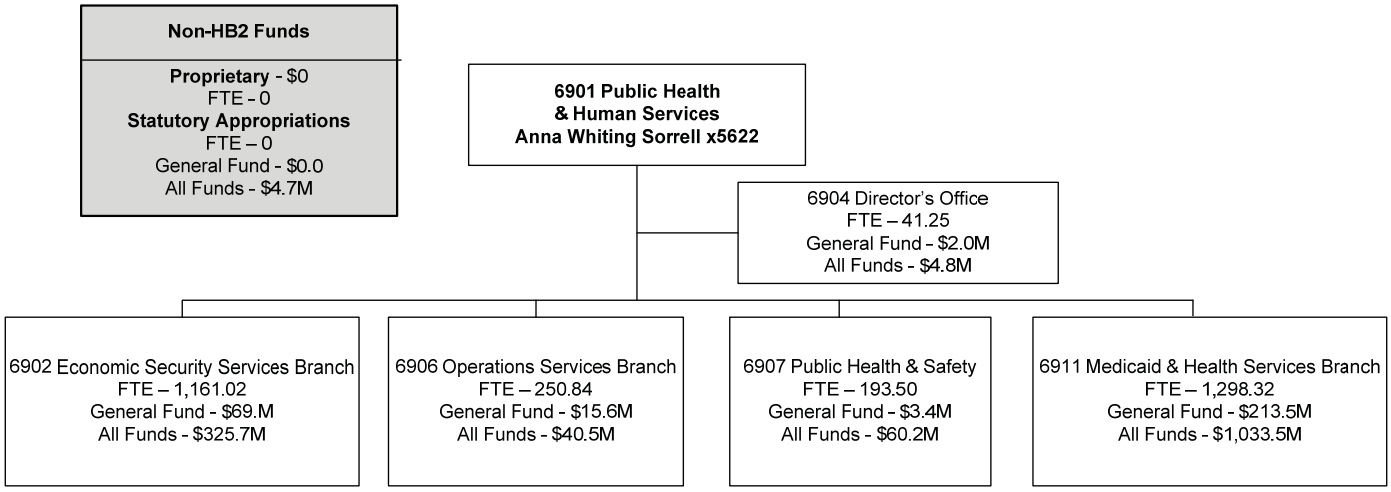
Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	2944.93	2944.93	2942.68	2938.39	2944.93	2938.39	(6.54)	-0.22%
Personal Services	153,766,363	162,901,514	161,097,304	160,825,182	316,667,877	321,922,486	5,254,609	1.66%
Operating Expenses	98,996,562	103,741,189	107,479,735	109,073,137	202,737,751	216,552,872	13,815,121	6.81%
Equipment & Intangible Assets	663,318	1,293,488	670,318	670,318	1,956,806	1,340,636	(616,170)	-31.49%
Grants	63,535,583	68,164,823	67,938,868	66,944,569	131,700,406	134,883,437	3,183,031	2.42%
Benefits & Claims	1,147,297,504	1,216,679,067	1,479,291,275	1,565,309,991	2,363,976,571	3,044,601,266	680,624,695	28.79%
Debt Service	351,901	516,969	351,901	351,901	868,870	703,802	(165,068)	-19.00%
Total Costs	**$1,464,611,231**	**$1,553,297,050**	**$1,816,829,401**	**$1,903,175,098**	**$3,017,908,281**	**$3,720,004,499**	**$702,096,218**	**23.26%**
General Fund	303,495,348	369,077,195	423,795,769	417,213,383	672,572,543	841,009,152	168,436,609	25.04%
State Special	118,771,216	126,929,068	141,450,698	161,480,125	245,700,284	302,930,823	57,230,539	23.29%
Federal Special	1,042,344,667	1,057,290,787	1,251,582,934	1,324,481,590	2,099,635,454	2,576,064,524	476,429,070	22.69%
Total Funds	**$1,464,611,231**	**$1,553,297,050**	**$1,816,829,401**	**1,903,175,098**	**$3,017,908,281**	**$3,720,004,499**	**$702,096,218**	**23.26%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission statement: Improving and protecting the health, well-being and self-reliance of all Montanans

The Department of Public Health and Human Services (DPHHS) administers a wide spectrum of programs and projects, including: public assistance, Medicaid, foster care and adoption, nursing home licensing, long-term care, aging services, alcohol and drug abuse programs, mental health services, vocational rehabilitation, disability services, child support enforcement activities, and public health functions (such as communicable disease control and preservation of public health through chronic disease prevention).

As shown on the organization chart, the department has four branches and the Director's Office. The branches and the related divisions are:

- Economic Security Services Branch consisting of the Management and Disability Transition Program, Human and Community Services Division, Child and Family Services Division, and the Child Support Enforcement Division
- Operations Services Branch consisting of the Business and Financial Services Division, Quality Assurance Division, Technology Services Division, and the Management and Fair Hearings Program
- Public Health and Safety Branch
- Medicaid and Health Services Branch consisting of the Disability Services Division, Health Resources Division, Medicaid and Health Services Program, Senior and Long-term Care Division, and the Addictive and Mental Disorders Division

The department is also responsible for all state facilities except correctional institutions. DPHHS facilities include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Center, Lewistown; Montana Chemical Dependency Center, Butte; Eastern Montana Veterans' Home, Glendive; Montana Veterans' Home, Columbia Falls; and Montana Developmental Center, Boulder.

Agency Budget Highlights and Legislative Action Items

Department of Public Health and Human Services
Major Budget Highlights

- The DPHHS 2013 biennium budget request is $702.1 million ($168.4 million general fund) higher than the 2011 biennium.
- Funding for benefits (direct services to eligible persons) adds $680.6 million total funds over the biennium, primarily due:
  - Medicaid service utilization and eligibility increases - $276.4 million total funds and $152.3 million general fund
  - Supplemental Nutrition Assistance Program (SNAP) - $250.0 million
  - Healthy Montana Kids (HMK) program increased enrollment and service utilization - $92.2 million
  - Low Income Energy Assistance Programs (LIEAP) and weatherization - $25.0 million
  - A Medicaid expansion to shift 800 individuals from the state funded Mental Health Services Plan (MHSP) to Medicaid services, which has been discussed with the 2007 and 2009 legislatures - $17.0 million
  - Temporary Assistance for Needy Families (TANF) benefits, economic security and employment programs - $15.0 million
  - Developmentally disabled individuals moving from state funded services to Medicaid services - $4.0 million
- Part of the increases in Medicaid and SNAP services continue one-time funding from the 2011 biennium due to the federal stimulus legislation
- Operating costs increase primarily due to contract adjustments supporting:
  - Agency-wide information technology (IT) systems supporting accounting, management and reporting functions of Medicaid and public assistance programs
  - Training and program support for public assistance programs across the state as well as provision of veterans services at the Eastern Montana Veterans' Home
  - A contingency request of $1.6 million state special revenue by the Montana Telecommunications Program should the federal government mandate that states pay for new technologies in telecommunication programs

- Increased funding for FTE is primarily due to statewide and present law adjustments and the net of new proposals for total reductions in funding equivalent to 5.79 full time positions and offsetting increases of:
  - 20.00 FTE to administer HMK (an additional 8.00 above the 12.00 temporary FTE funded by the 2009 Legislature)
  - 5.00 FTE to implement expanded Medicaid family planning services

Legislative Action Issues

- Establishing Medicaid appropriations for the 2013 biennium has an inherent degree of risk because:
  - Medicaid services costs are a significant state expenditure (22% of total HB 2 appropriations) and small differences between actual expenditures and the projection can have major fiscal impacts
  - Executive budget cost trends used to project 2013 biennium costs are below national cost trends projected for Medicaid services
  - Small changes (1%) in the overall cost trend cause a $6.1 million change in state match required over the biennium based on the executive budget request
  - Small changes (1%) in the federal Medicaid match rate cause a $9.0 million change in the state match required for Medicaid services in FY 2013
- State special revenue dedicated to funding increased enrollment costs in HMK is $11.8 million too low to cover projected enrollment increases in the 2013 biennium
  - A portion of the state match for increased enrollment in HMK Medicaid services is paid from the general fund
- Several state special revenue accounts are over budgeted including:
  - Tobacco settlement funds by $8.2 million
  - Tobacco trust interest account by $1.0 million
- 5% reduction plan does not reduce general fund to the targeted amount
- The required DPHHS structural balance plan did not provide $6.4 million in reductions in the FY 2010 base

Agency Discussion

Goals and Objectives

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriation policy. As part of its appropriation deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2011 biennium
- Critical agency goals, objectives, and anticipated outcomes and their correlation to the executive's budget request for the 2013 biennium

2011 Biennium Goals

The following provides an update of the goals and related performance measurements monitored by the Legislative Finance Committee (LFC) during the 2011 biennium. The LFC assigned two workgroup members to meet with the DPHHS to discuss successes and challenges in relation to a number of performance measurements. The reviewed goals and measurements were selected in two ways:

- Continued from the 2009 interim as the LFC workgroup determined the goals merited further review during the 2011 interim
- Selected from recommendations made by the 2009 Legislature

The LFC performance measurement workgroup began by selecting 33 goals and related performance measurements. Of this total, the LFC workgroup determined:

- 17 required no further reports
- 16 should be reviewed further and be discussed as part of the budget deliberations of the Health and Human Services Joint Appropriation Subcommittee

The various goals and measurements are discussed further in the related program narratives.

2013 Biennium Goals

During the interim the LFC workgroup met with the agency to select critical goals and performance measurements for the legislature to consider during the appropriation process. Through discussion with the agency the workgroup identified the following critical goals:

- Implementation of broad based budget reductions and the effect on DPHHS operations; workgroup members discussed the 4% reduction in FTE and personal service costs in relation to this goal
- Implementation of Healthy Montana Kids
- Evaluation of the impacts of the economy and recession on workload and programs
- Implementation of components of federal health insurance reform including:
    - Integrate Medicaid eligibility determination in the health insurance exchange design
    - Evaluate the potential for a single system to determine Medicaid eligibility
    - Outline components and cost of Medicaid eligibility expansion for consideration by the 2013 Legislature

The LFC recommends that the legislature use the selected critical goals as a tool to focus the appropriation discussions with DPHHS. As part of the legislative discussion with the agency, the correlation between the critical goals and the executive budget will need to be determined. To be effective and efficient, the legislature may wish to request that the agency be prepared to discuss anticipated outcomes for the 2013 biennium critical goals and the methodology and specific measurements the agency will use to report to the 2013 Legislature on the successes or challenges that arise during the biennium prior to approval of the starting point for the agency's budget as many of the goals address funding that is included in the agency's base budget.

Personal Services

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited by LFD staff as necessary for brevity and/or clarity.

Labor Market Experience - Applicant pools for agency positions have increased significantly in this biennium. In FY 2009 the agency processed 4,827 applications for 434 jobs (avg. 11 per job); and in FY 2010 the agency processed 10,297 applications for 276 jobs (37 avg. per job) Low-level/low skill jobs have seen the greatest increase in applicant pools (many exceeding 100 applicants) . High-level and specialized positions typically have smaller applicant pools with fewer qualified applicants. Turnover rate in FY 2009 was 15% and decreased to 13% in FY 2010. In FY 2009, 30% of posted agency positions were re-advertised at least once compared to 13% in FY 2010. Up to 10% of the agency job offers were rejected by the top candidates in the applicant pools. Reasons given include the salary offered, current employers matched or exceeded salaries to retain talent, real estate conditions, and personal reasons (medical, taking care of aging parents). Since January 2010, the agency has stopped purchasing print advertising and relies almost entirely on free or low-cost electronic posting of positions. Recruiting staff has substantially restricted travel and marketing of agency positions. Efforts are focused almost exclusively on web-based and electronic media.

- **Pay Philosophy** – The agency pay philosophy for the 2013 biennium is to continue to attract and hire well qualified applicants for agency positions while maintaining pay equity with current employees and strictly complying with the agency's 30 collective bargaining agreements. New hire placement into salary ranges will be tied to the mid-point of the 2006 market analyses for each job code and classification. Succession planning is ongoing but has not been tied to pay due to lack of funding. Career tracks, pay ladders, and other incentive pay components have not been widely developed in the agency. Two divisions in the agency have developed a career

track or related system, which are largely unrelated to pay increases at this time. Further development of these programs has been postponed due to the economic downturn.

- **Obstacles** – Obstacles include increased workloads with corresponding growth in the number of employee complaints and stress-related problems such as health issues and absenteeism. Required vacancy savings and difficulty filling some positions has resulted in fewer staff available to respond to significantly increased demands for agency services.

5% Reduction Plan

Statute requires that agencies submit plans to reduce general fund and certain state special revenue funds by 5%. The following summarizes the plan submitted for this program.

