



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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**Director**  
AMY CARLSON

DATE: May 21, 2012

TO: Legislative Finance Subcommittee – Medicaid Estimates

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RE: Speaking Notes/Summary - 2013 and 2015 Biennia Medicaid Services Estimate

### Introduction

This memorandum summarizes:

- o The Legislative Fiscal Division (LFD) Medicaid cost estimates for FY 2012 – FY 2015, including the general fund cost
- o Compares the total estimate to the 2013 biennium appropriation
- o Explains the major components of the general fund cost increase for the LFD forecasts
- o Highlights the forecast process and assumptions
- o Identifies major risks
- o Explains the next steps in full development of the forecast and funding model

### Forecast Highlights

The preliminary LFD Medicaid estimate is shown in the table on the following page. It is based on a 4% straight line projection methodology that will be refined after the meeting with the Legislative Finance Subcommittee on Medicaid Estimates. The LFD Medicaid forecast rises from \$969.2 million in FY 2012 over four years to \$1.1 billion in FY 2015. The total increase from the 2013 to the 2015 biennium is \$204.2 million. The general fund cost rises from an estimated \$220.4 million in FY 2012 to \$293.9 million FY 2015 for a biennial increase of \$110.2 million or nearly half the total expected cost increase. This estimate does not include the effect of the Medicaid expansion authorized in the Patient Protection and Affordable Care Act of 2010 (ACA).

### Estimates Will Change Prior to LFC June Meeting

The preliminary estimate will change as the LFD refines its forecast methodology, “maps” the services forecast to match the budgeting and appropriation system format, and reviews funding assumptions, including the federal Medicaid match rate (FMAP).

| <b>LFD Medicaid Forecast</b>  |                        |                      |                        |                        |              |
|---|------------------------|----------------------|------------------------|------------------------|--------------|
| Total Cost/General Fund<br>Cost/Component                                   | Appropriation/Estimate |                      | LFD Estimate           |                        | % of         |
|   | FY12                   | FY13                 | FY14                   | FY15                   | Ttl          |
| <b>Total Medicaid Cost</b>  |                        |                      |                        |                        |              |
| Appropriation   | \$1,038,048,077        | \$1,074,483,055      |                        |                        |              |
| LFD Projection  | <u>969,165,951</u>     | <u>1,034,598,580</u> | <u>\$1,080,708,227</u> | <u>\$1,127,305,304</u> |              |
| Projection Over/(Under) Approp.   | (68,882,125)           | (39,884,475)         |                        |                        |              |
| Biennial Total Projected Cost   |                        | <u>2,003,764,531</u> |                        | <u>2,208,013,531</u>   |              |
| Total Biennial Cost Increase - LFD Projection                               |                        |                      |                        | <u>\$204,249,000</u>   |              |
| <b>General Fund Cost - LFD Forecast</b>                                     |                        |                      |                        |                        |              |
| Annual General Fund   | 220,370,288            | 240,889,267          | 267,532,925            | 293,940,654            |              |
| Biennial Total  |                        | <u>461,259,555</u>   |                        | <u>561,473,579</u>     |              |
| Biennial General Fund Increase - LFD Forecast                               |                        |                      |                        | <u>\$100,214,024</u>   |              |
| <b>Elements of the \$100 M General Fund Increase - LFD Forecast</b>         |                        |                      |                        |                        |              |
| Utilization and Enrollment Levels   |                        |                      |                        | \$58,072,613           | 57.9%        |
| Increase in State Medicaid Match  |                        |                      |                        | 13,910,514             | 13.9%        |
| <u>Major General Fund Increases due to State Special Revenue Shortfalls</u> |                        |                      |                        |                        |              |
| Hold Harmless/Medicaid Reserve  |                        |                      |                        | 18,626,680             | 18.6%        |
| Health and Medicaid Initiatives Account                                     |                        |                      |                        | 9,039,700              | 9.0%         |
| Nursing Home Bed Fee  |                        |                      |                        | <u>564,517</u>         | 0.6%         |
| Total of Major State Special Revenue Shortfalls                             |                        |                      |                        | <u>28,230,897</u>      | <u>28.2%</u> |
| Total General Fund Increase   |                        |                      |                        | <u>\$100,214,024</u>   | <u>100%</u>  |
| Notes   |                        |                      |                        |                        |              |
| No OTO appropriations for Medicaid services.                                |                        |                      |                        |                        |              |
| State match change calculated from FY12 cost.                               |                        |                      |                        |                        |              |

### LFD Forecast Compared to 2013 Biennium Appropriation

The LFD forecast for the current biennium is \$108.8 million total funds lower than the appropriation. LFD staff can explain some of the large differences between the 2013 biennium forecast and the appropriation – eg the appropriation for Indian Health Services federal funds reimbursement is \$20.0 million higher than the FY 2012 forecast and nearly \$40.0 million higher than the FY 2013 appropriation. However, it will take additional time to research and quantify other differences, particularly those with a general fund impact.

