

**Report to the Performance Measures Subcommittee
Of the Legislative Finance Committee**

**On the Structural Balance Funding Requirement
In 17-7-111, MCA**

Department of Public Health and Human Services

September 1, 2010



Department of Public Health & Human Services
2013 Biennium Report
17-7-111(7), MCA

Statutory Requirement:

Section 17-7-111, MCA, states:

“(7) (a) The department of public health and human services' budget request for the 2013 biennium must identify changes necessary to reduce the 2013 biennium expenditures to the level funded in the general appropriations act. The department may include changes such as reducing administrative costs, developing more cost-efficient methods to deliver services, limiting the number of medicaid services that adults may receive, changing medicaid services included in the Montana medicaid state plan, changing eligibility or level-of-care requirements for medicaid waiver services, limiting or changing services that are fully state-funded, or implementing other initiatives that reduce state funds. Achieving the necessary general fund reduction in the 2013 biennium budget request may not include shifting costs to state special revenue funds.

(b) The department of public health and human services shall prepare a work plan with goals, milestones, and measures to guide its review of alternatives to identify, evaluate, and select initiatives to reduce ongoing state spending in its 2013 biennium budget submission. The department shall submit the work plan, goals, milestones, and measures to the legislative finance committee at its first meeting after the adjournment of the 2009 legislative session for its review and comment. The department shall provide an update of its budget reduction for review and comment at each legislative finance committee meeting in a format developed with and agreed upon by the committee.”

HB2 Appropriation, 2009 Legislative Session:

Chart 1 Structural Balance OTO Funding		House Bill 2		
		FY 2010	FY2011	2011 Biennium
2011 Biennium Appropriation				
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 & Long Term Care Division		2,476,265	2,482,536	4,958,801
Addictive & Mental Disorders Division		318,879	374,740	693,619
Total Structural Balance OTO Funding		\$ 10,650,180	\$ 11,349,821	\$ 22,000,001

17-7-111(7)(b) Work Plan:

The Department presented a work plan to the Performance Measures Subcommittee of the Legislative Finance Committee at their June, 2009 meeting and has discussed the work plan with the Subcommittee at their subsequent meetings. The Department has identified changes that may be taken to reduce the 2013 biennium expenditures to the level funded in the general appropriations act.

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The goal of the 18-month work plan was to balance expectations for services and programs with the resources to provide them in compliance with laws and regulations. The effect of the spending reductions have been evaluated to consider those that:

1. Have the least impact on clients' health and safety
2. Affect the least number of clients and are equitable in their effect
3. Protect the most vulnerable clients
4. Are cost-effective and efficient to implement
5. Are not required by state or federal law
6. Do not shift costs inappropriately to other areas or funding streams
7. Mitigate unintended consequences of the reductions

The department's work plan included the following steps:

1. Reviewing current initiatives that enable the department to live within its budget
2. Evaluating the impact of past funding reductions
3. Identifying operational efficiencies to deliver services
4. Exploring program reductions, program elimination, and changes in program scope, including considering recipient service reductions or changes and eligibility requirement changes (while maintaining compliance with ARRA)

Related Statutory Consideration:

Section 53-6-101, MCA, directs the department and the legislature to consider certain funding principles when considering changes that either increase or reduce services. This section applies to the review directed by 17-7-111(7), MCA.

53-6-101. Montana Medicaid program -- authorization of services. (1) There is a Montana Medicaid program established for the purpose of providing necessary medical services to eligible persons who have need for medical assistance. The Montana Medicaid program is a joint federal-state program administered under this chapter and in accordance with Title XIX of the Social Security Act, 42 U.S.C. 1396, et seq. The department shall administer the Montana Medicaid program.

(2) The department and the legislature shall consider the following funding principles when considering changes in Medicaid policy that either increase or reduce services:

- (a) protecting those persons who are most vulnerable and most in need, as defined by a combination of economic, social, and medical circumstances;
- (b) giving preference to the elimination or restoration of an entire Medicaid program or

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service, rather than sacrifice or augment the quality of care for several programs or services through dilution of funding; and

(c) giving priority to services that employ the science of prevention to reduce disability and illness, services that treat life-threatening conditions, and services that support independent or assisted living, including pain management, to reduce the need for acute inpatient or residential care.

Identification of changes necessary to reduce the 2013 biennium expenditures to the level funded in the general appropriations act as required in 17-7-111(7) are identified in the following sections.

DPHHS base year FY2010 expenditures were reduced via 17-7-140. Chart 2 reflects the 17-7-140 base reductions:

Chart 2 Reductions per 17-7-140, MCA	Annual General Fund Amount
17-7-140 Reductions to FY10 Base	813,266
17-7-140 Operations Efficiencies	502,280
17-7-140 Program Efficiencies	2,513,428
17-7-140 Optimize Federal Funds	85,796
Total 17-7-140 Reductions	\$3,914,770

DPHHS Base Budget Reductions for the 2013 Biennium reflected in 4% base budget reductions as per OBPP Agency Direction in Memorandum 8, Executive Budget Instructions, updated on August 13, 2010 for budgets submitted on September 1, 2010.

DPHHS proposes to reduce base General Fund spending in FY2012 and FY2013 by **\$2,317,644** per year for the 4% reduction.

**ADDITIONAL IDENTIFIED CHANGES THAT MAY BE TAKEN TO REDUCE
2013 BIENNIUM EXPENDITURES TO THE LEVEL FUNDED IN THE
GENERAL APPROPRIATIONS ACT**

1) 2003 Reductions

The Department reviewed the reductions made in FY2003 as a result of a previous economic downturn. The reductions list was shared with the Performance Measures Subcommittee of the LFC. Reductions were made across the department in FY2003, including operational efficiencies, program reductions, and provider payments. Some of the reductions were one-time-only, some were ongoing, and some were restored by the administration or the legislature. The 2003 list is attachment 1.

2) List of all Medicaid Optional Services

Medicaid is an entitlement program for mandatory services. Children's services are mandatory. A list and analysis of optional services for adults is attachment 2. Elimination of all optional services for adults results in cost shift to other mandatory services, such as use of hospital emergency rooms. After adjusting for cost shift to mandatory services, the net savings is \$10.1 million General Fund and \$2.9 million state special revenue annually.

3) 5% Statutory Reduction Plan

DPHHS has submitted its Statutory Reduction Plan required under 17-7-111(3)(f). Reductions identified under the plan total \$15,172,205 and are being submitted as part of the department's Executive Budget submittal.

Reductions include:

- \$2,317,644 from 4% FTE Reduction;
- \$433,450 from 17-7-140 operations efficiencies;
- \$2,668,054 from 17-7-140 program efficiencies and reductions;
- \$9,753,057 from other reductions.

DPHHS has identified changes that may be taken by the legislature. DPHHS is not recommending reductions outside the Executive Budget that will be submitted by the Governor as statutorily required on November 15.