Figure 1

Department of Public Health and Human Services
Total 5% Reduction Plan Identified
Included and not included in Executive Budget 2013 Biennium by Program

	FTE	General Fund	% Of Division Total	State Special Revenue	% Of Division Total	Total Funds	% Of Division Total
Included in Executive Budget							
Economic Security Branch							
Prgm 1 - Management and Transition Program	0.00	($218,344)	1.48%	$0	0.00%	($218,344)	1.48%
Prgm 2 - Human and Community Services Division	0.00	(2,363,310)	16.03%	0	0.00%	($2,363,310)	16.03%
Prgm 3 - Child and Family Services Division	(10.80)	(644,878)	4.37%	0	0.00%	($644,878)	4.37%
Prgm 5 - Child Support Enforcement Division	(2.50)	(98,128)	0.67%	0	0.00%	($98,128)	0.67%
Subtotal Economic Security Branch	(13.30)	($3,324,660)	22.55%	$0	0.00%	($3,324,660)	22.55%
Prgm 4 - Director's Office	(1.00)	($142,310)	0.97%	$0	0.00%	($142,310)	0.97%
Operations Services Branch							
Prgm 6 - Business and Financial Services Division	0.00	($50,062)	0.34%	$0	0.00%	($50,062)	0.34%
Prgm 8 - Quality Assurance Division	0.00	(270,438)	1.83%	0	0.00%	($270,438)	1.83%
Prgm 9 - Technology Service Division	0.00	(251,626)	1.71%	0	0.00%	($251,626)	1.71%
Prgm 16 - Management and Fair Hearings Program	0.00	(2,532)	0.02%	0	0.00%	($2,532)	0.02%
Subtotal Operations Services Branch	0.00	($574,658)	3.90%	$0	0.00%	($574,658)	3.90%
Prgm 7 - Public Health and Safety Division	(1.00)	($225,576)	1.53%	$0	0.00%	($225,576)	1.53%
Medicaid and Health Services Branch							
Prgm 10 - Disability Services Division*	(13.00)	($4,520,570)	30.67%	$0	0.00%	($4,520,570)	30.67%
Prgm 11 - Health and Resources Division	0.00	(2,687,278)	18.23%	0	0.00%	($2,687,278)	18.23%
Prgm 12 - Medicaid and Health Services Management Program	0.00	0	0.00%	0	0.00%	$0	0.00%
Prgm 22 - Senior and Long-term Care Division	(1.00)	(882,164)	5.98%	0	0.00%	($882,164)	5.98%
Prgm 33 - Addictive and Mental Disorders Division	(8.49)	(2,383,286)	16.17%	0	0.00%	($2,383,286)	16.17%
Subtotal Medicaid and Health Services Branch	(22.49)	($10,473,298)	71.05%	$0	0.00%	($10,473,298)	71.05%
Subtotal Included in Executive Budget	(37.79)	($14,740,502)	100.00%	$0	0.00%	($14,740,502)	100.00%
Not Included in Executive Budget							
Economic Security Branch							
Prgm 1 - Management and Transition Program	0.00	($36,290)	0.23%	$0	0.00%	($36,290)	0.15%
Prgm 2 - Human and Community Services Division	0.00	(715,692)	4.63%	0	0.00%	($715,692)	3.02%
Prgm 3 - Child and Family Services Division	0.00	(1,945,568)	12.57%	0	0.00%	($1,945,568)	8.21%
Prgm 5 - Child Support Enforcement Division	0.00	0	0.00%	0	0.00%	$0	0.00%
Subtotal Economic Security Branch	0.00	($2,697,550)	17.44%	$0	0.00%	($2,697,550)	11.38%
Prgm 4 - Director's Office	0.00	$0	0.00%	$0	0.00%	$0	0.00%
Operations Services Branch							
Prgm 6 - Business and Financial Services Division	0.00	($66,214)	0.43%	$0	0.00%	($66,214)	0.28%
Prgm 8 - Quality Assurance Division	0.00	0	0.00%	0	0.00%	$0	0.00%
Prgm 9 - Technology Service Division	0.00	(697,378)	4.51%	0	0.00%	($697,378)	2.94%
Prgm 16 - Management and Fair Hearings Program	0.00	(6,440)	0.04%	0	0.00%	($6,440)	0.03%
Subtotal Operations Services Branch	0.00	($770,032)	4.98%	$0	0.00%	($770,032)	3.25%
Prgm 7 - Public Health and Safety Division	0.00	($122,156)	0.79%	$0	0.00%	($122,156)	0.52%
Medicaid and Health Services Branch							
Prgm 10 - Disability Services Division	0.00	$0	0.00%	$0	0.00%	$0	0.00%
Prgm 11 - Health and Resources Division	0.00	(5,649,766)	36.52%	(8,006,446)	97.29%	($13,656,212)	57.62%
Prgm 12 - Medicaid and Health Services Management Program	0.00	(60,000)	0.39%	0	0.00%	($60,000)	0.25%
Prgm 22 - Senior and Long-term Care Division	0.00	(3,501,042)	22.63%	0	0.00%	($3,501,042)	14.77%
Prgm 33 - Addictive and Mental Disorders Division	0.00	(2,671,284)	17.27%	(223,216)	2.71%	($2,894,500)	12.21%
Subtotal Medicaid and Health Services Branch	0.00	($11,882,092)	76.80%	($8,229,662)	100.00%	($20,111,754)	84.85%
Subtotal Included in Executive Budget	0.00	($15,471,830)	100.00%	($8,229,662)	100.00%	($23,701,492)	100.00%
DPHHS Total	(37.79)	($30,212,332)		($8,229,662)		($38,441,994)	
Biennial Total Needed Under 17-7-111(3)(f)		(30,344,410)		(8,229,622)			
Additional General Fund Required to be Eliminated		($132,078)					

* DSD eliminates 8.71 FTE in FY 2012 and 13.00 FTE in FY 2013.

The LFD has identified two issues with the DPPHS 5% reduction plan. The plan does not:

1. Reduce general fund to the level required by statute
2. Identify additional state or federal revenue reductions resulting from the proposals that are not included in the executive budget

As shown in Figure 1, the biennial general fund reduction plan required under the statute is $30,344,410. The total reduction submitted by DPPHS is $30,212,335 or $132,078 less general fund than required.

LFD ISSUE

5% Reduction Plan Does Not Reduce General Fund to Targeted Amount

17-7-111(3)(f), MCA requires state agencies to provide a plan to reduce the proposed base budget to 95% of the current base budget. Each agency plan must include base budget reductions that reflect the required percentage reduction by fund type for the general fund and state special revenue. The Office of Budget and Program Planning (OBPP) calculated that the minimum requirement for the annual general fund reduction for DPHHS. As shown, the reductions are $132,078 less than required by statute.

Included in the agency proposal are reductions in the Disability Services Division:

- $78,526 in personal services costs and elimination of 8.71 FTE in FY 2012
- $210,600 in personal services costs and elimination of 13.00 FTE in FY 2013

Due to the difference in the FTE reductions between fiscal years, $132,078 less general fund is reduced in the agency base in FY 2012 than in FY 2013.

In addition, the proposal to reconfigure the Montana Developmental Center (MDC) results in a reduction in revenues to the general fund for federal Medicaid reimbursements of $0.4 million over the biennium. Many of the residents at MDC are eligible for Medicaid. MDC is funded from the general fund and Medicaid reimbursements generated from eligible residents are deposited into the general fund to offset the costs of their care. The executive is proposing to move 12 residents out of MDC, eliminate staff, and provide services to residents in community based settings. The reduction in general fund revenues from Medicaid reimbursements decreases the general fund savings proposed in the 5% reduction plan to $31,753 in FY 2012. The budget proposal estimates that residents will transition in FY 2012 and be in community services for the entire year in FY 2013. By FY 2013, the Medicaid reimbursements are reduced by $348,277. The effect of the proposal increases general fund costs in FY 2013 by $137,677.

Option: The legislature may wish to:

- Request that DPHHS propose reductions for FY 2012 to reduce the base budget by an additional $178,848 and by $137,677 in FY 2013
- Remove $178,848 and $137,677 from the FY 2012 and FY 2013 base budgets and allow the department to allocate the reductions

In addition, the executive does not identify other fund reductions resulting from proposed reductions to general fund.

LFD ISSUE

5% Reduction Plan Does Not Identify Other Fund Reductions or Budgetary Risks

As shown, several of the proposals listed in the 5% reduction plan are not included as part of the executive budget. For the proposals that are not part of the executive budget, a number of changes to state special revenue and federal funds would also result if the plan is adopted. These changes are not included as part of the plan submission. The 5% reduction plan includes narrative information that provides total fund reductions associated with the plan. The plan does not differentiate between state special revenue or federal funding sources for the additional reductions.

LFD ISSUE CONT.

Without information on corresponding reductions in other funds associated the base funding reductions, the legislature cannot:

- Gauge the impact of the proposed general fund reductions
- Assess the risks that may be associated with the reductions

17-7-111 (f)(i,ii,iii) requires the agency to submit:

- A prioritized list of services that would be eliminated or reduced
- For each service included in the prioritized list, the savings that would result from the elimination or reduction
- The consequences or impacts of the proposed elimination or reduction in each service

The information required in the statute should assist in legislative discussion with the agency on the impacts of the recommended reductions and allow the legislature to assess the risks associated with the budgetary decisions included in the Governor's proposed plan for DPHHS.

Option: The Health and Human Services Joint Appropriation Subcommittee may wish to require that the agency submit documentation on:

- Total funding reductions, by fund type, for those items in the 5% reduction plan that are not included in the Governor's budget prior to adopting the starting point for legislative deliberations on the DPPHS budget
- Total impacts of the proposed reductions, both those included in and those excluded from the executive budget

Agency Budget Discussion

The 2013 biennium DPHHS budget request grows $702.1 million compared to the 2011 biennium. The majority of the growth - $680.6 million - is in the benefits and claims category, which funds services for individuals meeting specific program eligibility criteria. The majority of increase in benefits and claims is related to:

- Medicaid cost increases to account for growth in service utilization and eligibility for services
- Healthy Montana Kids enrollment increases and service utilization growth
- Federal approval of a Medicaid expansion to transition up to 800 individuals served in the state Mental Health Services Plan (MHSP) to Medicaid services, including a limited physical health services package
- Reinstatement of one-time funding for Medicaid services for:
    - Adult transplants
    - Autism group home
    - Federal eligibility changes related to Indians
- Federally funded benefits for:
    - $250.0 million for Supplemental Nutrition Assistance Program (SNAP)
    - $25.0 million for Low Income Energy Assistance Program (LIEAP) and weatherization
    - $15.0 million for Temporary Assistance for Needy Families (TANF) benefits, economic security, and employment programs
    - $4 million for transitioning developmentally disabled clients to Medicaid services

Operating costs grow $13.8 million primarily due to funding increases for:

- Cost of living adjustments for contracts supporting major computer systems for Medicaid claims payment, eligibility determination for (TANF) cash assistance, and (SNAP) as well as systems that support LIEAP, weatherization, and Medicaid
- Medical, prescription services, and food costs for state institutions
- Contracted services to provide training and program support for public assistance programs across the state
- Contracted services to provide veterans' services at the Eastern Montana Veterans' Home

Operating cost increases are partially offset by reductions in postage, printing, travel and meeting expenses, and some IT system contracts.

Personal services costs are $5.3 million higher in the 2013 biennium despite a net reduction of funding for 5.79 FTE. Personal services increase due to:

- Annualization of employer health insurance contribution increases in FY 2011 authorized by the 2009 Legislature
- Reinstating overtime, holidays paid, and shift differential for state institution employees since these costs are removed from the base budget
- Fully funding FTE
- Addition of 25.00 new FTE, with 20 positions requested for Healthy Montana Kids (HMK – an increase of 8.00 FTE above the level of one-time FTE funded by the 2009 Legislature) and 5.00 FTE to implement expanded Medicaid family planning services

Personal services increases are partially offset by the Governor's 4% personal services reductions - $4.1 million in general fund over the biennium including elimination of funding for 37.79 FTE.

DPHHS FTE - Function

Going into the 2011 biennium, there were nearly 3,000 FTE funded in HB 2 of which over 1,200 were employed by the six state institutions operated by DPHHS, over 900 were field staff located throughout the state, and about 900 were located in Helena. The five institutions that employ 40% of the DPHHS workforce include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Center, Lewistown; Montana Chemical Dependency Center, Butte; Montana Veterans' Home, Columbia Falls; and Montana Developmental Center, Boulder. In addition DPHHS has 1.00 FTE in Glendive to oversee the contract with a private provider operating the Eastern Montana Veterans' Home.

Medicaid Budget

The Medicaid budget can be found in three of the four DPHHS branches.

- The Economic Security Services Branch meets potential clients and determines eligibility at Offices of Public Assistance (OPA) throughout the state.
- The Operations Services Branch runs the accounting and information technology support for Medicaid services.
- The Medicaid and Health Services Branch administers Medicaid services and the following discussion pertains to this branch.