### Elements of General Fund Increase in 2015 Biennium

The majority – nearly 58% - of the general fund increase between biennia is due to enrollment and service utilization growth. About 14% is related to reductions in the federal Medicaid match rate, which results in higher state cost. About 28% of the general fund increase is due to shortfalls in state special revenue accounts that offset general fund costs. The legislature will have a choice as to whether to increase general fund or make programmatic changes to reduce Medicaid program costs.

### Forecast Process

- o Historical data is collected and assimilated and examined for errors
- o Current year final expenses are estimated by applying historical completion factors<sup>i</sup> to current year to date expenditures
- o Quantitative projections for FY 2013 – FY 2015 are made using linear regression
- o Qualitative adjustments are made for those programs experiencing major changes within the time period. These qualitative adjustments will be developed as the LFD staff gains a better understanding of the risks listed above
- o For the purposes of future projections, FY 2010 – FY 2011 totals were adjusted down by 2% to reflect the temporary 2% provider rate increase in the 2011 biennium

### Funding Assumptions

- o The federal/state Medicaid match rates were based on information provided by the Department of Public Health and Human Services (DPHHS) in December 2011, with state Medicaid match rates of:
  - o Actual FY 2012 = 33.79%
  - o Estimated FY 2013 = 34.02%; FY 2014 = 34.46% and FY 2015 = 34.93%
- o Several state special revenue shortfalls were “back filled” with general fund for a total of general fund increase of \$26.4 million including:
  - o \$18.6 million - Medicaid hold harmless/reserve<sup>ii</sup>
  - o \$9.0 million - health and Medicaid initiatives<sup>iii</sup>
  - o \$0.6 million – nursing home bed fee<sup>iv</sup>

### Risks

There are a number of risks inherent in this preliminary forecast (and those that follow) that will influence the general fund difference between the 2013 and 2015 biennia. Several of the most important including the broad impacts to the general fund cost are:

- o Actual FY 2012 base expenditures
  - o Estimated total FY 2012 costs appear to be \$46.3 to \$67.0 million lower than the appropriation including \$4.0 to \$7.0 million general fund – would lower the general fund difference between biennia
- o FMAP changes
  - o If the Montana economy outperforms the national economy in the next 12 months the federal Medicaid match rate will decrease, requiring a like increase in the state general fund required – a 1% change in FMAP = \$18.5 - \$19.0 million in general fund for Medicaid over the 2015 biennium<sup>v</sup>
- o Healthy Montana Kids (HMK)
  - o Actual expenditures in FY 2012 may be lower than the appropriation and if enrollment growth continues to moderate there may be excess HMK state special revenue that can offset the cost of general fund Medicaid services for children in families with incomes under 100% of the federal poverty level – would lower the general fund commitment
- o Ongoing refinement of forecast
  - o LFD staff will refine the forecast - unknown impact on the general fund cost

## Next Steps

This comprehensive Medicaid estimate is the first that LFD staff has produced in several years. LFD staff will continue to refine its Medicaid database and forecast including:

- o Further development of historic data collected for some services that are not paid through the Montana Medicaid Information System (MMIS)
- o Identification of the reason for major transition points in historic data
- o Ongoing addition of current data as additional months of paid claims are received
- o Ongoing refinement of forecast model and parameters
- o Development of statistical relationships between historic Medicaid expenditures and economic data
- o Identification and compilation of data that may indicate a turning point in cost trends
- o “Mapping” forecast data to the format used in the state budgeting system
- o Refinement of funding components of the forecast

LFD staff will update its four year Medicaid estimate, with formal estimates for the June LFC meeting as well as at other points: in November for the 2013 biennium budget analysis and in February for the Public Health and Human Services Joint Appropriations Subcommittee.

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<sup>i</sup> The completion factor is the historical ratio of year to date expenditures to total final expenditures. Medicaid claims payments are not final until two years after the close of a fiscal year due to a variety of factors including claim submission lag.

<sup>ii</sup> Funding in Medicaid hold harmless/reserve account came from a small portion of the enhanced federal Medicaid match rate authorized in the American Recovery and Reinvestment Act of 2009 (ARRA). This amount could be set aside in a reserve account, which was earmarked to fund Medicaid services after June 30, 2011. The account will be fully expended by the end of FY15.

<sup>iii</sup> The health and Medicaid initiatives account was established by voter initiative and funded with an increase in tobacco and cigarette taxes (\$1 per pack). Initially the account built up significant reserves as programs ramped up. However, the FY 2013 appropriation level exceeds annual income and interest revenue by \$13.0 million. This account funds Medicaid services, Healthy Montana Kids, Insure Montana, and Big Sky Rx. Ongoing revenues are insufficient to fund ongoing services funded from the account. The amount listed is the proportional reduction allocated to all Medicaid services.

<sup>iv</sup> Nursing home bed fees (\$8.30 per day) are split between this account (\$5.50) and the general fund (\$2.80). The number of nursing home bed days has been declining since FY95 by 0.4% to 3.3% annually. The state special revenue is used to fund nursing home services.

<sup>v</sup> FMAP also affects the match rates for Title IV-E federal funding for foster care and subsidized adoption, federal childcare federal matching funds, and the federal Title XXI Children’s Health Insurance Program. So a 1% change will be larger than that shown for Medicaid services only.