Agency Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	2,788.09	8.01	22.23	2,818.33	10.51	22.23	2,820.83	2,820.83
Personal Services	103,056,530	14,005,953	1,007,022	118,069,505	14,378,574	1,006,237	118,441,341	236,510,846
Operating Expenses	74,254,507	9,476,324	4,388,176	88,119,007	9,700,705	3,653,570	87,608,782	175,727,789
Equipment	369,407	1,019,810	3,000	1,392,217	1,454,448	0	1,823,855	3,216,072
Capital Outlay	28,398	0	0	28,398	0	0	28,398	56,796
Local Assistance	0	0	0	0	0	0	0	0
Grants	38,063,456	9,513,876	186,533	47,763,865	9,513,049	(613,217)	46,963,288	94,727,153
Benefits & Claims	711,437,161	109,082,144	4,573,202	825,092,507	140,941,555	6,809,933	859,188,649	1,684,281,156
Transfers	0	0	0	0	0	0	0	0
Debt Service	467,562	36,837	52,738	557,137	36,837	750	505,149	1,062,286
Total Costs	**$927,677,021**	**$143,134,944**	**$10,210,671**	**$1,081,022,636**	**$176,025,168**	**$10,857,273**	**$1,114,559,462**	**$2,195,582,098**
General Fund	260,341,982	16,202,524	(14,242,997)	262,301,509	23,734,374	(15,173,958)	268,902,398	531,203,907
State/Other Special	23,836,105	7,037,689	7,864,401	38,738,195	7,463,268	9,035,210	40,334,583	79,072,778
Federal Special	643,498,934	119,894,731	16,589,267	779,982,932	144,827,526	16,996,021	805,322,481	1,585,305,413
Total Funds	**$927,677,021**	**$143,134,944**	**$10,210,671**	**$1,081,022,636**	**$176,025,168**	**$10,857,273**	**$1,114,559,462**	**$2,195,582,098**

Agency Description

The Department of Public Health and Human Services (DPHHS) administers a wide spectrum of programs and projects, including: welfare reform - Families Achieving Independence in Montana (FAIM), 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).

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

Supplemental Appropriation Description

DPHHS has not published a budget status report since June 2002, when it estimated that a supplemental appropriation of $3.9 million general fund would be requested from the 2003 legislature due to cost overruns and funding shortfalls in Medicaid mental health and primary care services and Child Support Enforcement Division. However, information presented to the Legislative Finance Committee in November 2002 indicated that the department would seek a supplemental appropriation for about $1 million general fund for the Montana Developmental Center.

LFD staff requested an updated budget status in order to determine why the supplemental request changed, but has been unable to obtain data from DPHHS. The department has not provided either a current budget status report as of December 15 or information that describes why the $3.9 million supplemental anticipated in June changed.

In early December 2002, DPHHS announced further reductions in mental health services effective January 1, 2003, due to a projected shortfall. Also, DPHHS staff indicate that primary care Medicaid services will be short an additional $3.8 million general fund in fiscal 2003. DPHHS staff estimates of the child support state special revenue fund activity indicate that this fund may need as much as $3.4 million to return to a positive balance. Child and Family Services Division may be short about $1 million as well.

Figure 1 shows projected shortfalls for each division and function and whether service reductions are implemented or considered.

Based on DPHHS staff comments, it appears that projected expenditures could be at least $10.1 million general fund over DPHHS fiscal 2003 appropriations. The net potential supplemental appropriation could be as high as $7.8 million if other general fund is not available to offset general fund cost overruns or cost saving measures implemented. While OBPP has preliminarily determined it will request a $1 million supplemental appropriation and that mental health services will be reduced, it is unclear what other actions DPHHS may take to reduce expenditures or whether OBPP will increase the supplemental request.

Figure 1
Fiscal 2003 Shortfall/Surplus Projected by DPHHS
as of December 17, 2002

Shortfall/Surplus Division/Function	Amount in Millions	Percent of Total	Service Reductions
Shortfall			
Health Policy and Services Primary Care Medicaid	$ 3.8	38%	Maybe
Child Support Enforcemnt Div.	3.5	35%	No
Addictive and Mental Disorders Mental Health	1.8	18%	Yes on Jan. 1, 2003
Child and Family Services Foster Care	1.0	10%	Unknown
Total in Millions	$ 10.1	100%	
Surplus			
Senior and Long-Term Care Nursing Homes	$ 0.5		
Potential Supplemental	$ 7.8		

Preliminary information available to LFD staff indicate that DPHHS will consult with OBPP about the following actions for Medicaid primary care (hospital, physician, and drug services) cost overruns:

- Offset $0.5 million with transfer from Senior and Long Term Care Division savings
- Early implementation of proposed reductions in the Executive Budget including eligibility changes and limitation of annual physician visits to 10 per year
- Limit adult dental benefits to emergencies only
- Discontinue coverage of stomach stapling and circumcisions
- Provider rate reductions, with some services subject to higher reductions than others

DPHHS is considering two options to cover the shortfall in Child Support Enforcement Division: 1) the transfer of general fund from other divisions; and 2) approval of a supplemental appropriation request by OBPP.

LFD ISSUE

Savings due to Refinancing Could be Used to Offset Supplemental Request

General fund savings created through refinancing efforts in the Developmental Disabilities Program (DDP) could be used to decrease the supplemental request. DDP has or will implement several refinancing efforts in the 2003 biennium including:

- Implementation of Medicaid reimbursement for work/day transportation services
- Implementation of Medicaid billing and reimbursement for all Medicaid eligible residents in congregate living settings
- Closure of one unit at the Montana Developmental Center (MDC)

General fund savings generated through refinancing will be used to expand services, and fund the movement of 5 non-seriously developmentally disabled individuals (completed in fiscal 2002) and 18 other individuals (fiscal 2003 closure of one unit at MDC) from institutional settings to three new group homes. While these uses are consistent with the guidance provided by the 2001 legislature in HB 2, a general fund deficit was not anticipated by the legislature at the time that guidance was provided. Currently, it appears that the department has no plans to utilize any of the general fund savings created by refinancing to offset supplemental appropriation needs within the Disability Services Division or any other program within the agency.

Agency Discussion

Department of Public Health and Human Services
Major Budget Highlights

- General fund budget request increases 1 percent and total funds increase 11 percent from the 2003 biennium level
- Executive budget recommends service reductions and elimination of $35.8 million general fund and $83.4 million total funds
- Magnitude of supplemental appropriation need is unclear
- Significant policy issues included in appropriation decisions
    - Cap state hospital population
    - Significant reduction in funding for community mental health services
- Program eliminations including:
    - MIAMI (prenatal care to prevent low birth weight and infant mortality
    - Medicaid Hospice Services
    - End Stage Renal Program
    - Poison Control

Major LFD Issues

- Refinancing can offset general fund or be used to restore service reductions
- Use of Employment Security Account (ESA)
- Consistency among divisions
- Impact of excess federal funds on appropriation laws
- Excess federal CHIP grant funds
    - Estimated $28 million federal funds
    - Would require $5 million match
    - Could use CHIP funds to refinance or expand services
- I-146 that allocates tobacco settlement funds
    - Executive budget does not request appropriation for tobacco control program
    - Funds allocated to CHIP are used to match Medicaid services, which does not appear to meet statutory criteria
    - At least $1.5 million more available to match federal CHIP funds

DPHHS is funded by general fund, state special revenue, and federal funds. General fund declines from 28 percent of the fiscal 2002 base budget funding to 24 percent of the 2005 biennium budget. State special revenue rises from 3 to 4 percent over the same time period and federal funds increase from 69 to 72 percent.

The 2005 biennium budget request is $222 million total funds more than the 2003 biennium. However, the general fund increase is only $6 million, which is extremely low compared to recent biennia. For instance, the general fund change in the Executive Budget request between the 2001 biennium and 2003 biennium request was $52 million general fund and $387 million total funds.

The lion's share (77 percent) of the biennial change is in benefits. Personal services is 11 percent of the change, partially due to funding for a net increase of 10.25 FTE. Operating expenses are 5 percent.

Figure 2
2003 Biennium Compared to 2005 Biennium
Department of Public Health and Human Services

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total Incr.
FTE	2810.58	2820.83	10.25	
Personal Services	$ 212,996,772	$ 236,510,846	$ 23,514,074	10.6%
Operating	165,233,388	175,727,789	10,494,401	4.7%
Equipment	1,297,789	3,216,072	1,918,283	0.9%
Capital Outlay	34,754	56,796	22,042	0.0%
Local Assistance	6,249	-	(6,249)	0.0%
Grants	80,404,782	94,727,153	14,322,371	6.4%
Benefits/Claims	1,512,292,656	1,684,281,156	171,988,500	77.4%
Transfers	29,221	-	(29,221)	0.0%
Debt Service	1,102,298	1,062,286	(40,012)	0.0%
Total Costs	$1,973,397,909	$2,195,582,098	$222,184,189	100.0%
General Fund	$ 525,526,015	$ 531,203,907	5,677,892	2.6%
State Special	58,841,126	79,072,778	20,231,652	9.1%
Federal Funds	1,389,030,768	1,585,305,413	196,274,645	88.3%
Total Funds	$1,973,397,909	$2,195,582,098	$222,184,189	100.0%
Percent Increase			11.3%	

Major Components of the DPHHS Budget Request

The two most significant DPHHS functions supported by general fund are Medicaid and state institution services. Together these two functions account for 70 percent of the 2005 biennium general fund request and 40 of the FTE funded in the Executive Budget. If the legislature wishes to make significant general fund changes, especially general fund reductions, it must consider, and potentially concentrate its effort, in these two areas in order to impact general fund spending. Both areas are complex and change must be carefully designed and implemented in order to limit unintended consequences.

Figure 3
2005 Biennium Medicaid Budget Request Compared to
2003 Biennium and DPHHS Total Budget Request

Program	General Fund	Percent of Total	Total	Percent of Total
Primary Care Services	$ 128,614,538	46%	$ 531,052,744	45%
Long Term Care	91,965,665	33%	346,979,188	29%
Mental Health/Chemical Dependency	36,865,350	13%	213,198,898	18%
Developmental Disability	23,730,473	8%	97,610,049	8%
Total 2005 Biennium	$ 281,176,026	100%	$ 1,188,840,879	100%
Total 2003 Biennium	$ 263,303,732		$ 1,126,560,824	
Change From 2003 Biennium	$ 17,872,294		$ 62,280,055	
DPHHS Total Budget Request 2005 Biennium	$ 531,203,907		$ 2,195,582,098	
Medicaid as a % of Total	53%		54%	

Figure 3 shows the 2005 biennium budget request for Medicaid services. Medicaid programs are administered by four divisions in the department. Medicaid services are 53 percent of the general fund 2005 biennium budget request and 54 percent of total funds.