Figure 2

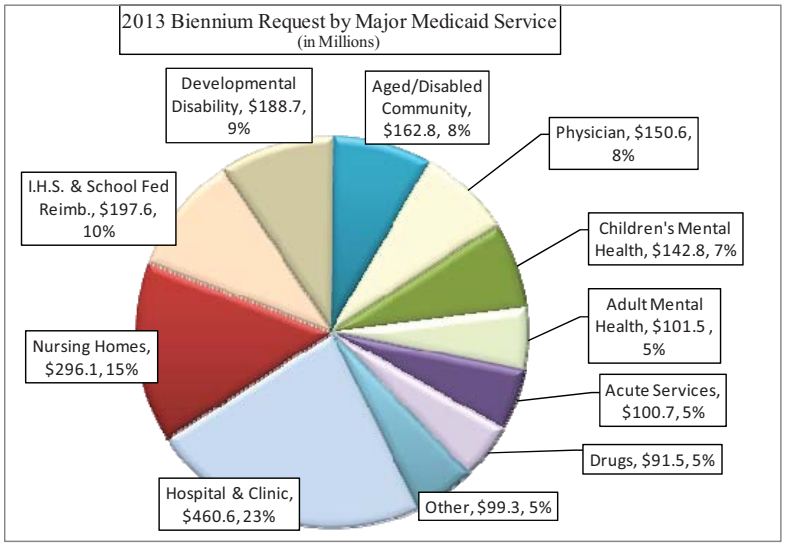
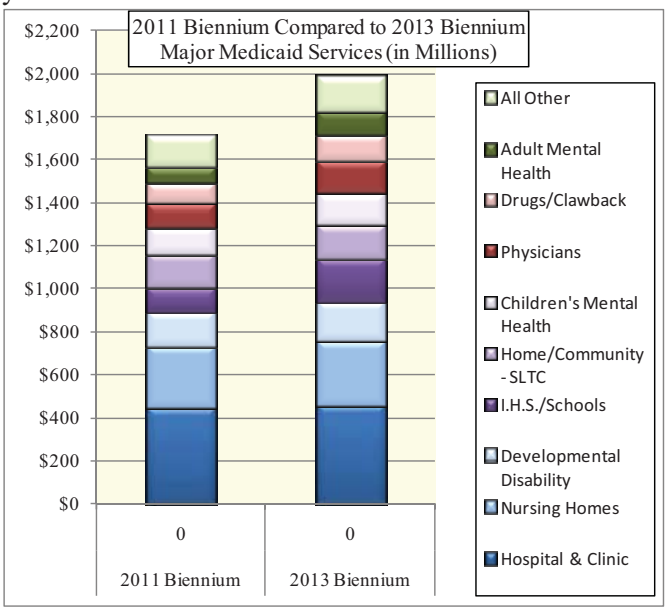


Figure 2 shows the 2013 executive budget request for major Medicaid services. The largest share of the pie is for hospital and clinic services ($460.6 million, 23%), which includes inpatient and outpatient services as well as the hospital utilization fee and federal matching funds. The next largest component is nursing homes at 15% of the total and $296.1 million including the intergovernmental transfer revenue from counties and federal matching funds. Two components of the request are 100% federally funded – payment to Indian Health Services (HIS) providers and reimbursements to schools for services provided to Medicaid eligible children. Other major Medicaid services are under 10% of the total request. However, if adult and children's mental health services are combined, it would represent 12% of total expenditures.

2013 Biennium Compared to 2011 Biennium

Figure 3 shows the 2013 biennium Medicaid services budget by major component compared to the 2011 biennium base budget. The 2013 biennium executive request for Medicaid services is $276.4 million higher than the 2011 biennium base Medicaid expenditures. FY 2011 biennium Medicaid costs do not include one-time appropriations for provider rate increases or for Medicaid services funded in HB 645.

Figure 3



There are three major reasons for the change in general fund and overall costs from the 2011 biennium:

1. Continuance of some one-time-only expenditures and one-time funding that supported ongoing services;
2. Changes in the federal Medicaid match rate (FMAP); and
3. Changes in in service utilization and the number of people eligible for Medicaid.

2013 Biennium Continues Some One-Time Appropriations

About $194.0 million in one-time Medicaid appropriations for the 2011 biennium included in HB 2 and HB 645 (implementation of federal funding in the American Recovery and Reinvestment Act of 2009) were removed from base budget expenditures for Medicaid services. Some of the one-time expenditures were not requested to continue in the 2013 biennium executive budget and those appropriations are discussed in greater detail later in the agency overview. However, some of the one-time funding for Medicaid services is continued in the 2013 biennium request including:

- Autism services - $1.3 million
- Certain organ transplants for adults - $1.5 million
- A portion of Medicaid service funding for ongoing services, such as prescription drugs and acute services (dental, durable medical equipment, private duty nursing) – between $40.0 million to $55.0 million

Changes in FMAP

The general fund increase for Medicaid services is largely attributable to the change in state match rate requirements due to:

- A temporary reduction in the state match rate in FY 2010 and the first half of FY 2011 that reduced general fund and increased federal funds
- Resumption of the regular state match in the 2013 biennium, and an increase in that rate (1.3% in FY 2012 and 1.7% in FY 2013 compared to FY 2010)

Temporary Reductions in the State Medicaid Match Rate

The American Recovery and Reinvestment Act of 2009 (ARRA) authorized a temporary increase in the federal Medicaid match rate (FMAP) from January 1, 2009 through December 31, 2010. The impact to Montana was a 10% reduction in the state match required for Medicaid and foster care services. When the 2009 Legislature met, it estimated that savings from the reduced state match would be about $146.0 million general fund over the 2011 biennium. The legislature also estimated increased general fund revenues due to the enhanced FMAP of $14.0 million from higher reimbursement for Medicaid services provided by state institutions and the diversion of a portion of the hospital utilization fee to the general fund.

The legislature authorized the Office of Budget and Program Planning to adjust FY 2010 base budgets for Medicaid and foster care services by increasing general fund to replace the temporary federal funds in order maintain base level spending in the 2013 biennium. Figure 4 shows the increase in the adjusted base budget for Medicaid services was $70.6 million general fund.

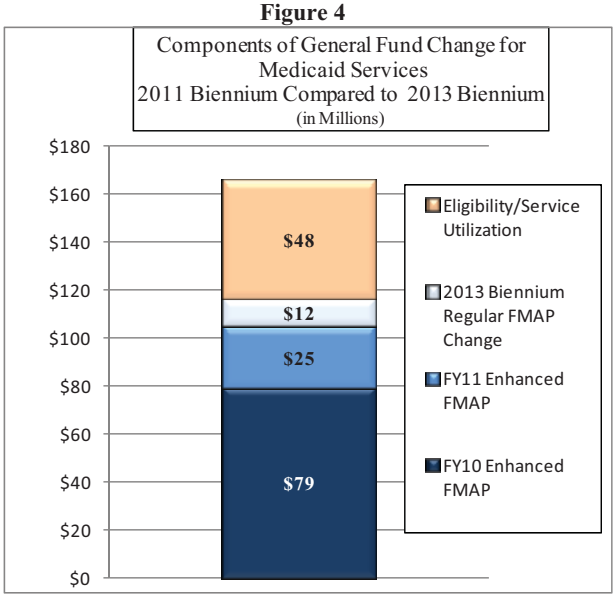
Savings Not Anticipated by the 2009 Legislature

There were additional savings during the 2011 biennium related to the federal Medicaid match rate that were not anticipated by the 2009 Legislature. The total savings projected for the 2011 biennium exceed 2009 session estimates by $52.2 million due to:

- ARRA FMAP change being applied to the clawback payment (state reimbursement to the federal government for a portion of savings related to Medicare Part D coverage of drug costs for persons eligible for both Medicaid and Medicare) - $8.4 million
- Tier 3 (higher) unemployment adjustment level being applied instead of the Tier 2 originally anticipated - $19.3 million
- Federal JOBS bill extending FMAP increases at a stepped down rate from January 1, 2011 to June 30, 2011 - $25.0 million

Each of these additional savings added to the state general fund balance.

Figure 4

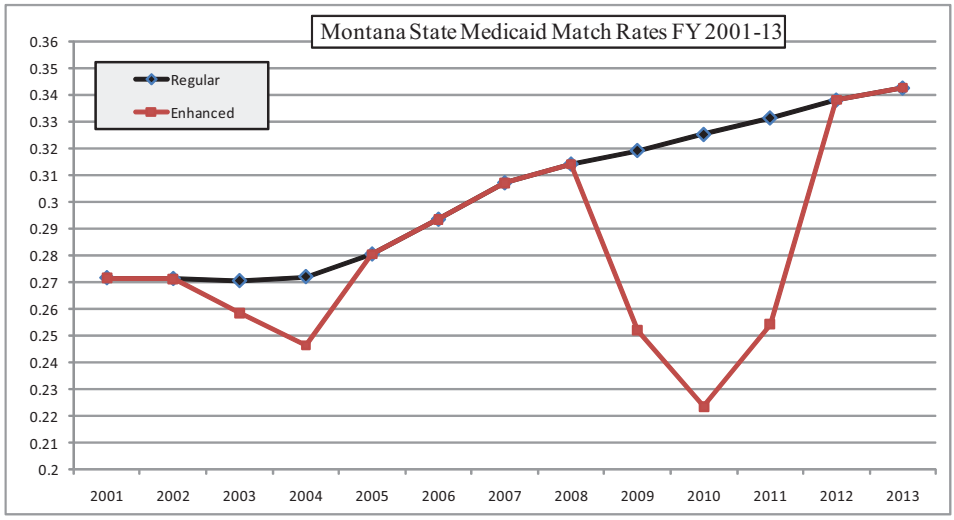


Regular Medicaid Match Rate Increases

The executive budget request about $12.4 million general fund in specified decision packages due to changes in the regular Medicaid match rate. Most Medicaid services require a state match, paid from the general fund and augmented by some state special revenue funds. The state match rate is based on a formula that compares changes in each state's per capita income to changes in the national average. If a state's per capita income performs better than the average, then its match rate goes up. The maximum state match rate is 50%. Montana's match rate is 33.81% in FY 2012 and projected to be 34.16% in FY 2013 compared to an unenhanced base rate of 32.52% in FY 2010. Figure 5 shows historic changes in the federal medical assistance percentage (FMAP), including the effect of temporary enhancements.

Enhanced FMAP

Figure 5



2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
27.15%	27.12%	27.04%	27.19%	28.04%	29.34%	30.71%	31.41%	31.92%	32.52%	33.14%	33.81%	34.26%
27.15%	27.12%	25.85%	24.64%	28.04%	29.34%	30.71%	31.41%	25.20%	22.35%	25.42%	33.81%	34.26%

*Changes to Enhanced rate from FY 2003-04 implemented as a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003.

*Changes to Enhanced rate from FY 2008-11 due to the enactment of the American Recovery and Reinvestment Act of 2009.

Source: Department of Public Health and Human Services, November 23, 2010.

Changes in Service Utilization and Numbers Eligible

The third primary reason for the increase in Medicaid costs from the 2011 biennium is in changes in service utilization and the number of persons eligible for Medicaid. These factors can be the most volatile and difficult to predict because they are sometimes beyond the control of the legislature. Therefore, this section begins with a discussion of risks associated with projections of costs.

Risks Associated with Medicaid Budgeting

There is inherent risk in establishing Medicaid appropriation levels due to the:

- Magnitude of the appropriation
- Significant factors that drive cost trends are variable, some of which are beyond the control of the legislature
- Difficulty in predicting underlying economic conditions that influence the number of people eligible for services

If the Medicaid appropriation is too low, then DPHHS must:

- Make program changes to Medicaid to lower spending, potentially without legislative input
- Reduce other programs and transfer savings to shore up Medicaid
- Request additional funds from the next legislature

If the Medicaid appropriation is too high:

- It precludes the legislature from potentially funding other priorities
- Excess appropriation authority may not be reverted, but spent in other ways without legislative direction

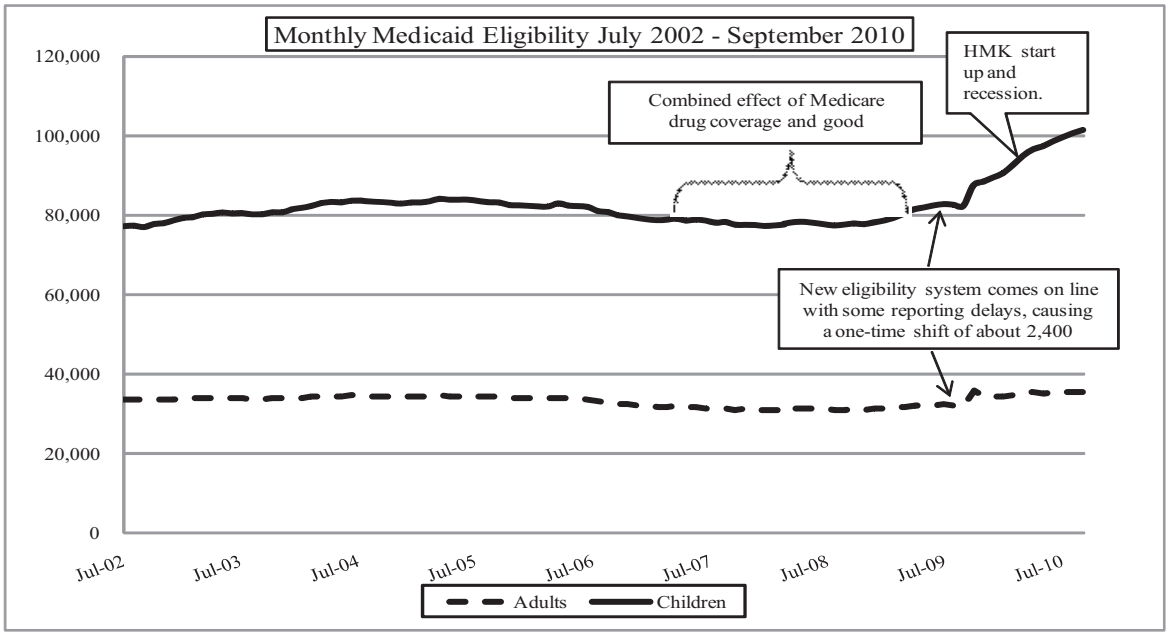
Magnitude of the Appropriation

Medicaid services are a large portion of the total HB 2 appropriation – about 41% of the executive 2013 biennium budget request - and Medicaid costs can be volatile. Most Medicaid services are an entitlement, meaning that if a person meets eligibility criteria and a service is medically necessary, the service must be provided.

Medicaid Enrollment

Figure 6 shows enrollment in Medicaid from July 2002 to September 2010. Enrollment has grown steadily over that time, from 80,075 to 101,382. The majority of the increase has been in the number of children enrolled partially due to implementation of HMK, which raised Medicaid eligibility for children and eliminated consideration of family assets. The 2009 Legislature established funding sufficient to raise Medicaid eligibility for children to 133% of the federal poverty level, compared to the statutory ceiling of 185%.

