491	308,160	406,651	0.00	0	200,560	612,742	813,302
DP 1111024 - PRI Med Ben Medicaid Core	0.00	2,040,733	0	3,843,735	5,884,468	0.00	4,120,305	0	7,648,631	11,768,936
DP 1111025 - PRI Med Ben Breast & Cervical Cancer	0.00	20,584	0	64,403	84,987	0.00	59,508	0	110,466	169,974
<b>Total</b>	<b>0.00</b>	<b>\$2,096,317</b>	<b>\$119,254</b>	<b>\$4,390,772</b>	<b>\$6,606,343</b>	<b>0.00</b>	<b>\$4,214,813</b>	<b>\$279,113</b>	<b>\$8,718,761</b>	<b>\$13,212,687</b>

DP 1111025 - PRI Med Ben Breast & Cervical Cancer -

This new proposal requests a 2% provider rate increase in each year of the biennium.

DP 1111022 - PRI - HMK (CHIP) -

This new proposal requests a 2% provider rate increase in each year of the biennium for HMK CHIP program.

**LFD ISSUE**

Executive Funding Request Inadequate to Fund a 2% Annual Provider Rate Increase for Some Services

The executive budget requests funding for a 2% annual provider rate increase. The information entered into the budgeting system provides detail about the base expenditures and the provider rate increase requested for some, but not all, service groups.

The figure below shows the executive present law budget request for three Medicaid service groups, the calculated amount to fund a 2% annual provider rate increase, and the amount of funding requested for the provider rate increase in the executive budget. Two of the service groups (managed care and acute services) are included in the funding requested in DP 1111024. The executive budget is \$1.6 million below the amount needed to fund a 2% annual rate increase for the service groups shown in the table. Funding included in the executive budget for the services shown in the figure is adequate to fund a 1.5% rate increase in FY 2016 and an additional 1.2% rate increase in FY 2017.

Adequacy of Executive Request to Fund a 2% Annual Provider Rate Increase						
Service Group	FY 2016	2% Rate	Exec.	FY 2017	2% Rate	Exec.
	Present Law	Increase	Request	Present Law	Increase	Request
Managed Care	\$14,074,360	\$281,487	\$181,172	\$14,332,147	\$579,019	\$362,345
Acute Care	68,003,829	1,360,077	989,570	72,715,970	2,937,725	1,979,141
Breast & Cervical Cancer	4,040,377	80,808	84,987	3,838,532	155,077	169,974
<b>Total</b>		<b>1,722,371</b>	<b>1,255,729</b>		<b>3,671,821</b>	<b>2,511,460</b>
Executive Request Over (Under) Amount Needed			<b>(\$466,642)</b>			<b>(\$1,160,361)</b>
<b>Biennial Shortfall</b>						<b>(\$1,627,003)</b>

DPHHS updates its Medicaid cost estimates during the legislative session. The legislature may wish to review the revisions to services listed in the figure and the amount of funding requested in the executive budget to determine the actual level of rate increase that could be funded compared to the level, if any, of provider rate increase the legislature wishes to fund.

DP 1111023 - PRI HMK (CHIP-Funded) -

This new proposal requests a 2% provider rate increase in each year of the biennium for HMK (CHIP-Funded) group.

DP 1111024 - PRI Med Ben Medicaid Core -

This new proposal requests a 2% provider rate increase in each year of the biennium the following Medicaid services: hospital, physician, pharmacy, managed care, and acute care services.

**LFD  
COMMENT**

Hospital Rate Increase May be Applied to Outpatient Services Only

Medicaid inpatient hospital reimbursement levels when combined with revenue from the hospital utilization fee are near the federally allowable upper payment limit. In FY 2015 the entire hospital rate increase was applied to outpatient services, raising rates by about 9%. The legislature may wish to request information on the administration of a 2% provider rate increase for hospital services to determine whether the same action could occur in the 2017 biennium. If so, inpatient rate increases would be about 5% in FY 2016 and about 9% in FY 2017 based on current Medicaid service estimates.