Figure 4

Department of Public Health and Human Services

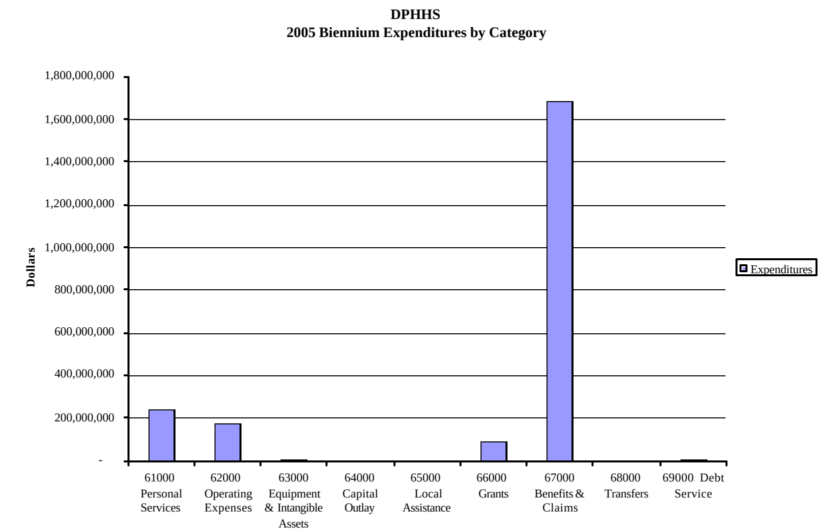
Summary of Instititional Costs

Divison/Cost Funding	Actual Fiscal 2002*	Requested Fiscal 2004	Requested Fiscal 2005	Actual Fiscal 2002	Requested Fiscal 2004	Requested Fiscal 2005	2005 Biennium Total
Disability Services Division							
	Montana Developmental Center			Eastern Montana Human Services Ctr.			
FTE	296.64	323.12	323.12	97.47	97.47	97.47	420.59
Personal Svcs	$ 10,766,777	$ 12,184,873	$ 12,240,675	$ 3,151,271	$ 3,595,308	$ 3,625,156	$ 31,646,012
All Other*	1,510,746	1,990,474	2,003,862	465,059	581,037	579,617	5,154,990
Total	$ 12,277,523	$ 14,175,347	$ 14,244,537	$ 3,616,330	$ 4,176,345	$ 4,204,773	$ 36,801,002
General Fund	$ 12,277,523	$ 14,175,347	$ 14,244,537	$ 3,616,330	$ 4,176,345	$ 4,204,773	$ 36,801,002
Population	92	92	92	33	33	33	125
Costs Per Person	$ 133,451	$ 154,080	$ 154,832	$ 109,586	$ 126,556	$ 127,417	$ 294,408
Costs Per Day	$ 366	$ 422	$ 424	$ 300	$ 347	$ 349	$ 807
Percent Increase		15.46%	0.49%		15.49%	0.68%	
Addictive and Mental Disorders Divison							
	Montana State Hospital			Mental Health Nursing Care Cntr			
FTE	361.80	338.87	338.87	144.26	122.70	122.70	461.57
Personal Svcs	$ 13,043,902	$ 16,077,981	$ 16,191,258	$ 4,760,355	$ 4,418,035	$ 4,453,825	$ 41,141,099
All Other**	3,562,634	3,899,997	4,113,372	1,914,818	1,770,068	1,856,474	11,639,911
Total	$ 16,606,536	$ 19,977,978	$ 20,304,630	$ 6,675,173	$ 6,188,103	$ 6,310,299	$ 52,781,010
General Fund	$ 16,531,536	$ 19,638,674	$ 19,872,670	$ 6,675,173	$ 6,188,103	$ 6,310,299	$ 52,009,746
State Special Rev.	75,000	339,304	431,960				
Population	175.75	135	135	114.75	70	70	205
Costs Per Person	$ 94,490	$ 147,985	$ 150,405	$ 58,171	$ 88,401	$ 90,147	$ 257,468
Costs Per Day	$ 259	$ 405	$ 412	$ 159	$ 242	$ 247	$ 705
Percent Increase		56.62%	1.64%		51.97%	1.97%	
	Montana Chemical Dependency Center						
FTE	48.25	48.25	48.25				48.25
Personal Svcs	$ 1,602,803	$ 2,051,481	$ 2,062,241				$ 4,113,722
All Other*	962,827	1,074,399	1,128,780				2,203,179
Total	$ 2,565,630	$ 3,125,880	$ 3,191,021				$ 6,316,901
State Special Rev.	$ 1,966,013	$ 2,476,355	$ 2,321,567				
Federal Funds	599,617	649,525	869,454				
Population	53.85	53.85	53.85				
Costs Per Person	$ 47,644	$ 58,048	$ 59,258				
Costs Per Day	$ 131	$ 159	$ 162				
Percent Increase		21.84%	2.08%				
Senior and Long Term Care Divison							
	Montana Veterans' Home			Eastern MT Veterans' Home			
FTE	123.09	123.09	123.09	1.01	1.01	1.01	124.1
Personal Svcs	$ 3,047,548	$ 4,228,528	$ 4,254,492	$ 41,716	$ 41,107	$ 44,583	$ 8,568,710
All Other*	1,373,339	1,565,924	1,570,497	1,079,120	1,386,591	1,407,798	5,930,810
Total	$ 4,420,887	$ 5,794,452	$ 5,824,989	$ 1,120,836	$ 1,427,698	$ 1,452,381	$ 14,499,520
State Special Rev.	$ 4,345,887	$ 5,455,148	$ 5,393,029	$ 120,874	$ 201,129	$ 205,096	$ 14,160,216
Federal	75,000	339,304	431,960	999,962	1,226,569	1,247,285	339,304
Population		101	101		60	60	161
Costs Per Person		$ 57,371	$ 57,673		$ 23,795	$ 24,206	$ 90,059
Costs Per Day		$ 157	$ 158		$ 65	$ 66	$ 247
Percent Increase			0.53%			1.73%	
Total FTE and Funding							
Total Personal Svcs.							$ 85,469,543
% of DPHHS Total							36.1%
FTE	1,216.78						1,054.51
% of DPHHS Total	43.6%						37.4%
General Fund	$ 28,809,059						$ 88,810,748
% of DPHHS Total	11.1%						16.7%
State Special Rev.	$ 6,507,774						$ 14,160,216
Federal	$ 1,674,579						$ 339,304
Total	$ 36,991,412						$ 103,310,268
% of DPHHS Total							4.7%

**This amount does not include $2.1 million general fund expenditures from a one-time-only appropriation for development of community services or increased hospital costs. If the $2.1 million were included the change between fiscal yeasr 2002 and 2005 would be about 33%.

Figure 4 summarizes the funding for the seven state operated institutions administered by the department. General fund support for the seven institutions totals $88.8 million for the 2005 biennium, about 17 percent of the department's general fund budget. Funding for the state institutions (all funds) comprises about 5 percent of the department's budget. Of the department's 2,820.83 FTE, 1,054.51, or 37 percent are employees at the state institutions administered by DPHHS. Personal services costs for the seven state institutions total $85.5 million and comprises 36 percent of the department personal services budget.

Figure 5



Major Categories of Expenditure

As illustrated in Figure 5, benefit and claims expenditures account for almost 77 percent or $1.7 billion of the department's $2.2 billion budget. The next three largest categories of expenditure – personal services (11 percent), operations (8 percent), and grants to other entities (4 percent) – combined, comprise 23 percent of the department budget, respectively.

Biennial Budget Increases

DPHHS is funded by a combination of general fund, state special revenue, and federal funds. General fund provides 24 percent of the department 2005 biennium budget and increases 1 percent above the 2003 biennium general fund support for the department. State special revenue and federal funds provide about 4 and 72 percent of the department 2005 biennium funding, respectively. State special revenues increase 34 percent between the 2003 and 2005 biennia and federal funds increase 14 percent between the two biennia.

Service Reductions and Eliminations Including the Biennial Decrease

The Executive Budget includes cutbacks totaling $35.7 million general fund and $83.4 million total funds (Figure 6). Service reductions and eliminations total $31.4 million general fund and $76.4 million total funds, over 90 percent of the proposed reductions. Reduced funding for personal services is $3.2 million general fund and about $4.0 million total funds or almost 6 percent of the reductions. The remaining reductions include operating costs decreases and possible provider rate reductions.

Figure 6

Department of Public Health and Human Services

Summary of 2005 Biennium Reductions Included in the Executive Budget

	Human & Community Scvs		Child & Family Svcs		Child Support Enforcement		Health Policy & Scvs		Addictive & Mental Disorders	
Action	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total
Provider Rate Reductions	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Service Limitations/Reductions	1,129,862	30,821,064	3,452,590	3,452,590	-	-	4,090,036	9,789,487	16,202,159	18,168,100
Incr Client Financial Participation	-	-	-	-	-	-	-	-	-	-
Personal Service Reductions	271,973	543,946	261,860	455,162	-	-	40,418	85,140	2,084,057	2,150,477
Operating Plan Reductions	329,061	658,122	-	-	-	21,158	-	-	-	-
Total Change by Division	$1,730,896	$32,023,132	$3,714,450	$3,907,752	$0	$21,158	$4,130,454	$9,874,627	$18,286,216	$ 20,318,577

	Director's Office		Quality Assurance		Disability Services*		Senior & Long Term Care		Operations & Technology		Total		Percent
Action	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	of Total
Provider Rate Reductions	$ -	$ -	$ -	$ -	$ 383,406	$ 1,402,092	-	-	$ -	$ -	$ 383,406	$ 1,402,092	1.7%
Service Limitations/Reductions	-	-	-	-	4,067,268	6,884,668	2,430,800	7,263,938	-	-	31,372,715	76,379,847	91.5%
Incr Client Financial Participation	-	-	-	-	-	-	-	-	-	-	0	0	0.0%
Personal Service Reductions	-	-	63,656	179,572	433,946	563,217	-	-	-	-	3,155,910	3,977,514	4.8%
Operating Plan Reductions	-	-	-	-	-	-	-	-	505,501	994,920	834,562	1,674,200	2.0%
Total Change by Division	$0	$0	$63,656	$179,572	$4,884,620	$8,849,977	$2,430,800	$7,263,938	$505,501	$994,920	$ 35,746,593	$ 83,433,653	100.0%
Total Department Change	$ 35,746,593	$ 83,433,653											

Notes:

*The Disability Services Division plans to increase general fund available to the division by refinancing and hopes to avoid implementation of service and rate reductions.

General Fund Increases

General fund support for the department increases due to caseload and other adjustments including:

- Caseload
  - Medicaid $33 million general fund and $125 million total funds
  - Subsidized adoption, $1.3 million general fund and $1.5 million federal funds
  - Foster care, $5.0 million general fund and $2.2 million federal funds
- TANF MOE $1.2 million
- Institutional Costs
  - Montana Developmental Center, replace OTO funds, base adjustments, maintain certification - $3.9 million
  - State hospital base adjustments - $3.4 million
  - Eastmont base adjustments - $0.6 million general fund
- Provider rate annualization
  - Tuition, $0.06 million general fund
  - DDP wage parity, $1.8 million general fund and $1.7 million federal funds
  - Vocational rehabilitation, $0.1 million general fund and $0.2 million federal funds
- Loss of Federal Funds
  - DDP $3.8 million general fund, however, federal funds were not reduced in the budget

Increases in general fund spending are offset by decreases due to:

- Funding reductions and eliminations totaling $35.7 million, with the following major components:
  - Community mental health service reductions - $16 million
  - Elimination of MIAMI (low birth weight and infant mortality prevention)
  - Elimination of Medicaid Hospice
  - Elimination of End Stage Renal Disease Program and Poison Control
- Refinancing
  - Foster care - $6.0 million
  - DDP - $3.6 million
- Fund switches that reduce general fund and increase another fund source by a like amount
  - Children's Health Insurance Program and Medicaid matching funds - $8.2 million of tobacco settlement revenue allocated by Initiative 146 (I-146) passed in November 2002
  - $2.0 million formerly distributed to local chemical dependency programs used for mental health Medicaid match
  - Mental health Medicaid match - $1.2 million of county funds previously paid to community mental health center
  - I-146 tobacco settlement funds offset $1 million general fund for tobacco control and prevention

Federal funds increase $196 million between the two biennia with the majority of this increase due to increases in:

- Medicaid, $92 million
- Food Stamp benefits, $69.5 million
- Various federal grants
  - Bioterrorism, preventive health and other functions, $27 million
  - Administered by the Human and Community Services Division (HCSD), $20.1 million
  - Child and Family Services Division (CFSD), $2.1 million
- Caseload increases
  - TANF cash assistance funding, $7.3 million
  - Subsidized Adoption, $1.5 million
  - Foster Care, $2.2 million
- MDC and Eastmont Medicaid Reimbursement, $3.0 Million
- Refinancing efforts which are expected to result in increased federal funds
  - Developmental Disabilities Program, $11.7 Million
  - Child and Family Services, $6.0 Million

These increases in federal funds are offset by decreases including:

- Reduction in childcare funding, $15.2 million
- Reduction in TANF spending, $10.0 million
- Service and provider rate reductions
  - Developmental Disabilities, $3.8 million

Comparison of 2005 and 2003 Biennia Funding by Program

General fund and total fund support for each division for the 2003 and 2005 biennia are compared in Figure 7. General fund support for the department increases 1.1 percent ($5.7 million). Changes in general fund support by division range from a decrease of almost 28 percent in the Director's Office to an increase of 10 percent in the Quality Assurance Division. The changes in these two divisions are the largest when calculated as a percentage change, but in terms of total dollars, these two divisions only account for about 1 percent of the total agency general fund.