Figure 6



Significant Factors Driving Cost Trends - Variability

There are four basic components that drive Medicaid services costs:

- Eligibility criteria
- Services provided
- Level of service utilization
- Reimbursement rates

Where can the Legislature Affect the Cost Drivers?

The legislature can affect three of those components – services provided (within certain limitations), level of service utilization (within certain limitations for children), and reimbursement rates. Due to changes in the Patient Protection and Affordable Care Act of 2010 (PPACA), states must maintain eligibility standards, methodologies, and procedures for Medicaid and Children's Health Insurance Program (CHIP) that were in place March 23, 2010, when the act was signed, in order to receive federal Medicaid matching funds. If a state lowers eligibility, it risks losing all Medicaid matching funds for the time period in which the restrictions are in effect. The amount of federal reimbursement for Medicaid services is estimated to be $1.4 billion in the 2013 biennium executive budget request.

The MOE applies to eligibility levels for children, elderly, pregnant, and disabled persons. However, PPACA includes an exemption from the eligibility MOE for certain adult groups. If a state certifies to the Secretary of the U.S. Department of Health and Human Services that the state has a budget deficit, or is projected to have a budget deficit, the state may lower Medicaid eligibility standards to 138% (133% floor plus a 5% disregard) of the federal poverty level for adults who are not disabled and who are not pregnant.

The Maintenance of Effort (MOE) exemption may have limited application to Montana because Medicaid financial eligibility for nondisabled, nonpregnant adults is about 33% of the federal poverty level. Compared to some other states that have received exemptions from the MOE, Montana has lower eligibility standards for these adults.

In Montana, the only groups whose Medicaid eligibility exceeds 133% of the federal poverty level are pregnant women (150%) and persons with breast and cervical cancer (200%). The MOE cannot be waived for pregnant women. It is not clear whether eligibility could be reduced for the group eligible for breast and cervical cancer treatment, which accounts for $10.1 million total funds - $2.4 million general fund over the 2013 biennium.

Medicaid Services Provided and Levels of Service Utilization

The legislature can influence levels of service utilization and the services funded within certain limitations. The legislature can discontinue funding for optional Medicaid services (those not required to be part of a state Medicaid plan under federal regulations) and it can establish service limitations for some services. The options to restrict Medicaid services for children are much more limited than restricting services for low-income adults.

Service restrictions must be carefully crafted to prevent shifts to higher cost mandatory services or to services that are fully funded from the state general fund. In some instances, cost shifts to local governments can also occur.

Provider Rates

Another policy option that the legislature can consider to reduce overall Medicaid costs is to lower reimbursement rates. This option can have unintended consequences such as limiting access to services if providers opt to discontinue participation in the Medicaid program, cost shift to more expensive services, and cost shift to other payors.

Variability

Medicaid service costs are impacted by several diverse factors, which can cause costs to vary over a biennial budget cycle. Medicaid costs are projected from payments for services (paid claims). Medicaid cost projections for most Medicaid services are based on overall cost trends, although some cost projections are based on the estimated number of eligible persons and the average cost per person. Unanticipated changes in eligibility, service utilization, or provider behavior can have significant impacts on service costs for the majority of Medicaid services. Additionally, federal policy changes can impact state costs, although most significant policies have a degree of lead time that allows legislators to choose how to respond.

Final Medicaid cost estimates for budgeting purposes are usually developed in January or February of a legislative session, using data that is 30% to 40% complete for the current fiscal year and mostly complete for the two most recent fiscal years. These projections establish appropriation levels through June 30, 2013 but Medicaid appropriations can be adjusted by the 2013 Legislature if necessary.

<u>General Fund Impact</u>

Small changes in the state Medicaid match rate, or enrollment and service utilization increases can have significant impacts on the amount of general fund required for state match.

Change in State Match from 1% FMAP Change

Federal FMAP rates for FY 2012 have been established, but the FY 2013 FMAP used in the executive budget is an estimate. If the actual FMAP is different it can have a significant impact on state spending. For example, a 1% change in FMAP in FY 2013 would cause a $9.0 million change in the state funds required to pay for Medicaid services. If the federal match rate is higher, then state costs are reduced. However, if the federal match rate is lower than expected, state costs increase.

Change in State Match from 1% Service/Caseload Trend Change

The impact of a 1% change in overall Medicaid cost trends would change state funding requirements for Medicaid services by $6.1 million based on the 2013 biennium Medicaid budget request and expected match rates.

Moderation in Medicaid Cost Trends Tied to Policy Changes

Medicaid cost trends (not including the effect of provider rate increases) have risen 2% to 10% annually since 2003. Nationally Medicaid cost trends indicate that, while changes in costs and enrollment closely mirror one another, overall program cost changes have been higher than enrollment changes, and costs have continued to increase year over year even when enrollment is declining. There have been instances where annual cost growth has been below 2% or declined for some services. However, in the vast majority of instances there are specific policy actions that cause cost moderation or cost declines. Therefore, if cost growth is to be moderated, policy makers need to implement specific programmatic changes to lower costs.

The most recent example of a specific programmatic change that moderated Montana Medicaid costs generally and drug costs specifically was due to the implementation of Medicare Part D premium assistance. Some low-income persons are eligible for both Medicaid and Medicare (dual eligibles) - about 13,720 persons or 14% of total Medicaid enrollment (101,380) as of September 2010. Prior to implementation of Medicare Part D, the Medicaid program paid for drug costs for dual eligibles and in some instances the amount persons incurred in drug costs made them eligible for Medicaid. When Part D was implemented, Medicaid drug costs declined from $80.5 million in FY 2005 to $38.0 million in FY 2007 (net for drug rebates, but not including reimbursement to the federal government through the clawback payment).

National Trends/Recession

Since 1998 cost trends for total Medicaid spending nationally have ranged from the lowest annual increase of 1.3% (after implementation of Medicare part D) to the highest annual increase of 12.7% in 2002 (Kaiser Health Foundation, "Hoping for Economic Recovery, Preparing for Health Reform: A Look at Medicaid Spending, Coverage and Policy Trends Results from a 50-State Medicaid Budget Survey for State Fiscal Years 2010 and 2011, September 2010). Historically, Medicaid services costs have increased even when enrollment shows a year over year decline.

In early FY 2011, a few states were seeing signs that enrollment in Medicaid was slowing (Kaiser Health Foundation, September 2010). However, despite enrollment growth easing, overall costs were projected to increase 7.4%.

Executive Medicaid Assumptions

In examining the legislative proposal, a number of questions related to the previous discussion are pertinent:

- What trends does the executive assume?
- How closely do the assumed trends follow to historical trends?
- What factors or policy changes would make variability from historical trends appropriate?
- What programmatic changes does the executive propose?
- What are the primary risks of the specific projections used?

DPHHS provided projections for major Medicaid services. In most instances the projections equal the executive budget request, but in some areas there are slight differences. Data relevant to specific differences and the assumptions used in developing cost estimates for major services was not available.

DPHHS submitted the following information to explain the assumptions it used in developing the Medicaid cost estimates for the 2013 biennium budget.

"The following risk assumptions were made when DPHHS forecasted Medicaid caseload costs for the executive budget. These assumptions were accepted by the Governor's Office of Budget and Program Planning.

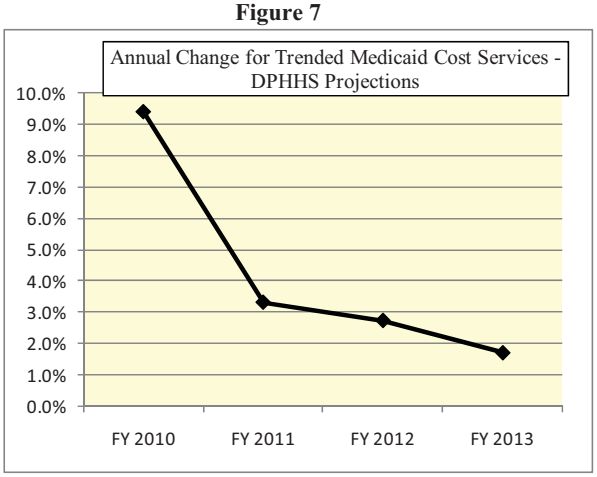
- The economy has started to recover in SFY 2011
- Unemployment has plateaued (7.3% on 11/23/10; range 7.1-7.4% for last seven months)
- Revenue estimates are increasing (estimated increase by both legislative and executive staff of 2 to 5% per year from 2010 to 2013)
- Projected increases for SFY 2012-2013 are 1.32% and 2.59%. These are within a normal range of risk. Actual growth has ranged from 0.6% to 14.2% in the past ten years.

- Department has assessed risk in our forecasts at both extremes – we acknowledge that if our forecasts are too high we tie up dollars that are needed elsewhere – if we are too low, the Department would be underfunded
- Department is below our long term average growth, but within our long term risk tolerance
- It is important to note that the average long term growth trends include provider rate increases which are not in the executive's proposed budget for this biennium
- The current growth in number of eligibles is occurring mainly in children
- This was expected as Healthy Montana Kids (HMK) has been targeted for growth through aggressive outreach
- HMK portion of caseload has a dedicated state special revenue source(s) of funding
- Department budget forecast was built by using a mixture of older trended history, recent 2 year history, and what we believe will happen in the next biennium"

Overall Executive Medicaid Cost Trends

Figure 7 shows the overall cost trend in the executive budget for Medicaid services estimates that use trended projection techniques. The cost trends in the figure do not include services that are funded entirely from federal funds (Indian Health Services and school based services), services that are based on the number of enrollees times the per enrollee cost (Medicare buy-in), or community services where enrollment can be capped (home and community based waiver services for disabled and aged).

Figure 7



Specific Risks of Executive Proposal

- Trends used
- Potential enrollment changes
- Programmatic changes

Trends

The executive Medicaid estimates are based on total cost changes ranging from 1.9% to 2.8%, with costs projected to grow most slowly between FY 2012 and FY 2013. Nationally the lowest year over year change in Medicaid costs was 3.0% from 2005 to 2006. During that time enrollment increased 0.2% and cost growth would have also been moderated by implementation of the Medicare Part D prescription drug program. (Source: Kaiser Family Foundation, September 2010.)

Enrollment Changes

DPHHS is beginning an outreach campaign for HMK. It is likely that in addition to enrolling children in HMK, some of their parents will be eligible for Medicaid services. Persons remain eligible for Medicaid up to 12 months if their earnings increase and make them ineligible for Medicaid (transitional Medicaid assistance), which also contributes to ongoing high enrollment. Therefore, overall Medicaid enrollment would need to begin to decline soon in order for the overall cost trends to moderate at the level predicted in the executive budget.

Programmatic Changes

The executive budget does not identify specific programmatic changes for discussion with the legislature that would significantly lower Medicaid cost trends. DPHHS did implement a program – the Health Improvement Program – discussed later that would moderate costs in some areas. However, there are no other major programmatic changes that would reduce costs. As noted previously, the major components driving Medicaid costs include enrollment levels, reimbursement rates, and service utilization. Since it is likely that enrollment levels in Medicaid will at best remain stable, due in part of HMK outreach, there are no programmatic changes proposed in the executive budget to change provider rates or significantly lower service utilization.

LFD Lacks a Medicaid Cost Model

LFD staff prepares independent estimates for selected Medicaid services including nursing home services, the Medicare buy-in (payment of Medicare deductibles for dual eligible persons), some children's services, and some mental health services. Historically, LFD staff has considered Medicaid caseload estimates jointly with DPHHS staff, including discussions of the model used by DPHHS, cost trend assumptions, and various discrete changes made to estimates. This process was not available to LFD staff as part of the 2013 biennium budget development. Therefore, the ability of LFD staff to analyze Medicaid caseload estimates included in the executive budget is not as complete as in past years, also contributing to the level of risk in establishing Medicaid cost estimates.

Recently, the department transferred a large amount of Medicaid data to the LFD. While the data is available, the model, detailed assumptions, and skill set for working with the data has not been developed in the LFD. The lack of either a cooperative analysis or an independent model may expose the state to more risk than is appropriate for this large of a spending item. Given the change in the executive procedures in the development of these projections, it may be appropriate for the LFD to invest staff time and resources necessary to develop independent analysis and reporting of Medicaid caseload forecasts.

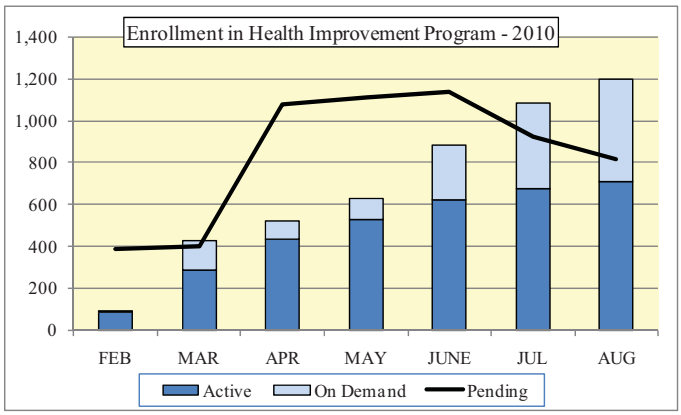
DPHHS Medicaid Initiatives

DPHHS has implemented two Medicaid services initiatives since the 2009 legislative session – the Health Improvement Program (HIP) and a mental health Medicaid expansion (Health Insurance Flexibility and Accountability – HIFA waiver).

Health Improvement Program

DPHHS contracted with 14 Community Health Centers including 1 Tribal health center to provide care management for certain Medicaid eligible persons. DPHHS opted to implement the HIP program in place of a disease management contract with mixed performance outcomes.

Figure 8



Program participants are enrolled in HIP based on results from a modeling application that uses Medicaid paid claims to predict potential future high cost and service utilization for individual Medicaid clients. Figure 8 shows enrollment in the program through August 2010. Active enrollees are those who work regularly with Community Health Center staff while on demand enrollees contact HIP staff as they feel necessary. The solid line the chart is the number of persons referred to the contractors who are eligible for enrollment. DPHHS estimated preliminary cost savings of about $238,000 in the first five months of program implementation. The legislature may wish to request updated information.

Mental Health Expansion

DPHHS received federal approval in late November 2010 for the mental health expansion waiver (HIFA waiver) that was first discussed with the legislature nearly four years ago. The waiver will allow the state to cap enrollment in a Medicaid services expansion. The waiver will transition 800 adults with schizophrenia and bipolar disorder from state funded mental health services to Medicaid services, including mental health services and a limited physical health benefit. This program is discussed in greater detail in the Addictive and Mental Disorders Division in the Medicaid and Health Services Branch.

Other New Medicaid Programs

DPHHS has submitted two draft Medicaid proposals for review by the federal Centers for Medicare and Medicaid Services (CMS) that are not included in the agency budget request. The proposals are discussed in the budget analysis

because each has significant policy issues and potential budget implications. The proposals are: Medicaid Part D drug coverage and a five county managed care proposal.

Medicaid Part D

The Medicaid Part D proposal would allow all Montanans to be Medicaid eligible for prescription drug services. A simplified explanation of the proposal is:

- Any Montanan can apply to be Medicaid eligible
- Montanans with incomes and resources in excess of regular Medicaid program eligibility criteria would be eligible for one Medicaid service only and that would be the option to purchase prescription drugs
- A person covered by Medicaid Part D would pay the full cost of the drug, but the cost of the drug would be the price that the Medicaid program pays
- Program administrative costs would be paid from rebates paid by drug manufacturers as a condition of participation in the Montana Medicaid program
- Rebates in excess of administrative costs for the Medicaid Part D program would also be paid to participating Montanans

Other states have implemented programs with similarities to the Montana proposal. However, courts have held that since the state program did not make a payment for the drug, the manufacturer rebate could not be used to reduce the government's cost of funding Medicaid.

If the Medicaid Part D proposal is approved and if it fulfills legal conditions associated with Medicaid regulations, then individuals and health insurance plans, including the state employee health plan, would save money on prescription drug costs. The Medicaid Part D concept might have the potential to be extended to other Medicaid services as well, lowering payments for services to the Medicaid rate.

Five County Managed Care Proposal

DPHHS has submitted a concept paper to CMS outlining a managed care proposal for a five county region including Cascade, Lewis and Clark, Choteau, Judith Basin, and Teton counties. The proposal would integrate all Medicaid services into a single contract, including home and community based services for the aged, disabled, and mentally ill as well as nursing home services. According to DPHHS staff, a contract of this type has not been tried by any other state.

DPHHS has contracted for the development of actuarial rates for individuals in the Medicaid program and rates should be developed and available during the legislative session. DPHHS plans to issue a request for proposal (RFP), which would require the successful bidder to assume management and payment of all Medicaid services for 10% less than the projected cost to the state. The contract would be a full risk contract, meaning that DPHHS would not share in any cost over runs and potentially not share in any cost savings either. Payments to the contractor would be based on a per capita payment for every person eligible for Medicaid and Healthy Montana Kids (HMK) services in the five county area.

Written information explaining the proposal is broad brush with few details. It isn't clear when the proposal would be implemented and what types of parameters would be included in the RFP. The legislature may wish to request additional information on this proposal.

2013 Biennium Workload

In the coming two years, in addition to implementing several new and complex Medicaid programs, DPHHS will also undertake several challenging initiatives including:

- Issuing an RFP to replace the Medicaid Management Information System (MMIS) and overseeing system development
- Initiating processes and automated system designs to implement provisions of PPACA (federal health insurance reform)
- Ramping up an outreach campaign to increase enrollment in HMK

These time and labor intensive management initiatives will be undertaken at the same time that cutbacks in staffing and other programs are proposed in the executive budget.

Federal Health Insurance Reform

PPACA will have a major impact to state Medicaid programs due to expansion of Medicaid eligibility, and changes in eligibility determination, implementation of health insurance exchanges, and potentially service design. In summary the major changes:

- Raise Medicaid financial eligibility for nonelderly, nondisabled persons to 138% of the federal poverty level (133% plus a 5% income disregard) and eliminate consideration of assets for this group
- Standardize and simplify Medicaid eligibility determination by defining modified adjusted gross income (MAGI) and tying it to income submitted on federal tax forms
- Increase automated capacity to determine eligibility for Medicaid and CHIP by requiring health insurance exchanges to either determine Medicaid eligibility or provide a transparent link to an eligibility determination system
- Outline a service package that must be provided to persons newly eligible for Medicaid services

Other Major Executive Budget Issues

In addition to Medicaid appropriation levels, there are several other significant DPHHS budget issues including:

- State special revenue funding available to pay state matching costs for the HMK program is too low to support projected enrollment increases during the 2013 biennium
- The executive budget submission does not identify reductions necessary to fully reduce on-going services that were supported by the $22 million one-time appropriation in the 2011 biennium
- Temporary appropriations from the 2011 biennium and their impact on the 2013 biennium budget request
- Several state special revenue funds are over budgeted (see discussion in the funding section), including:
    - Tobacco settlement funds and tobacco trust fund interest

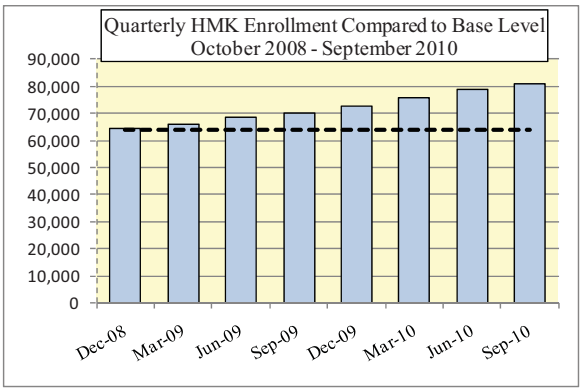
Each of these issues is summarized, but presented in greater detail in the division budget discussions.

Healthy Montana Kids

HMK was enacted by voter initiative (I-155) in November 2008. The initiative:

- Combined Medicaid and CHIP services for children into a single program
- Raised financial eligibility for CHIP and Medicaid services for children
- Eliminated consideration of family assets for Medicaid eligibility determination for children
- Diverted a portion of insurance premium taxes from the general fund to pay for the state match for increased enrollment in HMK

Figure 9



The 2009 Legislature appropriated $112.7 million to support increased enrollment in the program, including funding for 24.00 FTE, with half of the FTE funded for the 2011 biennium only. The 2009 Legislature also reduced the flow of insurance premium tax into the HMK state special revenue account from 33% to 16.5% from July 1, 2010 to June 30, 2013. The executive budget includes $205.0 million for HMK in the 2013 biennium (including Medicaid services for children in families with incomes up to 100% of the federal poverty level). The executive request also includes funding for 20.00 new FTE bringing the total number of FTE for HMK program administration to 32.00. Figure 9 shows total program enrollment from October 2008 until September 2010. Enrollment levels above that on November 2008 (the dotted line in the figure) are eligible for the state share of costs to be paid from the HMK state special revenue account.

HMK State Special Revenue Not Adequate to Fund Total Increase in Enrollment

The executive budget funds the state match for the federal CHIP grant and for a small amount of Medicaid services for HMK from the state special revenue fund dedicated to the program. However, a significant portion of the state matching funds to support increased enrollment in HMK is funded from the general fund. If the state matching cost for all services for increased enrollment in HMK were funded from the HMK state special revenue account, it would be short by up to $11.8 million by the end of FY 2013.

The statute governing the use of the HMK state special revenue account states that it is to be used only to fund increased enrollment in the program. However, the statute does not provide guidance as to use of the state special revenue if funds are inadequate to support total enrollment in the program, other than to reference changes that can be made to services funded from the federal CHIP grant that supports HMK/CHIP services.

LFD COMMENT

Legislative Options – HMK Appropriation Level

The legislature has several options to consider regarding the share of state funding for HMK. However, as discussed previously, the option to lower eligibility criteria may put all federal Medicaid matching funds at risk. Legislative options to alter the HMK program are discussed in greater detail in the Medicaid and Health Services Branch, Health Resources Division.

2011 Biennium Temporary Appropriations

The 2009 Legislature made several one-time appropriations in HB 2 and HB 645 (implemented the federal American Recovery and Reinvestment Act of 2009). These one-time appropriations included both general fund and federal funds. Some of the one-time appropriations supported:

- On-going costs that the legislature directed DPHHS to offset through spending reductions in the 2013 biennium budget request
- On-going costs that are requested to continue in the 2013 biennium budget
- Expenditures such as provider rate increases and community services for the elderly that can be considered current services but that are not continued in the 2013 biennium budget request, and represent reductions to those groups that benefitted from one-time funding in the 2011 biennium
- One-time increases in federal categorical grants that are not continued in the 2013 biennium with either federal or state funds.

One-Time Appropriations and Required Spending Reductions

$22.0 Million Structural Balance One-Time-Only Appropriation

The 2009 Legislature allocated $22.0 million general fund that supported ongoing services to one-time-only appropriations to achieve structural balance in the 2013 biennium. The legislature included language in HB 676 requiring the department to review, evaluate, and select budget reductions for consideration by the 2011 Legislature to meet reduced funding levels ($10.7 million in FY 2010 and $11.3 million in FY 2011). The legislature allocated the one-time appropriations to Medicaid services, but allowed DPHHS to identify reductions in any area it chose. HB 676 also required the Legislative Finance Committee (LFC) to monitor the department budget review initiative. Figure 10 shows the one-time appropriation (reductions) allocated to Medicaid services within four divisions.

Figure 10

Department of Public Health and Human Services Structural Balance OTO Funding Allocated in HB 2			
Division	FY 2010	FY 2011	Biennial
Disability Services Division	$1,252,469	$1,322,868	$2,575,337
Health Resources Division	6,602,567	7,169,677	13,772,244
Senior and Long-term Care Division	2,476,265	2,482,536	4,958,801
Addictive and Mental Disorders Division	318,879	374,740	693,619
Total Allocation in HB 2	$10,650,180	$11,349,821	$22,000,001

As part of the evaluation, the legislation allowed the department to include changes such as:

- Reducing administrative costs
- Changing eligibility or level-of-care requirements
- Limiting the number of Medicaid services that adults may receive
- Changing Medicaid services included in the Montana Medicaid state plan
- Developing more cost-efficient methods to deliver services
- Limiting or changing services that are fully state funded

The legislation also stipulated that achieving the necessary general fund reduction in the 2013 biennium budget request could not include shifting costs to state special revenue funds (see issue below). Figure 11 shows the reductions identified by DPHHS as presented to the LFC in October 2010.

Figure 11

Department of Public Health and Human Services

Chart of Reductions Identified by DPHHS

Structural Balance One-Time-Only Appropriation		
Base Year OTO Target FY2010	FY2011	Biennial Total
$10,650,180	$11,349,821	$22,000,001

	Cumulative Annual Reduction Options: $15,985,471
Other Items in 17-7-111 Statutory Reduction Plan *not included in the DPHHS September 1 Budget Submission: Other options not listed below, totaling $5,335,291*	
FY2010 Base Year Structural Balance OTO Target: $10,650,180	**$10,650,180**
Other Items in 17-7-111 Statutory Reduction Plan: $1,119,357 of the options to total $10,650,180	$9,530,823
Other DPHHS Budget Proposals Submitted September 1: $3,298,409	$6,232,414
4% FTE Reduction Proposals for FY12-13 in DPHHS September 1 Budget Submission: $2,317,644	$3,914,770
17-7-140 Reductions sustaining in FY12-13: Operations Efficiencies = $433,450; Program Efficiencies = $2,668,054; Total FY12-13 Reductions = $3,101,504	$813,266
17-7-140 Statutory Reduction Plan *FY2010 Reductions to Base not included in FY12-13 Budget Submission* $813,266	

Note:
This chart is an addendum to the "*Report to the Performance Measures Subcommittee of the Legislative Finance Committee On the Structural Balance Funding Requirement in 12-7-111, MCA* " presented as part of the Department's initial budget submission on September 1, 2010. The chart is a graphic presentation of the data provided in the report, showing the reductions made in the FY2010 base through the 17-7-140 reductions, the department's 2013 bienniumbudget proposal to the Governor, and 5% statutory reduction options provided in accordance with law.

In January 2010, the Governor required state agencies to reduce general fund spending by 5% by invoking 17-7-140, MCA because, at the time, the general fund ending balance was projected to be less than 1% of all general fund appropriations during the biennium. $0.8 million of the reductions included in Figure 11 were removed from FY 2010 base expenditures as part of the reductions ordered under 17-7-140, MCA.