Figure 7
Department of Public Health and Human Services
Summary of Funding by Division
2003 and 2005 Biennia

Division	2003 Bienium General Fund	2003 Bienium Total Funds	2005 Biennium General Fund	2005 Biennium Total Funds	Percent Increase Gen. Fund	Percent Increase Total Funds
Human & Comm. Svcs	$ 43,944,546	$ 305,753,233	$ 44,544,504	$ 369,921,226	1.4%	21.0%
Child & Family Svcs	43,162,557	92,904,209	39,746,069	101,776,577	-7.9%	9.6%
Director's Office	2,871,211	9,616,870	2,071,492	10,730,554	-27.9%	11.6%
Child Support Enforcement	448,878	19,070,282	449,994	20,234,840	0.2%	6.1%
Fiscal Services	4,809,983	10,356,322	4,756,140	10,208,606	-1.1%	-1.4%
Health Policy and Services	130,348,155	615,702,835	131,963,154	674,878,359	1.2%	9.6%
Quality Assurance	4,084,388	14,773,673	4,492,258	15,360,862	10.0%	4.0%
Operations & Technology	18,293,553	49,284,346	18,058,972	50,510,675	-1.3%	2.5%
Disability Services	86,332,606	225,344,316	94,028,195	244,782,831	8.9%	8.6%
Senior & Long Term Care	89,319,151	366,788,682	88,397,756	388,935,392	-1.0%	6.0%
Addictive & Mental Disod.	101,910,987	263,802,595	102,695,373	308,242,176	0.8%	16.8%
Total	$ 525,526,015	$ 1,973,397,363	$ 531,203,907	$ 2,195,582,098	1.1%	11.3%

The only division other than the Quality Assurance Division to experience more than a 2 percent increase in general fund support is the Disability Services Division, whose general fund support increases almost 9 percent. General fund support for the Disability Services Division (DSD) increases $7.7 million between the two biennia, or $2 million more than the $5.7 million general fund increase for the entire agency. Reductions in other programs offset increases in DSD.

The only division other than the Director's Office to experience a general fund reduction of more than 2 percent is the Child and Family Services Division, whose general fund support decreases almost 8 percent ($3.4 million). The remaining divisions experience general fund increases or decreases ranging from a 1.3 percent decrease to a 1.4 percent increase.

Funding Summary

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
2005 Biennium Executive Budget

Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
Human And Community Services Division	$ 44,544,504	$ 1,020,502	$ 324,356,220	$ 369,921,226	16.8%
Child & Family Services Div	39,746,069	3,662,100	58,368,408	101,776,577	4.6%
Director'S Office	2,071,492	3,959,992	4,699,070	10,730,554	0.5%
Fiscal Services Division	4,756,140	573,818	4,878,648	10,208,606	0.5%
Health Policy & Services Division	131,963,154	21,405,573	521,509,632	674,878,359	30.7%
Quality Assurance Division	4,492,258	542,000	10,326,604	15,360,862	0.7%
Operations & Technology Div	18,058,972	1,864,731	30,586,972	50,510,675	2.3%
Disability Services Division	94,028,195	112,050	150,642,586	244,782,831	11.1%
Senior & Long-Term Care	88,397,756	22,623,182	277,914,454	388,935,392	17.7%
Addictive & Mental Disorders	102,695,373	16,987,447	188,559,356	308,242,176	14.0%
Child Support Enforcement	449,994	6,321,383	13,463,463	20,234,840	0.9%
Grand Total	$ 531,203,907	$ 79,072,778	$1,585,305,413	$ 2,195,582,098	100.0%

DPHHS is funded by a combination of general fund, state special revenue, and federal funds. General fund provides 24 percent of the department's 2005 biennium budget, while state special revenue and federal funds provide about 4 and 72 percent of the department's funding, respectively.

As illustrated in the table above, five divisions receive over 90 percent of department funding. Funding for Health Policy and Services Division, which administers the largest Medicaid program, equates to more than 30 percent of department funding. Senior and Long Term Care (17.7 percent), Human and Community Services (16.8 percent), Addictive and Mental Disorders (14.0 percent), and Disability Services (11.1 percent) together comprise about 60 percent of department funding.

A similar funding split is exhibited in the allocation of department general fund. The five divisions listed above comprise over 86 percent of the department general fund budget. However, Human and Community Services, while the third largest division in total funds, is the fifth largest in general fund support. Health Policy and Services (24.8 percent), Addictive and Mental Disorders (19.3 percent), Disability Services (17.7 percent) and Senior and Long Term Care (16.6 percent) combined account for nearly 80 percent of the department general fund budget.

Biennium Budget Comparison Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	2,796.10	22.23	2,818.33	2,798.60	22.23	2,820.83	2,788.09	2,820.83
Personal Services	117,062,483	1,007,022	118,069,505	117,435,104	1,006,237	118,441,341	212,996,772	236,510,846
Operating Expenses	83,730,831	4,388,176	88,119,007	83,955,212	3,653,570	87,608,782	165,233,388	175,727,789
Equipment	1,389,217	3,000	1,392,217	1,823,855	0	1,823,855	1,297,789	3,216,072
Capital Outlay	28,398	0	28,398	28,398	0	28,398	34,754	56,796
Local Assistance	0	0	0	0	0	0	6,249	0
Grants	47,577,332	186,533	47,763,865	47,576,505	(613,217)	46,963,288	80,404,782	94,727,153
Benefits & Claims	820,519,305	4,573,202	825,092,507	852,378,716	6,809,933	859,188,649	1,512,292,656	1,684,281,156
Transfers	0	0	0	0	0	0	29,221	0
Debt Service	504,399	52,738	557,137	504,399	750	505,149	1,102,298	1,062,286
Total Costs	**$1,070,811,965**	**$10,210,671**	**$1,081,022,636**	**$1,103,702,189**	**$10,857,273**	**$1,114,559,462**	**$1,973,397,909**	**$2,195,582,098**
General Fund	276,544,506	(14,242,997)	262,301,509	284,076,356	(15,173,958)	268,902,398	525,526,015	531,203,907
State/Other Special	30,873,794	7,864,401	38,738,195	31,299,373	9,035,210	40,334,583	58,841,126	79,072,778
Federal Special	763,393,665	16,589,267	779,982,932	788,326,460	16,996,021	805,322,481	1,389,030,768	1,585,305,413
Total Funds	**$1,070,811,965**	**$10,210,671**	**$1,081,022,636**	**$1,103,702,189**	**$10,857,273**	**$1,114,559,462**	**$1,973,397,909**	**$2,195,582,098**

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals	Fiscal 2004					Fiscal 2005				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7 - DOE Weatherization Training Grant										
02	0.00	0	0	228,905	228,905	0.00	0	0	0	0
DP 9 - Housing Opportunities for Persons With AIDS-HOPWA										
02	0.00	0	0	738,909	738,909	0.00	0	0	0	0
DP 28 - Refinancing - Federal Funds										
03	0.00	(3,000,000)	0	3,000,000	0	0.00	(3,000,000)	0	3,000,000	0
DP 29 - MTAP Mt Relay Video Relay Service - OTO										
04	0.00	0	144,600	0	144,600	0.00	0	144,600	0	144,600
DP 30 - MTAP Eligibility Technician										
04	1.00	0	34,927	0	34,927	1.00	0	34,823	0	34,823
DP 32 - Montana Abstinence Program										
04	1.00	0	0	42,264	42,264	1.00	0	0	42,126	42,126
DP 33 - Corporation for National Services										
04	0.75	0	0	343,915	343,915	0.75	0	0	343,811	343,811
DP 37 - Family Planning Supplemental Authority										
07	0.50	0	0	251,963	251,963	0.50	0	0	115,583	115,583
DP 40 - Obesity Prevention Program										
07	2.00	0	0	417,510	417,510	2.00	0	0	417,232	417,232
DP 42 - Immunization Increase										
07	0.00	0	0	300,000	300,000	0.00	0	0	300,000	300,000
DP 45 - Behavior Risk Factor Surveillance Coordinator										
07	1.00	0	0	53,398	53,398	1.00	0	0	53,252	53,252
DP 48 - Fetal Alcohol Syndrome Coordinator										
07	1.00	0	0	50,798	50,798	1.00	0	0	50,652	50,652
DP 49 - Pay Off Wells Fargo Loan for Equipment										
07	0.00	0	51,988	0	51,988	0.00	0	0	0	0
DP 51 - WIC Administrative Support										
07	1.00	0	0	0	0	1.00	0	0	0	0
DP 52 - Medicaid Breast & Cervical Cancer Treatment Prog										
07	0.00	207,174	0	339,055	546,229	0.00	208,378	0	337,851	546,229
DP 53 - Montana Breast & Cervical Health Program										
07	1.00	0	0	939,750	939,750	1.00	0	0	939,618	939,618
DP 54 - Epidemiology Support for Diabetes Program										
07	0.50	0	0	27,506	27,506	0.50	0	0	27,434	27,434
DP 55 - School Health Coordinator										
07	1.50	0	85,284	0	85,284	1.50	0	85,101	0	85,101