The department included the majority of the reductions proposed in the structural balance plan in its 2013 biennium budget submitted to the Office of Budget and Program Planning. The reductions in the agency budget submission included:

- $3.1 million in spending reductions for operational and program efficiencies that the Governor made to the agency 2011 biennium general fund budget in accordance with 17-7-140, MCA. As the reductions were effective in FY 2011 they are not reflected in the base. The $3.1 million is to continue the original reductions in the 2013 biennium
- $2.3 million in personal services cost reductions that support FTE; the FTE were permanently eliminated from the budget
- $3.3 million in other DPHHS budget proposals

As presented in the DPHHS structural balance plan, the reductions included in the agency's submitted budget total $9.5 million annually, leaving $2.2 million of additional reductions that were not identified in the department budget submission of September 1, 2010. The department testified to the LFC that the legislature could determine additional reductions to the base required to achieve structural balance from those included in the 5% reduction plan required under 17-7-111(3)(f).

LFD ISSUE

Structural Balance Plan Concerns

The Governor's 2013 biennium budget submission modified elements of the structural balance plan submitted by the agency. Changes include:

- Reductions of $0.4 million of personal services included as 4% FTE Reduction Proposals were eliminated bringing the total to $1.9 million compared to $2.3 million shown in Figure 11
- Inclusion of almost $0.6 million in personal services costs that are shifted to state special revenue funds thereby making the reductions unallowable for inclusion in the structural balance plan
- Reductions of $1.1 million to the Other DPHHS Budget Proposals for a total of $2.2 million as compared to $3.3 million included in the agency's budget submission and shown in Figure 11

Budgeting statutes required the Governor to select $10.6 million in general fund reductions for consideration by the legislature as the funding was designated as one-time-only and should not be included in the FY 2010 base. The executive budget includes only $7.4 million, leaving the structural balance requirement $3.2 million less each year than anticipated in statute.

The DPHHS 5% reduction plan has an additional $8.8 million in reductions that were not part of the Governor's proposed budget. It is DPHHS and OBPP interpretation that the 5% plan to reduce the FY 2010 base is part of the budget submission. As an option, the legislature could consider using proposals in the 5% reduction plan to reduce the base budget.

LFD ISSUE CONT.

In addition, the Legislative Finance Committee (LFC) requested a listing of Medicaid optional services from DPHHS. Federal Medicaid requirements include provision of a basic level of services. States have the option of providing additional services to eligible individuals. The listing provides summary information on the service, FY 2010 costs, savings if the services was eliminated, number of individuals affected, cost shifts to other areas of the budget, potential areas individuals would seek their services if the department eliminated them, and changes to federal or state law that would be required to implement the changes. The full report can be found at:
http://leg.mt.gov/content/Publications/fiscal/Legislative-Options/September-2010/Optional-Medicaid-Services.pdf

Option: The Health and Human Services Joint Appropriation Subcommittee can:
- Require the agency to select an additional $8.6 million in reductions for consideration by the legislature
- Select items from the 5% reduction plan to reduce the base budget to the level required
- Select from the items on the Medicaid optional services list

One-Time Appropriations Requested to Continue

There are several 2011 biennium one-time appropriations that are requested to continue. One-time appropriations from HB 2 that continue are:
- Medicaid coverage for certain organ transplants for adults - $1.5 million
- Autism group home - $1.3 million, $0.4 million general fund
- 12.00 FTE to administer HMK (plus an additional 8.00 new FTE) - $1.3 million

One-time appropriations from HB 645 that continue are:
- Medicaid services generally – $40.0 to $55.0 million
- Medicaid services due to federal eligibility changes for Indians - $1.5 million

One-Time Appropriations that are not Continued

There are several one-time appropriations that are not continued in the 2013 biennium request, including:
- Provider rate increases of 2% in FY 2010 - $13.0 million
- Direct care worker wage increases for Medicaid home based services for the elderly and physically disabled - $8.2 million
- Aging services - $3.0 million
- Community mental health crisis jail diversion services - $0.5 million
- Montana food banks - $0.5 million general fund

One-Time Federal Categorical Grant Increases

HB 645 included appropriations for increases in federal categorical grants that are not continued including:
- SNAP benefits and associated administration - $57.7 million
- Weatherization projects - $27.5 million
- TANF benefits, subsidized employment program, and short term emergency assistance - $10.2 million
- Food distribution, rapid re-housing, and Community Services Block Grants - $8.5 million
- Child Care Discretionary Block Grant - $5.7 million
- Vocational rehabilitation and independent living services - $2.3 million
- Subsidized adoption and foster care benefits - $1.8 million

The Governor reduced the following HB 645 general fund legislative appropriations as part of the 17-7-140, MCA reductions in April, 2010:
- $1.5 million to address homeless prevention was reduced by $293,740
- $714,000 for health information technology was reduced by $50,000
- $500,000 general fund for mental health crisis jail diversion services was reduced by about $450,000

There is additional information in division budget discussions.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding
2013 Biennium Budget

Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
01 Mangement and Disability Transitions Program	$10,815,493	$3,208,720	$37,202,486	$51,226,699	1.38%
02 Human and Community Services Division	61,871,752	4,771,622	709,003,354	775,646,728	20.85%
03 Child & Family Services Division	66,072,560	4,990,844	54,219,572	125,282,976	3.37%
04 Director's Office	3,276,797	770,358	3,910,618	7,957,773	0.21%
05 Child Support Enforcement Division	8,173,756	3,584,449	10,094,939	21,853,144	0.59%
06 Business & Financial Services Division	7,200,810	1,350,629	9,643,942	18,195,381	0.49%
07 Public Health & Safety Division	6,728,655	36,664,853	81,194,236	124,587,744	3.35%
08 Quality Assurance Division	4,685,116	1,337,264	11,558,823	17,581,203	0.47%
09 Technology Services Division	18,025,515	2,204,317	25,394,194	45,624,026	1.23%
10 Disability Services Division	150,465,770	11,214,356	260,996,484	422,676,610	11.36%
11 Health Resources Division	242,203,018	145,305,808	924,433,545	1,311,942,371	35.27%
12 Medicaid and Health Services Management Program	4,689,794	76,463	12,063,849	16,830,106	0.45%
16 Management and Fair Hearings Program	940,730	71,214	1,356,240	2,368,184	0.06%
22 Senior & Long-term Care Division	127,960,003	59,243,412	333,872,502	521,075,917	14.01%
33 Addictive & Mental Disorders Division	127,899,383	28,136,514	101,119,740	257,155,637	6.91%
Grand Total	$841,009,152	$302,930,823	$2,576,064,524	$3,720,004,499	100.00%

DPHHS is funded by over 190 distinct funding sources and more than half are federal sources. General fund supports 23% of the 2013 biennium budget request, state special revenue provides 8.0 and federal funds are 69 % of total funding. The DPHHS budget request accounts for over 41 % of the total executive HB2 budget request and over 25% of the total general fund request. Individually the top six DPHHS division budgets exceed most state agency budgets.

Most state funding is used as state match or maintenance of effort for programs funded partly with federal funds, including Medicaid, CHIP, some foster care, subsidized adoption, and child care services as well as Temporary Assistance for Needy Families (TANF) and program administrative costs.

State Special Revenue that Spends Like General Fund

There are two sources of state special revenue that can be used to fund many of the same activities as general fund: tobacco tax health and Medicaid initiative revenue and tobacco settlement funds, including trust fund income. The allocation of these funds in the DPHHS budget request is important because they can offset general fund or be used to fund new proposals that otherwise would be funded from the general fund. These revenue sources are summarized and the fund balance of each is provided so that the legislature will know what appropriations are proposed and what revenues are available.

Health and Medicaid Initiatives State Special Revenue

Figure 12 shows the health and Medicaid initiatives fund balance. FY 2010 expenditures and revenues are the base budget year. FY 2011 amounts are based on legislative appropriations. The 2013 biennium expenditures represent the executive budget request and include an elected official new proposal by the State Auditor. Revenues are based on estimates adopted by the Revenue and Transportation Interim Committee in November 2010.

Figure 12

Health and Medicaid Initiatives Fund Balance - 2013 Biennium Budget Tobacco Tax Revenue Dedicated to Health Initiatives					
Fund Balance Revenue/Expenditures	Actual** FY 2010	Approp. FY 2011***	Executive Request FY 2012	Executive Request FY 2013	% of Total
Beginning Fund Balance	$48,563,315	$40,494,985	$26,728,893	$16,594,955	31.8%
Revenue - Cigarette and Tobacco Tax*	37,625,801	36,780,000	36,147,000	35,564,000	68.2%
Total Revenue	86,189,116	77,274,985	62,875,893	52,158,955	100%
Interest Earnings	190,276	193,187	575,314	1,326,402	
Total Funds Available	86,379,392	77,468,173	63,451,207	53,485,358	
Expenditures**					
*Medicaid Services***					
State Plan Services - Hospitals, Physicians, Prescription Drugs, Dental	8,521,089	7,031,298	6,801,327	6,804,702	14.3%
Nursing Home Services	5,480,318	5,480,319	4,037,266	4,037,266	8.5%
Developmental Disability Benefits	3,135,587	3,135,587	2,942,130	2,942,130	6.2%
Mental Health and Chemical Dependency	1,806,336	860,467	2,045,956	2,055,711	4.3%
Children's Mental Health Services	1,961,725	2,176,518	1,741,003	1,741,003	3.6%
Home-based Services	2,007,209	2,002,207	1,857,206	1,857,206	3.9%
Senior/Physically Disabled Waiver	1,837,192	1,987,212	1,837,192	1,837,192	3.8%
MHSP Medicaid Expansion - HIFA Waiver	0	0	1,226,487	1,843,997	3.9%
Adult Mental Health Community Srvs Waiver	907,720	1,669,546	1,028,489	1,035,744	2.2%
Other Programs					
Insure Montana Premium Assistance***	5,746,420	8,358,168	8,375,761	8,374,717	17.5%
Insure Montana Health Ins. Tax Credits***	4,245,779	5,572,112	5,583,840	5,586,144	11.7%
Big Sky Rx/PharmAssist	4,030,104	6,009,747	4,003,825	4,003,825	8.4%
Mental Health Services Plan	2,060,256	3,433,968	2,613,256	2,857,256	6.0%
Healthy Montana Kids/CHIP	3,413,840	3,383,460	3,403,921	3,403,921	7.1%
Insure Montana 95% Restriction/Other Adj.****	646,249	(499,610)	(696,514)	(697,980)	-1.5%
Other Services/Administration	84,583	138,281	55,107	55,134	0.1%
Subtotal Expenditures	45,884,407	50,739,280	46,856,252	47,737,968	100.0%
Annual Change		10.6%	-7.7%	1.9%	
Ending Fund Balance	$40,494,985	$26,728,893	$16,594,955	$5,747,390	

*Revenue based on estimates adopted by Revenue and Transportation Committee on November 19, 2010.

**Actual costs include $4.4 million in expenditures from one-time appropriations not continued in executive request.

***Total appropriated in HB 2 and HB 258 for FY11 is allocated 60% to premium assistance and 40% to tax credits. The 2013 biennium amounts include an elected official proposal to continue the one-time $6.0 million appropriation from HB 258.

****Insure Montana 95% Restriction/Other Adjustments account for the 95% statutory spending restriction from Insure Montana appropriations and accounting adjustments in the base year. The negative entries account for the amount that would be reverted from the full appropriation.

The ending fund balance of the health and Medicaid initiatives account is projected to be a positive $5.7 million at the end of FY 2013. This ending balance includes expenditures based on the executive budget request and a State Auditor elected official proposal to continue $6.0 million in one-time funding to expand Insure Montana (premium assistance and tax subsidies to small employers who provide group coverage for employees) appropriated in HB 258 by the 2009 Legislature. The positive ending fund balance is due in large part to one-time appropriations supporting Medicaid services appropriations in the 2011 biennium that are not continued in the 2013 biennium.

Over half of the health and Medicaid initiatives state special revenue funds Medicaid provider rate increases and some service expansions funded by previous legislatures. In addition to Insure Montana, other programs funded from the account include:

- Big Sky Rx – premium assistance for low-income Medicare beneficiaries to purchase Medicare Part D prescription drug coverage
- PharmAssist – consultations with pharmacists regarding medications
- Mental Health Services Plan (MHSP) – state funded mental health services for low-income adults with a serious and disabling mental illness (will be transferred in the 2013 biennium to fund the state Medicaid match for the MHSP Medicaid expansion)
- Healthy Montana Kids/CHIP – state match for the federal block grant that funds the Children's Health Insurance Program (CHIP)
- Other services/administration – children's special health services and an allocation for shared administrative costs

Use of Tobacco Settlement Proceeds

Tobacco Settlement Revenues

Montana receives revenue as a settling party to a Master Settlement Agreement (MSA) with several tobacco companies. The MSA places no restrictions on how states are to spend the money. However, contained within the settlement are requirements that a state must have enacted and enforced "model statutes" to ensure that the state's payments do not decrease under a clause related to lost market shares. The 1999 Legislature enacted model statutes in SB 359 requiring cigarette manufacturers that did not participate in the tobacco settlement to either:

- Become a participating manufacturer and generally perform its financial obligation under the MSA
- Make similar annual payments into the state's escrow fund

The findings and purpose of the law affirm that financial burdens imposed on the state by cigarette smoking should be borne by tobacco product manufacturers rather than by the state to the extent that such manufacturers either determine to enter into a settlement or are found culpable by the courts.

Further discussion on the revenue estimates for the tobacco settlement funds, the components of the funding, and disputed payments amounts can be found in the LFD revenue estimates at:
http://leg.mt.gov/content/Publications/fiscal/2010-Revenues/RTIC-Estimates/Other-General_Fund_Revenues.pdf

The Montana voters approved:

- Constitutional Amendment 35 in November 2000 requiring not less than 40% of tobacco settlement money to go to a permanent tobacco trust fund
- Initiative 146 (17-6-606, MCA) to allocate 32% of the total tobacco settlement funds to tobacco prevention/cessation programs and 17% to HMK/CHIP and Montana Comprehensive Health Association (MCHA – state funded high risk insurance pool)

Money not appropriated within two years is transferred to the general fund. The remaining 11% of the MSA money is deposited to the general fund. Figure 13 shows revenues, proposed expenditures, and fund balances for these two uses of tobacco settlement funds.