New Proposals

	Fiscal 2004					Fiscal 2005				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 65 - School Services Contract and Program Monitor										
07	1.00	(113,257)	0	8,178,235	8,064,978	1.00	(277,648)	0	8,026,626	7,748,978
DP 66 - Medicaid Pharmacy Audit										
07	0.00	(23,341)	0	(275,461)	(298,802)	0.00	(54,862)	0	(356,640)	(411,502)
DP 67 - Laboratory Equipment Replacement										
07	0.00	0	195,000	0	195,000	0.00	0	195,000	0	195,000
DP 74 - County Public Health Department Administrative IGT										
07	0.00	0	125,000	125,000	250,000	0.00	0	125,000	125,000	250,000
DP 82 - DD Funding at Current Level of Service										
10	0.00	1,899,878	0	0	1,899,878	0.00	1,899,878	0	0	1,899,878
DP 88 - DDPAC Federal Grant Increase										
10	0.00	0	0	25,900	25,900	0.00	0	0	25,900	25,900
DP 95 - MDC Direct Care FTE										
10	20.00	932,864	0	0	932,864	20.00	933,277	0	0	933,277
DP 102 - TBI Grant Spending Authority										
22	1.00	0	0	125,000	125,000	1.00	0	0	125,000	125,000
DP 104 - Nursing Hm FY 04-05 IGT Spending Authority										
22	0.00	0	1,395,391	3,766,988	5,162,379	0.00	0	2,434,817	6,520,010	8,954,827
DP 113 - Additional Federal Spending Authority										
22	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 114 - Aging/HCBS Conference Spending Authority										
22	0.00	0	59,053	0	59,053	0.00	0	63,430	0	63,430
DP 117 - MVH Staff										
22	1.40	0	54,858	0	54,858	1.40	0	54,896	0	54,896
DP 125 - Older Workers Program Grant										
22	0.00	0	0	560,000	560,000	0.00	0	0	560,000	560,000
DP 131 - Continue Data Infrastructure & Integration Grant										
33	1.00	0	0	146,415	146,415	1.00	0	0	103,585	103,585
DP 132 - Continue Community Incentive Grant										
33	0.00	0	0	800,000	800,000	0.00	0	0	0	0
DP 133 - MCDC Staffing Changes										
33	2.90	0	113,301	0	113,301	2.90	0	113,645	0	113,645
DP 154 - MSH DoC Agreements										
33	4.00	0	339,304	0	339,304	4.00	0	356,960	0	356,960
DP 237 - Cardiovascular Disease 1.5 FTE										
07	1.50	0	0	54,128	54,128	1.50	0	0	53,997	53,997
DP 240 - Eliminate ESRD Program										
07	0.00	(100,000)	0	0	(100,000)	0.00	(100,000)	0	0	(100,000)
DP 242 - Reduce Optional Services										
07	0.00	(250,000)	0	(671,829)	(921,829)	0.00	(250,000)	0	(656,783)	(906,783)
DP 244 - Limit Physicians Visits to 10 Per Year										
07	0.00	(700,561)	0	(1,882,629)	(2,583,190)	0.00	(760,809)	0	(1,998,745)	(2,759,554)
DP 245 - Eliminate Posion Contrrol System										
07	0.00	(38,954)	0	0	(38,954)	0.00	(38,954)	0	0	(38,954)
DP 246 - Reduce Tumor Registry General Fund Support										
07	0.00	(26,774)	0	0	(26,774)	0.00	(26,774)	0	0	(26,774)
DP 247 - Eliminate Gen Fund Support for Public Health Lab										
07	0.00	(185,374)	0	0	(185,374)	0.00	(185,374)	0	0	(185,374)
DP 248 - Reduce Epidemiolgy and Surveillance Gen Fund										
07	0.00	(25,000)	0	0	(25,000)	0.00	(25,000)	0	0	(25,000)
DP 249 - Eliminate AIDS Prevention General Fund										
07	0.00	(42,000)	0	0	(42,000)	0.00	(42,000)	0	0	(42,000)
DP 250 - Eliminate MIAMI/Perinatal General Fund Support										
07	0.00	(567,128)	0	0	(567,128)	0.00	(567,128)	0	0	(567,128)
DP 251 - Eliminate Gen Fund Support For Farmers Market										
07	0.00	(12,828)	0	0	(12,828)	0.00	(12,828)	0	0	(12,828)
DP 252 - Eliminate Family Planning Gen Fund Support										
07	0.00	(25,948)	0	0	(25,948)	0.00	(25,948)	0	0	(25,948)
DP 253 - Fund Switch For The CHIP Program										
07	0.00	(4,096,947)	4,096,947	0	0	0.00	(4,258,500)	4,258,500	0	0
DP 254 - Reduce Provider Reimbursement										
07	0.00	(1,263,945)	0	(3,396,621)	(4,660,566)	0.00	(1,404,725)	0	(3,690,397)	(5,095,122)
DP 255 - Environmental Health Tracking										
07	2.00	0	0	510,866	510,866	2.00	0	0	510,866	510,866
DP 256 - Libby Asbestos Screening										
07	2.00	0	0	590,000	590,000	2.00	0	0	590,000	590,000
DP 257 - Transportation program changes										
07	0.00	(82,888)	0	(222,746)	(305,634)	0.00	(86,038)	0	(226,033)	(312,071)
DP 258 - Pharmacy Program Changes										
07	0.00	(82,372)	0	(221,360)	(303,732)	0.00	(82,372)	0	(216,402)	(298,774)
DP 259 - Reduce HPSD Admininstration										

New Proposals

Program	Fiscal 2004 FTE	Fiscal 2004 General Fund	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General Fund	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
07	0.00	(35,000)	0	0	(35,000)	0.00	(35,000)	0	0	(35,000)
DP 260 - Property Eligibility Exclusion Medicaid Reduction										
07	0.00	(92,101)	0	(247,504)	(339,605)	0.00	(92,101)	0	(241,961)	(334,062)
DP 261 - Rape Prevention										
07	0.00	0	0	77,521	77,521	0.00	0	0	77,521	77,521
DP 271 - Base Adjustment to BBBS										
03	0.00	(183,264)	0	0	(183,264)	0.00	(183,264)	0	0	(183,264)
DP 272 - Base Adjustment to Central Office										
03	0.00	0	0	0	0	0.00	(30,034)	0	0	(30,034)
DP 273 - Base Adjustment for CPS Daycare										
03	0.00	(325,013)	0	0	(325,013)	0.00	(325,013)	0	0	(325,013)
DP 274 - Base Adjustment for Domestic Violence										
03	0.00	(77,641)	0	0	(77,641)	0.00	(77,641)	0	0	(77,641)
DP 275 - Base Adjustment for Foster Care										
03	0.00	2,500,000	0	1,147,083	3,647,083	0.00	2,500,000	0	1,092,825	3,592,825
DP 276 - Base Adjustment for In Home Services										
03	0.00	(1,114,364)	0	0	(1,114,364)	0.00	(1,136,356)	0	0	(1,136,356)
DP 280 - FTE Reduction										
02	(1.00)	(12,430)	0	(12,430)	(24,860)	(1.00)	(12,398)	0	(12,398)	(24,796)
DP 281 - FTE Reduction										
03	(6.30)	(130,930)	(2,742)	(94,207)	(227,879)	(6.30)	(130,930)	(2,742)	(93,611)	(227,283)
DP 282 - FTE Reduction										
07	(1.00)	(20,209)	0	(22,421)	(42,630)	(1.00)	(20,209)	0	(22,301)	(42,510)
DP 284 - FTE Reduction										
22	(1.50)	(40,545)	0	(17,398)	(57,943)	(1.50)	(40,545)	0	(17,244)	(57,789)
DP 285 - FTE Reduction										
10	(9.02)	(216,506)	0	(65,067)	(281,573)	(9.02)	(217,440)	0	(64,204)	(281,644)
DP 286 - FTE Reduction										
08	(2.00)	(31,828)	0	(59,267)	(91,095)	(2.00)	(31,828)	0	(59,649)	(91,477)
DP 287 - FTE Reduction										
33	(5.00)	(154,942)	0	(33,255)	(188,197)	(5.00)	(155,010)	0	(33,165)	(188,175)
DP 294 - Eliminate Community Supports and Reduce SL										
10	0.00	(1,424,395)	0	(1,408,700)	(2,833,095)	0.00	(1,424,395)	0	(1,408,700)	(2,833,095)
DP 296 - DDP GF Reduction Due to Refinancing										
10	0.00	(1,800,000)	0	1,800,000	0	0.00	(1,800,000)	0	1,800,000	0
DP 297 - DDP Medicaid Provider Rate Reduction										
10	0.00	(189,850)	0	(510,187)	(700,037)	0.00	(193,556)	0	(508,499)	(702,055)
DP 339 - Federal Medicaid for School-based Mental Health										
33	0.00	0	0	5,000,000	5,000,000	0.00	0	0	6,000,000	6,000,000
DP 350 - Alcohol Tax - General Fund Replacement										
33	0.00	(1,000,000)	1,000,000	0	0	0.00	(1,000,000)	1,000,000	0	0
DP 353 - Medicaid Provider Reimbursement Reduction										
33	0.00	(423,255)	0	(1,137,418)	(1,560,673)	0.00	(475,293)	0	(1,248,657)	(1,723,950)
DP 355 - Chemical Dependency Access Payment										
33	0.00	271,200	0	728,800	1,000,000	0.00	275,700	0	724,300	1,000,000
DP 992 - Medicaid Provider Rate Cut										
22	0.00	(873,056)	0	(2,346,178)	(3,219,234)	0.00	(926,715)	0	(2,434,605)	(3,361,320)
DP 993 - Cut Home Health Therapy Benefits										
22	0.00	(34,000)	0	(91,369)	(125,369)	0.00	(34,000)	0	(89,322)	(123,322)
DP 994 - Reduce Meals on Wheels Program										
22	0.00	(257,000)	0	0	(257,000)	0.00	(257,000)	0	0	(257,000)
DP 995 - Eliminate Hospice Program										
22	0.00	(174,466)	0	(470,987)	(645,453)	0.00	(193,048)	0	(516,950)	(709,998)
DP 996 - Change Medicaid Eligibility Standards										
22	0.00	(593,011)	0	(1,593,608)	(2,186,619)	0.00	(788,275)	0	(2,070,902)	(2,859,177)
DP 998 - Remove APS Abuse Prevention Grants										
22	0.00	(50,000)	0	0	(50,000)	0.00	(50,000)	0	0	(50,000)
DP 999 - FY 03 Lien and Estate Expenditures										
22	0.00	(162,990)	162,990	0	0	0.00	(162,180)	162,180	0	0
DP 8063 - Pool & Spa Exemptions (Requires Legislation)										
07	0.00	0	8,500	0	8,500	0.00	0	9,000	0	9,000
Total	**22.23**	**($14,242,997)**	**$7,864,401**	**$16,589,267**	**$10,210,671**	**22.23**	**($15,173,958)**	**$9,035,210**	**$16,996,021**	**$10,857,273**

Agency Issues

Refinancing

Refinancing is the term that the Health and Human Services Appropriation Subcommittee has given to the concept of reducing general fund needed to support existing services due to the receipt of increased support from other sources. Most often that involves maximizing federal reimbursements claimed by the state. As the proportion of federal or other funds increases, general fund appropriation authority is freed up and can:

- Revert to the general fund
- Be used for service expansion or provider reimbursement
- Offset program reductions

During the August 2002 Special Session, the legislature authorized funding for 5.00 FTE to form a refinancing unit in DPHHS. Language was also added to HB 2 directing that the refinancing unit be funded from savings due to refinancing social worker case management services.

Since the August special session, staff have been hired and DPHHS let a contract to identify areas where other states have refinanced general fund costs. DPHHS has received a preliminary report from its consultant that identifies several issues pursued in other states. The department will review refinancing goals and progress with the legislature.

<u>Foster Care, Targeted Case Management and Title IV-E Eligibility</u>

The budget for the Child and Family Services Division includes a proposal decreasing general fund and increasing federal funds $6 million for the biennium, because the division intends to maximize reimbursement for foster care children under Title IV-E of the Social Security Act (SSA) and to implement targeted case management for child welfare services as a Medicaid reimbursable service.

Title IV-E of the SSA reimburses states for eligible administrative, training, and benefit costs incurred on behalf of eligible foster care children. Title IV-E is an entitlement program, meaning that all eligible children can receive services and there is no upper limit on the amount that may be reimbursed by the federal government. Eligibility for Title IV-E is based upon the criteria the state had in place on July 16, 1996 under the Aid to Families with Dependent Children (AFDC) program. Under Title IV-E eligible costs are reimbursed:

- Administrative costs, 50/50 state/federal match
- Benefit costs, based upon the federal medical assistance participation rate (FMAP), which for Montana is about 27/73 state/federal match during the 2005 biennium
- Training costs, 25/75 state/federal match

The department intends to increase the percentage of foster care children that are eligible for reimbursement under the Title IV-E program. The department requests 6.00 FTE in fiscal 2004 and an additional 2.00 FTE in fiscal 2005 (8.00 FTE total) to facilitate the transfer of Title IV-E eligibility determination from the HCSD to the CFSD. The department believes this change will allow CFSD to aggressively pursue Title IV-E eligibility for the children in its custody.

If a review of cases indicates that a child was Title IV-E eligible but the department failed to claim reimbursement for this child, retroactive billing and reimbursement may occur. Generally, states may bill Title IV-E for costs incurred up to two years prior to the claim for reimbursement. No state plan amendments or federal approval is necessary in order for the department to review existing cases and more aggressively pursue Title IV-E eligibility for children entering foster care. However, the department may identify state plan and other changes needed to maximize reimbursements as they undertake review of the current systems.

The implementation of targeted case management under the Medicaid program means that the department will designate a group, in this case children in the child welfare system, as a target group to receive case management services. Doing so allows the department to bill Medicaid for case management services rendered on behalf of Medicaid eligible children in the child welfare system and to recover Medicaid funding for some services currently supported by the general fund. In order to implement the reimbursement of targeted case management services by Medicaid, the following actions are needed:

- A Medicaid state plan amendment is necessary. Generally, states may claim reimbursement retroactively to the beginning of the quarter in which the state plan amendment is filed
- A methodology for capturing costs and establishing a reimbursement rate must be developed
- Case contacts eligible for Medicaid must be documented. Given the deficiencies in case file documentation identified by the Legislative Audit Division in its performance audit of Child Protective Services, training staff and implementing processes to assure the minimum Medicaid requirements for case contacts and documentation of services provided may be one of the difficulties faced by the division in implementing this refinancing option

Recovery of Social Security Benefits for Children in Foster Care

The CFSD also proposes adding 2.00 FTE to pursue social security related benefits received on behalf of foster care children, which would increase the amount of state special revenue received by the division. These funds are used to repay the state for the costs of the child's care. The division indicates that Montana currently receives social security related benefits for about 10 percent of the children in care. Other states have been able to obtain social security related benefits on behalf of as many as 20 percent of the children in care.

Developmental Disabilities

For at least the past two biennia, the Developmental Disabilities Program (DDP) has undertaken several refinancing efforts. In past biennia, many of these refinancing efforts were related to changes in the services that Medicaid specified as eligible for Medicaid reimbursement. Past refinancing efforts in the DDP utilized general fund savings that were realized to strengthen (increased provider reimbursements), and expand services (including the movement of individuals from state institutions and the waiting list to community services).

LFD ISSUE

Statutory Compliance: Use of General Fund to Support Medicaid Eligible Recipients and Services

The 2005 biennium budget for DDP includes a decision package decreasing general fund and increasing federal funds by $3.6 million for the biennium due to refinancing of congregate living (group home) services. It is legislative staff understanding that historically DDP structured contracts with congregate living providers to include about 15-20 percent general fund, and services for some individuals who were Medicaid eligible were billed to the general fund rather than to federal Medicaid funds. The department indicated that effective December 2002, services for all clients living in congregate living services that are Medicaid eligible (have a Medicaid card) will be billed to Medicaid. The DDP practice of billing the general fund rather than Medicaid appears to violate Section 17-2-108, MCA, which requires the expenditure of nongeneral fund money whenever possible before using general fund appropriations. In addition to a potential violation of statutory provisions, it appears the division expended general fund unnecessarily. This funding could have been used to further strengthen and expand developmental disability or other service systems or to mitigate service and eligibility reductions implemented in other programs. Legislative staff has asked the division to determine how far back the department may retroactively bill Medicaid for these services. Additional general fund savings may be created if retroactive billing is completed. A more detailed discussion of this issue is included in the narrative for the Disability Services Division.

LFD ISSUE

Service and Rate Reductions may not be Implemented

The 2005 biennium budget for DDP also includes reductions of $3.2 million general fund expenditures due to decreases in provider rates and elimination of Community Supports and Supported Living Services. However, division staff indicate that they have no plans to implement a provider rate decrease, but rather this reduction was placed in the budget so that the agency spending target was met. Additionally, the division indicated it will seek to create general fund savings by refinancing, rather than implement these two reductions. A more detailed discussion of this issue is included in the narrative for the Disability Services Division.

Refinancing Developmental Disabilities Children's Services

It may be possible for the DDP to create general fund savings by refinancing some children's services. The division indicated it is reviewing the possibility of obtaining a Medicaid waiver for the provision of some children's services known as Family Education and Support Services (FES). Additionally, legislative staff believe it may be possible to create a program within the Children's Health Insurance Program (CHIP) as a refinancing mechanism, which is discussed in the following section. Division staff indicated that they intend to pursue a Medicaid waiver as a preferred refinancing strategy and are in the process of determining how many children receiving FES services are already Medicaid eligible. Division staff thinks that a Medicaid waiver is preferable to CHIP because some families receiving FES may not be CHIP eligible due to the income limitations of the CHIP program. The division is also researching options to implement a co-payment requirement for some service recipients, including children's services.

Refinancing with CHIP Federal Funds

Montana receives an annual grant for the Children's Heath Insurance Program (CHIP). Grant amounts have ranged from a high of $15.2 million to a low of $10.9 million. The grant requires a match of about 19 percent, which is about 8 percent lower than the Medicaid match rate. The state has three years to spend the grant beginning in the year the grant is received. Unexpended amounts revert to the federal government and have been redistributed. States that fully expended CHIP grants received more of the redistribution than states that did not fully expend grants.

Figure 8

Federal CHIP Grant Amounts, Expenditures, and Reversions by State and Federal Fiscal Years
Estimated Federal CHIP Funds Available to Spend During 2005 Biennium After Funding Current CHIP Program

Grant & Expenditures by State Fiscal Year	1998	1999	2000	2001	2002	2003*	2004*	2005*	Total
	<---Federal Fiscal Years--->								
Federal Grant by Federal Fiscal Year									
Total Grant	$ 11,740,395	$ 11,684,948	$ 13,173,122	$ 15,169,315	$ 10,932,695	$ 11,326,534	$ 11,000,000	$ 11,000,000	$ 96,027,009
Expenditures by State Fiscal Year**									
1998									
1999	$ 355,753								$ 355,753
2000	3,270,917								3,270,917
2001	5,686,677	6,868,437							12,555,114
2002		3,506,843	8,817,552						12,324,395
2003*			4,355,570	7,673,660					12,029,230
2004*				7,495,655	4,238,410				11,734,065
2005*					6,694,285	5,024,892			11,719,177
Total Expended	$ 9,313,347	$ 10,375,280	$ 13,173,122	$ 15,169,315	$ 10,932,695	$ 5,024,892	$ -	$ -	$ 63,988,651
Reverted to Fed.	2,427,048	1,309,668	-	-	-				3,736,716
Total Unexpended						6,301,642	11,000,000	11,000,000	28,301,642

Estimated Federal CHIP Grant Funds Available During 2005 Biennium After Funding Current Program	$ 28,301,642
Estimated State Funds to Match Federal CHIP Funds	$ 5,400,000

*Estimated amounts.

**The amount expended by state fiscal year is estimated and will be refined for presentation to the 2003 legislature. A state has three years to expend a CHIP grant before the balance reverts to the federal government.

Figure 8 shows the historic and projected federal grant levels compared to state fiscal year expenditures. The federal grant amounts are shown by federal fiscal year across the top of the figure, while the expenditures from each grant are shown by state fiscal year in the rows below the specific federal grant. For instance, the first grant of $11.7 million was received in federal fiscal year 1998. DPHHS expended the following amounts from the grant:

- $0.4 million in state fiscal 1999
- $3.3 million in state fiscal 2000
- $5.7 million in part of state fiscal 2001

DPHHS reverted $2.4 million of the federal fiscal year 1998 grant. Total reversions so far have been $3.7 million.

Figure 8 shows that $28 million of CHIP federal grant funds would be available to spend during the 2005 biennium after fully funding the present level CHIP program as requested in the Executive Budget. About $5 million in matching funds would be needed to match that grant level. Both grant amounts and matching funds are based on estimated amounts, which will be different than the grants actually received.

The legislature could consider several alternatives to use excess CHIP federal funds

- Refinance current general fund expenditures
- Expand the CHIP program
- Offset reductions made in some children's services

Refinance Current General Fund Expenditures

The legislature could consider refinancing some children's services that are currently funded from the general fund. Federal criteria allow states to establish separate programs, with different eligibility standards, and different service packages. For instance, DPHHS could establish a separate program for services for children who are developmentally disabled or seriously emotionally disturbed and establish financial eligibility up to 200 percent of the federal poverty level. The current CHIP program eligibility is 150 percent of the federal poverty level and provides physical health services similar to the state employee health plan.

LFD staff has presented this idea to the Legislative Finance Committee and 2001 legislature. The two areas that staff has considered are developmentally disabled (DD) services and preventive services for children at risk of abuse and neglect. The DD service area has more potential for refinancing than services children at risk of abuse and neglect because more of the services provided by the DD system are medical in nature. However, providing services through CHIP would require means testing, which DD has not implemented. It is possible that some services, particularly therapeutic services provided as in-home and family reunification services on behalf of foster care children, could be funded as a separate CHIP program.

Offset Children's Services Reductions

The legislature could consider offsetting some reductions to children's services. During fiscal 2002, expanded mental health services were offered to CHIP eligible children who were also seriously emotionally disturbed. Those services were discontinued as part of DPHHS's attempt to reduce general fund spending. Offsetting service reductions would require the legislature to identify a source of matching funds.

Expand CHIP

Expansion of the CHIP program would require additional matching funds. There are additional matching funds for CHIP available in the amount of tobacco settlement proceeds allocated by Initiative 146 passed in November 2002, which requires that funds be used to draw down the maximum CHIP grant possible. The excess match amount ranges between $1.5 million to $4.2 million depending on what the legislature wishes to do. That issue is discussed more fully in the "Tobacco Settlement Funds" section.

A CHIP expansion could also be used to expand children's services in health related areas in DD and in-home and family reunification services.

Mental Health Home and Community Based Services Waiver

The state may be able to refinance services, impact Medicaid growth rates, and make desirable mental health system changes through the implementation of a Home and Community Based Services (HCBS) waiver similar to those operating in Senior and Long Term Care and Developmental Disability systems. HCBS waivers are provided under Section 1915(c) of the Social Security Act and can be used by states to provide services otherwise not eligible for Medicaid reimbursement to children and adults suffering from a disability that places them at risk of institutionalization. A HCBS waiver for children with mental health related disabilities might draw favorable support from the Centers for Medicare and Medicaid (CMS) because, like the developmental disabilities system, Montana's mental health system does not include a state-supported institution for children. Advantages of a HCBS waiver include:

- Costs are shared with the federal Medicaid program
- Services that are cost-effective and necessary to prevent institutionalization and that are not otherwise reimbursable with Medicaid funds, may be provided with Medicaid funds in an HCBS wavier, including services such as: respite care for family members, homemaker, and habilitation services
- Services that are designed to assist individuals to live and participate in their communities such as prevocational, supported employment, and supported living services may be provided in a HCBS waiver
- Persons who are otherwise Medicaid eligible only in an institutional setting may be Medicaid eligible under a HCBS waiver if the state requests a waiver of income and resource rules (Section 1902(a)(10)(C)(i)(III) of the Social Security Act)
- The number of recipients served by the waiver may be capped. The cap may be established at a set number or calculated based upon the level of state support appropriated for the waiver
- The dollar value of service per recipient may be capped. For example, the Developmental Disabilities Program Community Supports waiver provides each recipient a set dollar amount for the purchase of services covered by that waiver

Potential impacts that may not be viewed as positive include:

- Once the recipient is determined eligible for Medicaid waiver services, they are also eligible for all other Medicaid services provided under the state plan

Employment Security Account - Department of Labor and Industry

The Employment Security Account (ESA) was established by the 1983 legislature as a way to address then-insufficient federal funding. The intent of the ESA was to maintain delivery of employment services through, and prevent the closure of, rural Job Service Centers. At that time, the ESA was funded through an assessment of 0.10 percent on all taxable wages paid by employers. The 1999 legislature passed HB 282, which raised the assessment to its current level of 0.13 percent.