Figure 13

Tobacco Settlement Account - Fund Balance
Master Settlement Agreement Payment Allocations to State Special Revenue Acccounts

Fund Balances, Revenues, Expenditures	FY 2010	FY 2011	FY 2012	FY 2013	% of Biennial Total
32% Allocation to Tobacco Cessation/Prevention					
Beginning Fund Balance	$3,157,838	$1,263,211	($727,332)	($2,637,586)	
Revenues*	10,090,579	10,369,920	10,367,360	10,354,880	
Expenditures					
Department of Revenue	295,135	311,720	307,863	308,603	2.5%
Deparment of Justice	121,793	117,343	125,903	126,058	1.0%
Public Health and Safety Division					
Tobacco Control & Prevention	7,595,274	7,675,649	8,222,069	8,225,274	66.4%
Chronic Disease Programs	2,574,304	2,678,291	2,621,932	2,621,540	21.2%
Home Health Visiting/MIAMI	396,379	366,440	404,545	404,666	3.3%
Tribal Programs	630,000	720,000	0	0	0.0%
Division Administrative Costs	134,388	164,755	132,006	132,357	1.1%
DPHHS Cost Allocated Administration**	229,764	326,265	463,296	657,881	4.5%
Subtotal Expenditur	11,977,037	12,360,463	12,277,614	12,476,379	100.0%
Adjustments	(8,169)	0	0	0	
Percentage of Annual Increase		3.20%	-0.67%	1.62%	
Ending Fund Balance	$1,263,211	($727,332)	($2,637,586)	($4,759,085)	
17% Allocation to CHIP/MT Comprehensive Health Association					
Beginning Fund Balance	($34,696)	($709,416)	($1,717,853)	($2,495,439)	
Revenues*	5,360,600	5,509,020	5,507,660	5,501,030	
Expenditures					
Healthy Montana Kids Benefits	4,555,516	5,312,942	4,555,516	4,555,516	71.1%
Healthy Montana Kids Administration	371,578	0	366,201	366,018	5.7%
MCHA	925,563	925,556	925,563	925,563	14.4%
DPHHS Cost Allocated Administration**	177,681	278,959	437,966	687,606	8.8%
Subtotal Expenditures	6,030,338	6,517,457	6,285,246	6,534,703	100.0%
Adjustments	($4,982)				
Percentage of Annual Increase		8.08%	-3.56%	3.97%	
Ending Fund Balance	($709,416)	($1,717,853)	($2,495,439)	($3,529,112)	

* Revenues as adopted by the Revenue and Transportation Interim Committee on November 19, 2010
** Nonbudgeted expenditures

LFD ISSUE

Tobacco Settlement Funds Are Over Budgeted by $8.2 Million

As shown in Figure 13, both the tobacco settlement fund accounts are over budgeted in the executive budget:
- Tobacco cessation/prevention account – ($4,759,085)
- CHIP/MT Comprehensive Health Association (MCHA) – ($3,529,112)

The over allocation are due to:
- Requests exceeding revenues in FY 2011, FY 2012, and FY 2013
- Over spending of the CHIP/MHCA account by $709,416 in FY 2010

Tobacco cessation/prevention funds support tobacco cessation and prevention programs and chronic disease programs in the Public Health and Safety Division. CHIP/MCHA funds support the:
- Healthy Montana Kids (HMK) program in the Health Resource Division. The funds are used as state matching funds to draw down federal CHIP funds
- MCHA program in the State Auditor's Office (SAO). The funds are used to provide premium assistance to individuals insured through the high-risk insurance pool due to preexisting medical conditions such as cancer or multiple sclerosis

OBPP and DPHHS identified the revenue shortage in FY 2010 and worked to reduce expenditures. However, between the expenditures already incurred by DPHHS and the SAO the account was overspent by $0.7 million in FY 2010. Generally expenditures from a state special revenue account cannot exceed revenue. An agency can obtain a general fund loan to offset the overdraft as long as the agency has revenues in subsequent years that can be used to repay the general fund loan. DPPHS received a general fund loan for the CHIP/MHCA account in FY 2010.

One of the options for the department is to make reductions in the programs supported by these funds or to other programs, thereby freeing up funding to support the tobacco cessation and prevention, chronic disease, HMK, and MCHA services. The budgetary risk for the legislature associated with FY 2011 is that DPHHS may request additional general fund loans to offset the decreased revenues thereby overspending the state special revenue accounts by a total of $2.4 million.

As part of the budgeting process, OBPP requires agencies to comment on any funds that appear to be over budgeted in FY 2011. The process used by OBPP did not identify the tobacco settlement accounts as OBPP estimates for tobacco settlement funds in FY 2011, FY 2012, and FY 2013 are substantially higher than those adopted by the Revenue and Transportation Interim Committee (RTIC) on November 19, 2010. In the CHIP/MCHA account, the shortfall in FY 2010 should be considered as part of the total spending reductions that will need to occur or other sources of funding found to pay for for these functions. The CHIP/MCHA account funding is appropriated by two subcommittees:
- Joint Appropriation Subcommittee on General Government
- Joint Appropriation Subcommittee (subcommittee) on DPHHS

Option: The subcommittee can:
- Request Public Health and Safety Division present a plan to address spending reductions or the use of other funds in FY 2011 through FY 2013 that will offset $4.8 million in over allocation of the tobacco cessation/prevention account. The plan could then be adopted by the subcommittee to ensure revenues match expenditures for the 2013 biennium
- Request Health Resources Division present a plan to address spending reductions in FY 2011, FY 2012, and FY 2013 that will offset $3.5 million in over allocation of the CHIP/MCHA account by coordinating with SAO. The plan could then be adopted by the subcommittee to ensure revenues match expenditures for the 2013 biennium and the overspending that occurred in FY 2010 is addressed
- Reduce funding to each division and allow the divisions to allocate the reductions as needed
- Request a meeting with the Joint Appropriation Subcommittee on General Government to address the over appropriation of the CHIP/MCHA account as it relates to DPHHS and SAO

Tobacco Trust Fund Interest

The Montana Constitution stipulates interest earnings from the tobacco trust fund are to be distributed:

- 90% for appropriation by the legislature for disease prevention programs and state programs providing benefits, services, or coverage related to the health care needs of the people of Montana
- 10% to the tobacco trust

Figure 14 shows the revenues, proposed expenditures, and fund balance for the tobacco trust fund interest over the 2013 biennium. Expenditures from the account exceed revenues, leaving a deficit in each year of the 2013 biennium.

Figure 14

Tobacco Settlement Trust Fund Interest - Fund Balance

Fund Balances, Revenues, Expenditures	FY 2010	FY 2011	FY 2012	FY 2013	Percentage of 2013 Biennium
Beginning Fund Balance	($1,806)	$16,287	($902,558)	($1,224,839)	
Revenues*	5,038,781	5,267,700	5,787,000	6,325,200	
Expenditures					
Public Health and Safety Division					
DPHHS Cost Allocation**	7,124	427	10,686	16,029	0.22%
Adolescent Vaccinations	400,000	400,000	400,000	400,000	6.54%
Children's Special Health Services	289,239	289,125	284,612	284,708	4.65%
Montana Health Professional Recruitment	75,000	75,000	75,000	75,000	1.23%
Women's and Men's Health	9,732	30,000	9,729	9,732	0.16%
Emergency Medical Services	122,288	125,000	121,951	122,288	2.00%
HIV Treatment	84,000	84,000	84,000	84,000	1.37%
Public Health and Safety Division Subtotal	987,383	1,003,552	985,978	991,757	16.17%
Disability Services Division					
Children's Mental Health Services	233,552	233,552	233,552	233,552	3.82%
DD Part C, Title XX and MOE	600,000	600,000	600,000	600,000	9.81%
Disability Division Subtotal	833,552	833,552	833,552	833,552	13.63%
Health Resources Division					
Hospital & Clinical Services Bureau	543,647	543,647	543,647	543,647	8.89%
Pharmacy Caseload Increases	0	0	791,154	801,684	13.02%
Medicaid Administration	0	0	295,984	295,682	4.84%
Acute Services Bureau	1,245,757	1,580,175	1,245,757	1,245,757	20.36%
Dental Access	495,759	495,759	495,759	495,759	8.10%
Health Resources Division Subtotal	2,285,163	2,619,581	3,372,301	3,382,529	55.21%
Senior and Long-term Care Division					
Nursing Homes	831,850	831,850	831,850	831,850	13.60%
Healthcare for Healthcare Workers	0	796,361	0	0	0.00%
Senior and Long-term Care Division Subtotal	831,850	1,628,211	831,850	831,850	13.60%
Addictive and Mental Disorders Division					
Mental Health Medicaid Benefits	27,659	27,659	27,659	27,659	0.45%
Mental Health Other Services	0	18,962	0	0	0.00%
Mental Health Administration	58,065	55,028	57,941	57,923	0.95%
Addictive and Mental Disorders Division Subtotal	85,724	101,649	85,600	85,582	1.40%
Subtotal Expenditures	5,023,672	6,186,545	6,109,281	6,125,270	100.00%
Adjustments	2,984	0	0	0	
Ending Fund Balance	$16,287	($902,558)	($1,224,839)	($1,024,909)	

*90% of the trust interest may be appropriated and 10% is deposited to the trust corpus, adopted November 19, 2010 by the Revenue and Transportation Interim Committee

** Nonbudgeted Expenditures

LFD ISSUE

Tobacco Settlement Trust Fund Interest Account Over Budgeted by $1.0 million

As shown in Figure 14, the fund balance at the end of FY 2013 is over budgeted by $1.0 million. The over allocation is due to allocations exceeding revenues in FY 2011, FY 2012, and FY 2013. The majority of the over allocation occurs in FY 2011.

As stated in the issue above, as part of the budgeting process OBPP requires agencies to comment on any funds that appear to be over budgeted in FY 2011. The process used by OBPP did not identify the tobacco settlement trust fund interest account as OBPP estimates for tobacco settlement trust fund interest in FY 2011 are higher than those adopted by the Revenue and Transportation Interim Committee (RTIC) on November 19, 2010.

As shown in Figure 14 the tobacco settlement trust fund interest supports costs in five divisions in DPHHS including:

- Health Resources Division – 53% of funding
- Public Health and Safety Division – 17% of funding
- Disability Services Division – 14% of funding
- Senior and Long Term Care Division – 14% of funding
- Addictive and Mental Disorders Division – 2% of funding

In FY 2010, appropriations also exceeded expenditures. DPPHS reduced spending for the acute services bureau in the Health Resources Division by $334,418 to ensure a positive fund balance at the end of the fiscal year. While the legislature does have a budgetary risk that the agency may over spend the account, the agency has reduced spending in the Health Resources Division over the last two biennia as part of an effort to match revenues and expenditures.

Option: The subcommittee can:

- Request that DPHHS present a plan to address spending reductions or identify another source of funds that could be used in FY 2011, FY 2012, and FY 2013 that would offset $1.0 million in over allocated of the tobacco settlement trust fund interest account. The plan could then be adopted by the subcommittee to ensure revenues match expenditures for the 2013 biennium
- Reduce allocations to each division and allow the divisions to allocate the reductions as needed
- Reduce allocations for the Health Resources Division, Acute Service Bureau by $322,281 in FY 2012

Statutory Appropriations

The following table shows the total statutory appropriations associated with this agency. Because statutory appropriations do not require reauthorization each biennium, they do not appear in HB 2 and are not routinely examined by the legislature. The table is provided so that the legislature can get a more complete picture of agency operations and associated policy.

As appropriate, LFD staff has segregated the statutory appropriations into two general categories: 1) those where the agency primarily acts in an administrative capacity and the appropriations consequently do not relate directly to agency operations; and 2) those that have a more direct bearing on the mission and operations of the agency.

Statutory Appropriations Department of Public Health and Human Services					
Purpose	MCA #	Fund Source	FY 2010	FY 2012	FY 2013
Grants to State Approved Additonal Program					
Addictive and Mental Disorders Division					
Alcohol taxes allocated to DPHHS	53-24-108	SSR			
20% of proceeds to grants to state approved community addiction programs			1,324,311	1,548,800	1,608,400
6.6% of proceeds to state approved community programs that serve persons with alcoholism and a mental illness			422,456	511,104	530,772
Assisting Adoption Services					
Child and Family Services Division	42-2-105	SSR	100,181	100,181	100,181
Debt Service					
Addictive and Mental Disorders Division					
Debt service for bonds for Montana State Hospital*	17-7-502	SSR	1,691,252	1,909,393	1,908,085
Disability Services Division					
Debt service for bonds for Montana Developmental Center*	17-3-502	SSR	988,889	1,013,533	1,014,218
* 2013 biennial payments as adopted by the Revenue and Transportation Interim Committee, November 19, 2010					

Two of the statutory appropriations pay debt service for bonds that funded construction of the Montana State Hospital and the Alternative Safety Unit at the Montana Developmental Center. The state special revenue supporting debt service are payments for facility services from Medicare, private insurance, Indian Health Services, Medicaid, insurance, and private payments. Revenues in excess of the debt service are deposited to the general fund.

Two other statutory appropriations relate to Addictive and Mental Disorders Division (AMDD) services. The appropriations are from the alcohol tax state special revenue allocated to DPHHS. The appropriations fund grants to state approved alcoholism programs. These appropriations are discussed in more detail in the division funding section.