Prior to 1989, most of the revenues collected into the ESA were transferred into the Unemployment Insurance Trust Fund, as allowed by statute. Since 1989, the ESA has been used primarily to maintain the current level of employment services. However, to facilitate general fund relief in the August 2002 Special Session, use of the ESA was expanded. Most of the ESA funding budgeted directly for the local job service centers was replaced with federal Reed Act funding, and the freed up ESA funds were used to replace general fund in several programs. Additionally, for the 2005 biennium, the executive proposes to continue a portion of the fund switch to replace general fund in the Youth Challenge program within the Department of Military Affairs with ESA funding. Although the overall level of expenditures from the ESA has not changed, these funding switches have still established a precedent for future use and expansion of the fund.

The ESA is established in 39-51-409, MCA. There are no statutory or administrative limitations on use of the ESA. However, to gain support for the increase in the ESA assessment in 1999, DOLI states that it made assurances to the employers that it would strive to use the ESA only to maintain established levels of services already provided with the ESA without expanding the services. Additionally, the programs funded during the August 2002 Special Session, while expanding the use, stayed within the executive's guidelines of providing services that enhanced or expanded Montana's available workforce. Therefore, discussions on the use of the ESA will tend to be philosophical in nature.

To determine allocation of the ESA, the legislature will need to decide on the philosophy it wishes to apply to using funds from the account.

If the legislature wishes to stay within the precedent established during creation and subsequent modification of statute authorizing the ESA, programs funded would include those funded in the base year.

If the legislature wishes to create general fund savings by expanding use of the ESA while maintaining a focus on enhancing or expanding Montana's available workforce, the following state government programs, currently funded with general fund in the amounts indicated, could be considered for ESA funding:

- The state cost-offset grants for Apprenticeship and Training - $140,000
- Jobs for Montana's Graduates - $519,000
- Displaced Homemaker - $235,000
- Job Registry - $17,000
- Youth Challenge program - $1.1 million
- Vocational Rehabilitation services administered by the Department of Public Health and Human Services - $2.4 million
- Education, training and work related services funded with general fund counted as Temporary Assistance for Needy Families (TANF) maintenance of effort (MOE) administered by the Department of Public Health and Human Services - $9.2 million

If the legislature wishes to create general fund savings while applying no limitations to the use of ESA, then most, if not all, programs supported all or in part by general fund could be eligible for ESA support.

The decision of where to use ESA funding involves three other factors:

- Whether the legislature wishes to continue the programs proposed for funding with the ESA by the executive, and at what level
- The corollary impact of increasing the amount of general fund available within an agency. For example, replacing general fund within one program in DPHHS could free up general fund to be used within the department to eliminate or mitigate certain service reductions currently proposed by the executive. The issue for the legislature then becomes whether mitigation of the service reductions in DPHHS is a higher priority than the uses of ESA proposed by the executive
- Based on current revenue projections and allocations in the executive budget, the stability of the ESA fund balance is questionable. Therefore, the ESA most likely cannot accommodate expanded uses without a backfill with other funding or a reduction in appropriations currently made from the account. For more information on the current and projected status of the ESA, please refer to the Department of Labor and Industry narrative

Therefore, the following options for use of the ESA are available:

- Maintain use of the ESA as funded in fiscal 2002. The Youth Challenge program would have to be funded with general fund or eliminated
- Use ESA funding with a broad definition of workforce development and expand use of the ESA into some/all of the programs identified above based on an overall consideration and prioritization of those programs for state funding
- Use ESA funding to replace general fund and mitigate other reductions based on an overall consideration and prioritization of those programs for state funding

Program reductions and eliminations (general fund portion for the biennium) that the legislature could consider funding with general fund made available due to an ESA funding switch include:

- Mental health services for children
- Medicaid limitation of physicians visits to 10 per year, $1.5 million
- MIAMI (prenatal services), $1.1 million
- Big Brothers Big Sisters, $0.4 million
- Daycare for children at risk of abuse and neglect, $0.7 million
- In-home services for children at risk of abuse and neglect, $2.3 million
- Aging services, $0.5 million
- Hospice services, $0.4 million
- Visual services medical program, $0.2 million
- Extended employment and independent living services, $1.0 million

Consistency Among Divisions

Criteria Determining Eligibility for Publicly Funded Services

The 2001 legislature directed the Disability Services Division to report on the impact of applying income criteria to determine eligibility for developmental disabilities program services and benefits on individuals, the waiting list for services, and the budget of the developmental disabilities program. Also, the legislature stated that the report to the Legislative Finance Committee should include, by age group and residential setting, the number and value of services provided to non-Medicaid eligible recipients with incomes at or below 200 percent of the federal poverty level and with incomes at or below 150 percent of the federal poverty level.

To comply with this requirement, the department developed two surveys, one for children's services and one for adult services. Case management and provider staff assisted the department in collecting the information requested on this survey.

A total of 223 adults, who received $4.1 million of services, were included in the adult survey. Among this group, 27 individuals (12 percent) did not respond to the survey and 146 (65 percent) reported having income greater than the federal poverty level. The remainder of the group, 50 individuals, who received $0.9 million of services, reported having income levels less than the federal poverty level.

The families of 827 children that received $4.5 million of services were included in the children/family survey. Among this group, 155 families (19 percent) did not respond to the survey and 540 families (65 percent) reported having income greater than the federal poverty level. The remainder, 132 families (16 percent) who received $0.8 million of services, reported having incomes at or below the federal poverty level.

Generally, programs administered by DPHHS employ income, assets, and other criteria, in addition to clinical criteria to determine those who are eligible to receive services from publicly funded systems. Exceptions to this general policy exist because of federal regulatory requirements. For example, income and asset tests are not used to determine which children/families receive child support enforcement services because federal regulation requires that the division provide services to anyone who applies. On the other hand, as a condition of participation in some publicly funded service systems, cooperation with child support enforcement for the purpose of costs recovery is mandated, including for families receiving cash assistance and children receiving federal Title IV-E funded foster care services.

The developmental disabilities program has been relatively unique among department programs, operating on a philosophy that all who have a developmental disability are eligible for services regardless of their financial ability to obtain services without public funding. While many envision this an ideal system, the reality of state finances may not be able to support this vision.

LFD ISSUE

Consistent use of Income and Asset Test to Determine Eligibility for Publicly Funded Services

The legislature may wish to adopt and apply policies similar to those used in other publicly funded systems to the developmental disabilities system. Examples of other policies adopted and implemented are:

- In order to be eligible for the Children's Health Insurance Program (CHIP) and the Mental Health Services Plan (MHSP), persons may not be eligible for Medicaid coverage
- Many programs including Medicaid, mental health services, and childcare services require the recipient to share in the cost of services through co-payment requirements
- Many programs require that the custodial parent cooperate with and assign child support to the state, so that the state might recover some of the costs of providing services

LFD ISSUE (Cont.)

- o Individuals or families with resources above a certain level (other than a primary home and one car, which may be exempt) are often not eligible for publicly funded services such as Medicaid
- o Eligibility for MHSP, some TANF funded programs, and CHIP is dependent upon income being no greater than 150 percent of the federal poverty level
- o Eligibility for TANF cash assistance benefits is currently based upon countable income levels at or below about 40.5 percent of the federal poverty level
- o Eligibility for childcare subsidies is based upon income levels up to 150 percent of the federal poverty level, with parents responsible for a co-payment, and priority for services given to TANF families, teen parents and those with the lowest income level
- o Eligibility for MHSP is provided only to adults with a serious and disabling mental illness, while other low-income persons with less severe symptoms are not eligible for services
- o Outpatient Medicaid mental health services are provided only to the most seriously mentally ill adults and emotionally disturbed adults and the number of outpatient sessions for adults will be limited

Elements of eligibility and service management from a variety of programs could be combined to establish unique financial and diagnostic eligibility criteria for developmental disabilities services. The legislature may wish to select criteria from the examples to be applied to developmental disability services. If the legislature wishes to direct the department to implement income, resources, or other criteria to determine eligibility for publicly funded developmental disabilities services, guidelines should be provided to the department in statute.

In addition to achieving more consistency among programs, the use of income and resource criteria to determine eligibility for publicly funded services might be employed as a strategy to limit the growth of expenditures for services and focus provision of services to the most needy.

Impact of Appropriation of Excess Federal Funds on Appropriation Laws

Historically, DPHHS has requested and received increased federal funding for refinancing efforts without concern about providing federal appropriations that might be in excess of department expenditures. During the 2003 biennium, given the deficit situation DPHHS is experiencing, legislative staff questioned whether or not appropriation laws required the general fund savings generated within DDP be used to offset funding shortfalls of other programs administered by DPHHS.

A legal opinion on this issue determined that providing excess federal appropriation authority for the DDP appears to have removed the refinancing of DDP from being subject to the provisions of Section 17-2-108, MCA. That section provides that the approving authority shall authorize the decrease of general fund appropriations of an agency by the amount of money received from federal sources in excess of the appropriation in the appropriation act unless certain conditions apply. If DDP had not had sufficient federal funds appropriated and requested additional federal funds, the provisions of Section 17-2-108, MCA would have resulted in a decrease in general fund appropriations by the amount of additional federal funds requested.

Provisions that the legislature included in HB 2 regarding the expenditure of general fund made available through refinancing, also had significant impact on this legal opinion. Because the legislature included permissive language that allowed the division to reinvest refinancing savings in the program (for expansion and provider rates, for example) actions that might have been expected under appropriation laws were not required because of the conditions the legislature attached to the appropriation.

The legislature may wish to consider the policy issues associated with appropriating excess federal funds and conditions attached to appropriations included in HB 2. If the legislature wishes to have the department general fund appropriation reduced by increased federal funds, "extra" federal funds should not be appropriated to the department and appropriation conditions included in HB 2 should be carefully considered. If the legislature wishes to provide the department latitude in the use of general fund if additional federal funds are recovered, appropriation of "extra" federal funds would facilitate this decision.

The Executive Budget requests additional federal authority above the level needed to fund anticipated services in both the Senior and Long Term Care Division and Disabilities Services Division. If the legislature approves the executive request, it could also consider allocating the refinancing appropriation to the refinancing unit in the Director's Office to ensure department wide coordination. If the legislature approves the executive request it could also consider whether to establish priorities for how the saved general fund should be used, which could require amendments to statute depending on policy decisions made by the legislature.

Tobacco Settlement Funds

Montana voters have passed two initiatives that govern the allocation and use of tobacco settlement proceeds. In November 2000, voters passed an initiative to establish a constitutional trust fund that receives 40 percent of the tobacco settlement proceeds (Article XII Section 4). In November 2002, voters passed Initiative 146 (I-146) that amends statute to create two state special revenue accounts and to direct how the funds in each account must be spent. There are issues related to the use of tobacco settlement trust fund income and state special revenue.

Figure 9 shows the total settlement revenue projected to be available as adopted by the Revenue and Transportation Interim Committee. The 40 percent allocation to the trust shows the total amount deposited to the corpus of the trust, while the amount in the Figure A-Trust shows the amount of trust income that can be appropriated.

Figure 9
Tobacco Settlement Revenue
2005 Biennium

Estimated Total Revenue/ Allocation	Fiscal 2004	Fiscal 2005	Biennial Total
Total Settlement Revenue	$ 28,223,000	$ 28,930,000	$ 57,153,000
40% to Trust	11,289,200	11,572,000	22,861,200
32 % to Prevention/ Control State Special Rev.	9,031,360	9,257,600	18,288,960
17% to CHIP Comp. Association State Special Rev.	4,797,910	4,918,100	9,716,010
Balance to General Fund	3,104,530	3,182,300	6,286,830

Two-fifths of the tobacco settlement proceeds and one-tenth of the interest and income from the trust must be deposited to the trust fund, leaving 90 percent of the interest income available for appropriation. The principal and one-tenth of the interest and income deposited in the trust must remain inviolate unless appropriated by a two-thirds majority vote of the members of each house of the legislature.

Appropriations from the trust must be used for tobacco prevention programs and state programs that provide health care benefits, services, or coverage for Montanans. Appropriations from the trust must not be used to replace state or federal money used to fund tobacco disease prevention programs and state programs that existed on December 31, 1999.

I-146 created two state special revenue accounts. One account receives 32 percent - about $9 million annually of the tobacco settlement proceeds and can be used for a comprehensive tobacco prevention program. The second account receives 17 percent (about $5 million annually) and can be used to fund CHIP and the Comprehensive Health Association (CHA or the Association). The Association is a nonprofit legal entity of all insurers, health maintenance organizations, or health service organizations licensed or authorized to do business in Montana. The Association provides health insurance to persons who have been refused coverage by two insurance companies or has a restrictive rider or exclusion for a preexisting condition, which would substantially reduce coverage from that received by a person considered a standard risk. Unlike the constitutional trust income, tobacco settlement proceeds allocated by I-146 can be used to supplant current general fund spending.

LFD ISSUE

Use of Constitutional Tobacco Settlement Trust Fund

The corpus of the trust is estimated to be about $36 million including 2005 biennium deposits. The legislature could consider appropriating the tobacco settlement trust fund balance to:

- Offset general fund in the Executive Budget request
- Restore funding for some of the proposed reductions or reductions that were implemented during the 2003 biennium
- Fund legislative policy initiatives

The advantages to the proposal are to fund policies and programs important to the legislature or to avoid further reductions. The disadvantages are that the legislature could be taking actions contrary to a voter passed initiative and using the trust would limit the income available to offset general fund in the in future years. As noted earlier, using funds from the corpus of the trust requires a two-thirds majority vote of each house.

LFD ISSUE

Shortfall in Executive Budget

Figure 10 shows the amount of constitutional tobacco settlement trust income requested in the Executive Budget compared to estimated revenues. The request is $750,912 higher than anticipated revenues. The legislature may wish to ask DPHHS how it will absorb the reduction since the interest income offsets general fund costs and does not support new or expanded services. If the Executive Budget is adopted it would exacerbate the general shortfall in Medicaid services necessitating either additional reductions or more general fund than requested.

Figure 10
Constitutional Trust Fund - Income and Budget Request
2005 Biennium

Income/Expenditures	Fiscal 2004	Fiscal 2005
Income*	$ 2,217,600	$ 2,927,700
2005 Biennium Budget Request		
Health Policy and Services	1,982,591	1,982,591
Senior and Long-Term Care	703,779	703,779
Addictive and Mental Disorders	261,736	261,736
Total Request	2,948,106	2,948,106
Request (Over) Under Revenue	$ (730,506)	$ (20,406)
Biennial Shortfall		$ (750,912)

*Income is the amount adopted in revenue projections accepted by the Revenue and Transportation Interim Committee.

The legislature may also wish to consider allocating the constitutional tobacco settlement interest income to health care services or uses that clearly meet the criteria of non-supplantation of general fund. Two such uses include Medicaid breast and cervical cancer benefits and prescription drug costs. The Medicaid breast and cervical cancer expansion was approved by the 2001 legislature, that also suggested funding ongoing expenditures for the program from the constitutional trust. Prescription drug costs have grown significantly over the past several years and several new generation drugs would not have been available prior to December 1999.

LFD ISSUE

Use of Tobacco Settlement Revenue Allocated by I-146

As noted earlier, I-146 created two state special revenue accounts that receive allocations from tobacco settlement revenue and funds from those accounts can be used to offset current general fund spending. However, funds must be spent for the intended uses, which are listed in statute:

17-6-606. Tobacco settlement accounts - purpose - uses. (1) The purpose of this section is to dedicate a portion of the tobacco settlement proceeds to fund a statewide comprehensive tobacco disease prevention program designed to:

(a) discourage children from starting use of tobacco;
(b) assist adults in quitting use of tobacco;
(c) provide funds for the children's health insurance program; and

LFD ISSUE (Cont.)

(d) provide funds for the comprehensive health associate programs.

The Executive Budget does not include a request to fund the tobacco prevention program established by I-146 beyond offsetting about $0.5 million of general fund costs for tobacco prevention activities in the base budget. Legislative staff requested that DPHHS provide a tobacco prevention plan for review by the legislature.

Additionally, the legislature could consider offsetting current general fund expenditures with tobacco settlement revenue allocated to prevention and cessation in the following areas:

- The state match for Medicaid related expenditures for smoking cessation physician counseling and prescribed cessation drugs
- Smoking cessation or tobacco prevention components of MIAMI (Montana Initiative for the Abatement of Infant Mortality), which is eliminated in the Executive Budget
- Smoking cessation or tobacco prevention components of community health programs that would qualify as matching funds for the Maternal Child Health Block grant since the Executive Budget eliminates state general fund programs and expenditures that have historically provided part of the match to receive the federal grant As noted in the Health Policy and Services Division budget analysis, the Executive Budget request allocates $8.2 million of the tobacco settlement state special revenue to offset CHIP and Medicaid general fund costs over the 2005 biennium. Using funds allocated by I-146 as Medicaid match does not appear to meet the statutory purpose and use. Figure 11 shows how much tobacco settlement state special revenue is allocated in the Executive Budget.

Figure 11
Tobacco Settlement Revenue Allocated to
CHIP and Comprehensive Health Association

Estimated Revenue/ Executive Request	Fiscal 2004	Fiscal 2005	Biennial Total
Revenue	$ 4,797,910	$ 4,918,100	$ 9,716,010
CHIP Match	2,738,141	2,810,311	5,548,452
Medicaid Match	1,358,806	1,286,636	2,645,442
Balance Remaining	$ 700,963	$ 821,153	$ 1,522,116

The executive requests $2.6 million to offset general fund costs of Medicaid benefits, $5.5 million to offset current general fund costs for CHIP, and none for the CHA. There is a projected remaining balance of $1.5 million.

Medicaid matching funds is not specified as a use of funds allocated by I-146. If the legislature does not accept the executive request, it will need to appropriate additional general fund or reduce other functions or services to offset the funds requested for Medicaid match. If the legislature accepts the Executive Budget, it could amend Section 17-6-606, MCA, to explicitly allow that use and to clarify whether only a portion of the proceeds allocated in that section could be used for Medicaid match or whether all funds could be used. This option would prevent any court action to interpret whether the executive rationale was legal and it could prevent DPHHS use of tobacco settlement proceeds in ways not contemplated by the legislature.

The legislature could consider using the remaining $1.5 million balance to fund programs or services it considers necessary, offset general fund spending reductions, or offset current general fund spending. The legislature would not need to consider amending statute if the uses considered fit within statutory guidelines. If the legislature proposes amendments to this statute, the same disadvantages and advantages of using the constitutional trust corpus differently than originally anticipated by the voters apply.

Medicaid Eligibility Changes

The Executive Budget includes reductions totaling $5.8 million ($1.6 million general fund) due to proposed changes in Medicaid eligibility. These changes affect Medicaid budget requests in three divisions, with the foremost eligibility impacts listed first:

- Senior and Long Term Care (nursing home and community services for elderly and physically disabled)
- Health Policy and Services (primary care -hospital, doctor, and drug services)
- Addictive and Mental Disorders (mental health and chemical dependency services)

Figure 12
Summary of Impact due to Medicaid Eligbility Change
Proposed in Executive Budget

Division/Service	Biennial Savings General Fund	Total	Percent of Total
Senior and Long Term Care			
Nursing Home	$ (1,381,286)	$ (5,045,796)	87%
Health Policy			
Primary Care Services	(184,202)	(673,667)	12%
Addictive and Mental Disorders			
Mental Health Services	(31,092)	(113,699)	2%
Total	$ (1,596,580)	$ (5,833,162)	100%

Each of the specific changes is discussed and the DPHHS estimate of the number of persons impacted by each change is listed. DPHHS estimates that together these four changes would impact 511 persons each month. In about half the cases, persons would still be eligible for Medicaid, but would use more of their own resources toward payment of medical bills. In some instances the changes would make them ineligible until they sold property and used the proceeds to pay for care. The impacts are shown in Figure 12.

Count Non-home Real Property Listed for Sale

Non-home real property listed for sale would be countable (equity) against the Medicaid resource limit rather than excluded from the resource test. This change will cause some households (estimated at 87 per month) with real property to exceed the resource limit for Medicaid coverage, delaying eligibility.

Contract for Deed Change

The value of a contract for deed in the resource determinations for SSI-related Medicaid would be excluded, resulting in the individual receiving Medicaid right away, but leaving them with more income on a consistent basis to offset their own medical expenses and relieve some of the costs to Medicaid. Preserving the value of the contract for deed would also make it available for estate recovery purposes. This change would impact an estimated 120 applicants per month.

Life Estate Change

The value of life estates would be excluded when the life estate is being used to produce income and meets the requirement to do so. The penalty for not using the property to produce income would be denial of benefits for failure to access other benefits or an asset transfer penalty for failure to access a stream of income. This change would provide more income to the applicant/recipient on a consistent basis to offset medical expenses and relieve some of the costs to Medicaid. This change would impact an estimated 60 recipients per month.

Limit Exclusion of Home Property Under "Intent to Return" Policy

Currently, the value of the owned home is excluded indefinitely with an "intent to return" statement. This change would define "home" as the person's principal place of residence and specify that the individual must have physically resided at that residence within the past six months. (Other states already have this definition in place.) After six months have elapsed, the house would be considered a countable asset and either cause closure of Medicaid or require the house to be listed for sale. This change would impact an estimated 244 individuals living in nursing homes or personal care homes with no likelihood of returning home.

Other Issues

Olmstead

The U.S. Supreme Court issued its decision in the Olmstead v. L.C. case in June 1999. In this case, the court found that continued institutionalization violated the plaintiffs rights under the Americans with Disabilities Act (ADA) to live in the most integrated setting appropriate. Based upon the Olmstead decision, states are required to provide community based services for persons with disabilities who would otherwise be entitled to institutional services when: 1) the state's treatment professionals determine that such placement is appropriate; 2) the affected persons do not oppose such treatments; and 3) the placement can be reasonably accommodated taking into account the resources available to the state and the needs of others who are receiving state supported disability services.

Under the ADA, states are obliged to make reasonable modifications in policies, practices, or procedures when the modifications are necessary to avoid discrimination on the basis of disability unless the public entity can demonstrate that making the modifications would fundamentally alter the nature of the service program or activity (28 CFR 35.130(b)(7)). The U.S. Supreme Court indicated that the test as to whether a modification entails fundamental alteration of a program takes into account three factors: 1) the cost of providing services to the individual in the most integrated setting appropriate; 2) the resources available to the state; and 3) how the provision of services affects the ability of the state to meet the needs of others with disabilities. The court suggests that a state could establish compliance with the ADA if it demonstrates that it has: 1) a comprehensive, effective working plan for placing qualified persons with disabilities in less restrictive settings; and 2) a waiting list that moves at a reasonable pace not controlled by the state's endeavors to keep its institutions fully populated.

To date, the Senior and Long Term Care and Disability Services Divisions have developed Olmstead plans. The Addictive and Mental Disorders Division is still completing its plan. However, an agency-wide plan integrating division plans has not been prepared. While some divisions within the department are actively pursuing increased community placements, other service delivery systems, notably the mental health system, have implemented reductions in community-based services, and are proposing significant community service reductions in the Executive Budget. While service reductions have been implemented to reduce general fund spending during the 2003 biennium, decisions regarding reductions in the mental health system do not appear to give weight to the need to comply with Olmstead by balancing the need for community services with the institutional services. While selected service systems may be able to demonstrate efforts to comply with Olmstead requirements, it is unclear whether the department as a whole will be able to demonstrate efforts to comply with Olmstead.