One statutory appropriation provides for adoption services in the Child and Family Services Division. Fees for the division's cost of completing or contracting for adoption services are deposited into the statutorily appropriated state special revenue account.

Reorganizations

Over the course of FY 2010, DPHHS reorganized establishing branches to oversee groups of division programs, adding programs, and shifting FTE, expenditures and related appropriation authority. The FTE, costs, and funding shifts by division are presented in Figure 15.

Figure 15

Department of Public Health and Human Services
FTE and Appropriation Shifts Between Programs

	DO	Economic Security Service Branch					Operations Services Branch				Medicaid and Health Services Division					
		PHSD	MDT	DTP	HCSD	CSED	CFSD	MFH	BFSD	QAD	TSD	MHSM	DSD	HRD	SLTC	AMDD
FY2010																
FTE	(11.00)	12.50	1.00	144.00	(1.00)	0.00	0.00	13.00	(12.50)	(6.00)	0.00	5.00	(128.00)	(17.00)	0.00	0.00
Personal Services	($717,779)	$548,104	$139,084	$7,734,422	($63,766)	($23,308)	($52,010)	$936,885	($583,305)	($450,389)	($26,274)	$485,929	($6,851,310)	($995,080)	($21,001)	($60,202)
Operating Expenses	(6,808,013)	247,667	0	5,129,575	0	0	0	102,993	(247,667)	(46,663)	0	6,820,207	(3,282,205)	(1,915,894)	0	0
Equipment & Intangible Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Grants	0	0	0	0	0	0	0	0	0	0	0	0	645,569	(645,569)	0	0
Benefits & Claims	0	0	0	12,298,562	0	0	0	0	0	0	0	0	45,287,869	(57,586,431)	0	0
Debt Service	(2,855)	7,350	0	0	0	0	0	2,855	(7,350)	0	0	0	0	0	0	0
Total Costs	($7,528,647)	$803,121	$139,084	$25,162,559	($63,766)	($23,308)	($52,010)	$1,042,733	($838,322)	($497,052)	($26,274)	$7,306,136	$35,799,923	($61,142,974)	($21,001)	($60,202)
General Fund	($2,095,112)	$383,384	$50,446	$5,710,900	($23,128)	($8,454)	($18,864)	$409,435	($396,958)	($171,456)	($10,131)	$2,038,883	$7,038,616	($12,876,977)	($7,910)	($22,674)
State Special Revenue	(21,396)	419,737	9,866	1,780,637	(7,225)	(2,641)	0	23,532	(421,553)	(3,663)	(1,356)	27,685	493,557	(2,279,184)	(4,654)	(13,342)
Federal Special Revenue	(5,412,139)	0	78,772	17,671,022	(33,413)	(12,213)	(33,146)	609,766	(19,811)	(321,933)	(14,787)	5,239,568	28,267,750	(45,986,813)	(8,437)	(24,186)
Total Funds	($7,528,647)	$803,121	$139,084	$25,162,559	($63,766)	($23,308)	($52,010)	$1,042,733	($838,322)	($497,052)	($26,274)	$7,306,136	$35,799,923	($61,142,974)	($21,001)	($60,202)
FY2011																
FTE	(11.00)	12.50	1.00	144.00	(1.00)	0.00	0.00	13.00	(12.50)	(6.00)	0.00	5.00	(128.00)	(17.00)	0.00	0.00
Personal Services	($723,754)	$553,262	$139,725	$7,979,929	($64,060)	($23,415)	($52,250)	$943,540	($588,649)	($450,852)	($26,413)	$432,582	($7,085,238)	($952,828)	($21,099)	($60,480)
Operating Expenses	(6,808,016)	248,216	0	5,238,175	0	0	0	102,996	(248,216)	(46,663)	0	6,751,683	(3,390,365)	(1,847,810)	0	
Equipment & Intangible Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Grants	0	0	0	0	0	0	0	0	0	0	0	0	645,569	(645,569)	0	
Benefits & Claims	0	0	0	12,362,604	0	0	0	0	0	0	0	0	51,862,073	(64,224,677)	0	
Debt Service	(2,855)	7,350	0	0	0	0	0	2,855	(7,350)	0	0	0	0	0	0	
Total Costs	($7,534,625)	$808,828	$139,725	$25,580,708	($64,060)	($23,415)	($52,250)	$1,049,391	($844,215)	($497,515)	($26,413)	$7,184,265	$42,032,039	($67,670,884)	($21,099)	($60,480)
General Fund	($2,097,742)	$386,129	$50,679	$5,862,120	($23,235)	($8,493)	($18,951)	$412,328	($399,774)	($171,626)	($10,185)	$1,933,491	$12,747,272	($18,631,287)	($7,947)	($22,779)
State Special Revenue	(21,599)	422,699	9,911	1,782,936	(7,258)	(2,653)	0	23,768	(424,525)	(3,679)	(1,363)	25,079	398,322	(2,183,558)	(4,676)	(13,404)
Federal Special Revenue	(5,415,284)	0	79,135	17,935,652	(33,567)	(12,269)	(33,299)	613,295	(19,916)	(322,210)	(14,865)	5,225,695	28,886,445	(46,856,039)	(8,476)	(24,297)
Total Funds	($7,534,625)	$808,828	$139,725	$25,580,708	($64,060)	($23,415)	($52,250)	$1,049,391	($844,215)	($497,515)	($26,413)	$7,184,265	$42,032,039	($67,670,884)	($21,099)	($60,480)

As shown, the most significant shift in FTE was due to the creation of the Disability Transition Program within the Economic Security Branch, offset by a corresponding reduction in the Disability Services Division FTE. Health Resources Division costs and related funding show the most significant decrease due, in large part, to moving children's mental health services to the Disability Services Division. Specific effects of the reorganization are discussed in each division budget request.

Language

Language is included in the program narratives.

Executive Recommended Legislation

The executive has requested the following legislation:

HB 34 - An act separating into two accounts the tobacco settlement fund earmarked to CHIP and MCHA Amend DPHHS administrative rule reducing Medicaid physician reimbursement rates – This bill would amend the statutory allocation of tobacco settlement proceeds separating the 17% allocated to CHIP and MCHA with 14.6% allocated to CHIP and 2.4% allocated to MCHA.

HB 115 - Revise Medicaid eligibility criteria to implement federal health care reform

SB 37 - An act repealing the statutory formula for reimbursement rates for physicians providing services covered under the Medicaid program – This bill would repeal the statutory requirement to increase Medicaid physician rates by a certain amount based on several variables related to information provided by private insurance companies.

Legislative Interim Committee Work Related to DPHHS Programs

Legislative Finance Committee Subcommittee on the Reference Book Options for DPHHS

Due to concerns with the projected long-term imbalance between on-going revenues and on-going costs of maintaining current services, the LFC asked LFD staff to begin compiling options for consideration by the 2011 Legislature. These options are listed in the Reference Book and can be found at:
http://leg.mt.gov/content/Publications/fiscal/Legislative-Options/July-2010/CFHHS.pdf

The reference book contains a:

- Number of options, both for reduced expenditures and enhanced revenues
- List of what other states were doing to address budget imbalances
- List of tax credits currently offered by the State of Montana
- List of general fund revenues currently earmarked to specific purposes

In addition, the LFC formed a subcommittee to review reference book options for DPHHS consisting of 4 LFC members and 4 interim committee members from the Children, Families, Health and Human Services Interim Committee. The subcommittee held two meetings to solicit:

- Legislative feedback on the prioritization of the options
- Legislative ideas beyond those currently included in the reference book
- Public comment on the options included in the reference book

Children, Families, Health and Human Services Interim Committee (committee)

The committee conducted two interim studies as approved by the 2009 Legislature. The studies and the links to the committee information include:

- SJR 35 Health Care found at:
  http://leg.mt.gov/css/Committees/interim/2009_2010/Children_Family/Assigned_Studies/sjr35_study.asp

- HJR 39 Community Services for People with Developmental Disabilities and Co-occurring Mental Illness found at: http://leg.mt.gov/css/Committees/interim/2009_2010/Children_Family/Assigned_Studies/hjr39_study.asp

The committee also decided to take up, as an emerging issue, topics related to the Montana Medical Marijuana Act. The committee made the decision because of the questions raised by many people in the state and local government, law enforcement, and the medical marijuana industry. Information about the activities related to this topic can be found at http://leg.mt.gov/css/Committees/interim/2009_2010/Children_Family/Emerging-Issue/default.asp

During its last meeting in August 2010, the committee discussed the overall state budget situation and the potential effects on DPHHS. The members agreed that a simple approach of across-the-board cuts would not be the best approach for DPHHS, as this approach could end up causing more harm to more people than targeted program reductions. The committee voted unanimously to request that DPHHS provide the following information to the House Appropriations Committee at the start of the 2011 legislative session:

- Name and mission of each individual program DPHHS operates within each of its division
- Annual budget for each program, including the amount or percent of the program budget that comes from the general fund, federal funds, or state special revenue funds
- Number of people the program serves
- Number of full-time equivalent employees for the program
- Brief statement describing the effectiveness of the program and alternative methods of providing the program if cuts must be made. This statement could include items such as performance measures for federal grants or a state plan or agency strategic plans

Discussion of the interim studies and emerging issues and the relationship to budgetary decisions on DPHHS are contained in the program narratives.

Legislative Interim Committee Legislation

The following bills were requested by the committee. Some of the bills were approved at the request of DPHHS.

HB 35 – An act to amend DPHHS administrative rule reducing Medicaid physician reimbursement rates – DPHHS implemented an administrative rule to withhold statutorily required adjustments to Medicaid payment rates for physician services in FY 2011. This bill would require DPHHS to amend its rule and establish rates at the statutorily required rate for FY 2011.

HB 43 – An act clarifying employer's rights related to employee use of medical marijuana.

SB 28 – An act clarifying that mental health diversion grant awards are based on admissions to Montana State Hospital.

HB 68 - Revise Medical Marijuana Act and create regulatory structure for industry.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 12-13	Percent of Budget
Base Budget	213,499,708	213,499,708	426,999,416	65.37%	1,033,486,810	1,033,486,810	2,066,973,620	81.71%
Statewide PL Adjustments	71,036,793	71,063,260	142,100,053	21.75%	598,268	644,594	1,242,862	0.05%
Other PL Adjustments	48,792,515	40,121,143	88,913,658	13.61%	204,642,951	245,831,477	450,474,428	17.81%
New Proposals	(2,487,667)	(2,307,492)	(4,795,159)	(0.73%)	4,988,154	6,001,577	10,989,731	0.43%
Total Budget	**$330,841,349**	**$322,376,619**	**$653,217,968**		**$1,243,716,183**	**$1,285,964,458**	**$2,529,680,641**	

Federal Poverty Levels

Figure 16 shows the federal poverty level (FPL) for calendar year 2010. Federal guidelines are updated annually, usually in late February or early March. Figure 16 calculates annual and monthly income by family size for various poverty levels that tie to programs administered by DPHHS. For instance, 33% of the FPL is the countable income limit for Medicaid eligibility for low-income adults with dependent children. Countable income for a four person family would need to be below $7,277 in order for the parents to be Medicaid eligible.

Figure 16

2010 Federal Poverty Index*
Levels of Poverty by Family Size

Family Size	33%	40%	100%	133%	150%	175%	200%	250%	300%	350%	400%
	<----------**Annual** Income at Various 2010 Poverty Levels and Family Size---------->										
1	$3,574	$4,332	$10,830	$14,404	$16,245	$18,953	$21,660	$27,075	$32,490	$37,905	$43,320
2	4,808	5,828	14,570	19,378	21,855	25,498	29,140	36,425	43,710	50,995	58,280
3	6,042	7,324	18,310	24,352	27,465	32,043	36,620	45,775	54,930	64,085	73,240
4	7,277	8,820	22,050	29,327	33,075	38,588	44,100	55,125	66,150	77,175	88,200
5	8,511	10,316	25,790	34,301	38,685	45,133	51,580	64,475	77,370	90,265	103,160
6	9,745	11,812	29,530	39,275	44,295	51,678	59,060	73,825	88,590	103,355	118,120
7	10,979	13,308	33,270	44,249	49,905	58,223	66,540	83,175	99,810	116,445	133,080
8	12,213	14,804	37,010	49,223	55,515	64,768	74,020	92,525	111,030	129,535	148,040
Each Additional Person	$1,234	$1,496	$3,740	$4,974	$5,610	$6,545	$7,480	$9,350	$11,220	$13,090	$14,960
	<----------**Monthly** Income at Various 2010 Poverty Levels and Family Size---------->										
1	$298	$361	$903	$1,200	$1,354	$1,579	$1,805	$2,256	$2,708	$3,159	$3,610
2	401	486	1,214	1,615	1,821	2,125	2,428	3,035	3,643	4,250	4,857
3	504	610	1,526	2,029	2,289	2,670	3,052	3,815	4,578	5,340	6,103
4	606	735	1,838	2,444	2,756	3,216	3,675	4,594	5,513	6,431	7,350
5	709	860	2,149	2,858	3,224	3,761	4,298	5,373	6,448	7,522	8,597
6	812	984	2,461	3,273	3,691	4,306	4,922	6,152	7,383	8,613	9,843
7	915	1,109	2,773	3,687	4,159	4,852	5,545	6,931	8,318	9,704	11,090
8	1,018	1,234	3,084	4,102	4,626	5,397	6,168	7,710	9,253	10,795	12,337

The 2010 federal poverty guidelines remain unchanged from 2009 because there was little change in inflation.