Cumulative Reductions - 2005 Biennium Executive Budget and 2003 Biennium Actions

Figure 13 summarizes the fiscal impact of 2005 biennium budget reductions, August 2002 Special Session Reductions, reductions implemented according to Section 17-7-140, MCA, and 2003 supplemental mitigation efforts. Reductions to the department budget for these items total $61.9 million general fund and $152.9 million total funds. Reductions included in the 2005 biennium budget account for 50 percent of these reductions.

Figure 13

Department of Public Health and Human Services

Summary of 2005 Biennium Executive Budget Reductions and 2003 Biennium Reductions - Including Estimated Total Funds Impact

2005 Biennium Executive Budget, August 2002 Special Session, Legislative Action, 17-7-140, MCA and Supplemental Mitigation

	Human & Community Services		Child and Family Svcs		Child Support Enforcement		Health Policy & Services		Addictive & Mental Disorders	
Action	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total
2005 Biennium Exec. Budget	$ 1,730,896	$ 32,023,132	$ 3,714,450	$ 3,907,752	$ -	$ 21,158	$ 4,130,454	$ 9,874,627	$ 18,286,216	$ 20,318,577
August 2002, Special Session	106,251	727,490	106,731	175,897	-	-	22,720	(257,662)	1,275,196	61,890
17-7-140, MCA	1,275,138	2,088,821	996,441	1,578,541	22,500	66,176	1,553,097	5,584,436	2,834,011	6,677,961
Supplemental Mitigation	-	-	-	-	-	-	7,591,497	28,038,472	3,159,894	10,186,436
Total Change by Division	$ 3,112,285	$ 34,839,443	$ 4,817,622	$ 5,662,190	$ 22,500	$ 87,334	$ 13,297,768	$ 43,239,873	$ 25,555,317	$ 37,244,864
Percent of Total	5.0%	22.8%	7.8%	3.7%	0.0%	0.1%	21.5%	28.3%	41.3%	24.4%

	Director's Office		Quality Assurance		Disability Services*		Senior & Long Term Care		Operations and Technology		Total	
Action	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total
2005 Biennium Exec. Budget	$ -	$ -	$ 63,656	$ 179,572	$ 4,884,620	$ 8,849,977	$ 2,430,800	$ 7,263,938	$ 505,501	$ 994,920	$35,746,593	$83,433,653
August 2002, Special Session	8,183	23,071	22,694	64,705	2,179,686	354,348	(69,106)	(23,892)	2,101,416	7,019,871	5,753,771	8,145,718
17-7-140, MCA	128,459	134,359	156,557	208,960	881,392	1,610,597	1,240,325	4,060,074	513,839	1,097,720	9,601,759	23,107,645
Supplemental Mitigation	-	-	-	-	-	-	-	-	-	-	10,751,391	38,224,908
Total Change by Division	$ 136,642	$ 157,430	$ 242,907	$ 453,237	$ 7,945,698	$ 10,814,922	$ 3,602,019	$ 11,300,120	$ 3,120,756	$ 9,112,511	$61,853,514	$152,911,924
Percent of Total	0.2%	0.1%	0.4%	0.3%	12.8%	7.1%	5.8%	7.4%	5.0%	6.0%	100.0%	100.0%
Total Department Change	$61,853,514	$152,911,924										

Notes:

The Disability Service Division plans to increase general fund available to the division by refinancing and hopes to avoid implementation of service and rate reductions.

Almost $2 million of the August 2002, Special Session general fund decrease for Disability Services Division was due to a funding switch. General fund was reduced and state special revenue increased.

Federal Poverty Level

Figure 14 shows the 2002 federal poverty level index by family size for various levels of poverty. The index is published each calendar year and updated in February or March.

Figure 14

2002 Federal Poverty Index

Levels of Poverty by Family Size

Size of Family Unit	Percent of Federal Poverty Level 100%	133%	150%	175%	200%
1	$8,860	$ 11,784	$ 13,290	$ 15,505	$ 17,720
2	11,940	15,880	17,910	20,895	23,880
3	15,020	19,977	22,530	26,285	30,040
4	18,100	24,073	27,150	31,675	36,200
5	21,180	28,169	31,770	37,065	42,360
6	24,260	32,266	36,390	42,455	48,520
7	27,340	36,362	41,010	47,845	54,680
8	30,420	40,459	45,630	53,235	60,840
Each Additional Person	3,080	4,096	4,620	5,390	6,160

Throughout the DPHHS budget analysis there are references to program financial eligibility based on an established level of poverty. The levels of poverty shown in Figure 14 reflect most of the financial eligibility levels for DPHHS programs. CHIP financial eligibility is currently 150 percent of poverty. Financial eligibility for some Medicaid programs for low-income children and pregnant women is established at 100 percent and 133 percent of the federal poverty level. MHSP financial eligibility is established at 150 percent of the poverty level. Chemical dependency services are provided to individuals with incomes below 200 percent of the federal poverty level.

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	451.20	1.00	(1.00)	451.20	1.00	(1.00)	451.20	451.20
Personal Services	17,195,689	748,988	(24,860)	17,919,817	731,800	(24,796)	17,902,693	35,822,510
Operating Expenses	6,432,681	(826,413)	278,109	5,884,377	(1,358,889)	0	5,073,792	10,958,169
Equipment	56,607	(24,726)	0	31,881	(31,518)	0	25,089	56,970
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	14,657,382	1,358,818	0	16,016,200	1,911,592	0	16,568,974	32,585,174
Benefits & Claims	88,796,202	56,701,277	689,705	146,187,184	55,328,159	0	144,124,361	290,311,545
Transfers	0	0	0	0	0	0	0	0
Debt Service	56,592	36,837	0	93,429	36,837	0	93,429	186,858
Total Costs	**$127,195,153**	**$57,994,781**	**$942,954**	**$186,132,888**	**$56,617,981**	**($24,796)**	**$183,788,338**	**$369,921,226**
General Fund	21,737,319	1,419,951	(12,430)	23,144,840	(325,257)	(12,398)	21,399,664	44,544,504
State/Other Special	411,046	99,205	0	510,251	99,205	0	510,251	1,020,502
Federal Special	105,046,788	56,475,625	955,384	162,477,797	56,844,033	(12,398)	161,878,423	324,356,220
Total Funds	**$127,195,153**	**$57,994,781**	**$942,954**	**$186,132,888**	**$56,617,981**	**($24,796)**	**$183,788,338**	**$369,921,226**

Program Description

The Human and Community Services Division is comprised of three bureaus: 1) Public Assistance; 2) Early Childhood Services; and 3) Intergovernmental Human Services.

The Public Assistance Bureau administers Montana's welfare reform program funded by the Temporary Assistance to Needy Families (TANF) block grant. The bureau also provides eligibility determination services for Medicaid and food stamps.

The Early Childhood Bureau: 1) manages the funds which pay for childcare for TANF participants and low-income working families; 2) contracts with 12 resource and referral agencies for the administration of child care eligibility, provider recruitment, and technical assistance; 3) administers the Child and Adult Care Food Program, which provides reimbursement to child care providers for the cost of meals served to eligible children and adults; and 4) administers the Head Start state collaboration project and the Childcare Apprenticeship Grant.

The Intergovernmental Human Services Bureau administers: 1) the Community Services Block Grant used by ten Human Resource Development Councils to provide a wide range of community-based human services; 2) the Low-Income Energy Assistance Program and several other weatherization programs; 3) the Emergency Shelter Grants program; 4) the United States Department of Agriculture (USDA) commodities programs; and 5) the Housing Opportunities for People with AIDS Grant. The bureau also stores and distributes USDA commodity foods to a wide range of recipients.

Figure 15 illustrates the allocation of funding among the segments of the division. Public assistance functions account for the largest portion of the division funding, 71 percent. Energy and Commodity Assistance programs comprise 11 percent of the division funding and early childhood services including childcare, and child food and nutrition programs, comprise the remaining 18 percent of the division funding.

Statutory authority for the program is provided in Title 53, Chapter 2, MCA, and 45 CFR.

Figure 15

Human and Community Services Division

Summary of Major Program Functions with Funding

	Fiscal 2002 - Base Budget				Fiscal 2004 - Requested				Fiscal 2005 - Requested				Percent of
Function	General Fund	State Special	Federal	Total Funds	General Fund	State Special	Federal	Total Funds	General Fund	State Special	Federal	Total Funds	Division Total
Public Assistance:													
Administration - Division	$ 106,076	$ -	$ 248,058	$ 354,134	$ 204,416	$ -	$ 204,736	$ 409,152	$ 205,407	$ -	$ 205,727	$ 411,134	0.2%
Administration - Public Assistance	981,202	728	1,053,658	2,035,588	983,462	75	900,156	1,883,693	989,676	75	899,658	1,889,409	1.0%
Administration - County	8,584,786	0	8,459,984	17,044,770	8,976,305	0	8,841,487	17,817,792	8,783,222	0	8,648,301	17,431,523	9.5%
TANF Cash Assistance	289,446	0	29,602,587	29,892,033	289,446	0	33,269,235	33,558,681	289,446	0	33,269,235	33,558,681	18.3%
TANF Employment, Training, Work	7,036,002	0	250,148	7,286,150	8,189,884	0	208,940	8,398,824	7,036,022	0	209,864	7,245,886	3.9%
TANF Supportive Services	1,102,753	0	(472)	1,102,281	1,102,753	0	(472)	1,102,281	1,102,753	0	(472)	1,102,281	0.6%
Refugee Programs	0	0	146,639	146,639	0	0	235,798	235,798	0	0	235,798	235,798	0.1%
Food Stamp Training & Support Services	549,146	165,000	1,191,377	1,905,523	549,146	165,000	1,169,181	1,883,327	549,146	165,000	1,169,759	1,883,905	1.0%
Food Stamp Benefits	110,874	0	9,945,780	10,056,654	148,709	0	65,657,140	65,805,849	143,314	0	65,662,535	65,805,849	35.8%
TANF Phase IIR	341,053	-	4,978,668	5,319,721	341,053	-	-	341,053	341,053	-	-	341,053	0.2%
Subtotal Public Assistance	19,101,338	165,728	55,876,427	75,143,493	20,785,174	165,075	110,486,201	131,436,450	19,440,039	165,075	110,300,405	129,905,519	70.7%
Percent of Total	25.4%	0.2%	74.4%	100.0%	15.8%	0.1%	84.1%	100.0%	15.0%	0.1%	84.9%	100.0%	
Energy and Commodity Assistance:													
Administration - Energy and Commodities	$ 31,225	$ -	$ 3,709,694	$ 3,740,919	$ 31,804	$ -	$ 3,780,765	$ 3,812,569	$ 31,763	$ -	$ 3,775,890	$ 3,807,653	2.1%
Benefits - Energy and Commodities	76,000	245,318	12,096,880	12,418,198	76,000	345,176	17,104,865	17,526,041	76,000	345,176	16,137,055	16,558,231	9.0%
Subtotal Energy and Commodity Assistance	107,225	245,318	15,806,574	16,159,117	107,804	345,176	20,885,630	21,338,610	107,763	345,176	19,912,945	20,365,884	11.1%
Percent of Total	0.7%	1.5%	97.8%	100.0%	0.5%	1.6%	97.9%	100.0%	0.5%	1.7%	97.8%	100.0%	
Early Childhood Services:													
Administration - Child Care	$ -	$ -	$ 403,736	$ 403,736	$ -	$ -	$ 455,167	$ 455,167	$ -	$ -	$ 457,143	$ 457,143	0.2%
Childcare Matching	1,209,689	-	4,406,365	5,616,054	932,758	-	8,266,982	9,199,740	532,758	-	8,269,253	8,802,011	4.8%
Childcare Mandatory	1,313,990	-	2,090,175	3,404,165	1,313,990	-	2,086,400	3,400,390	1,313,990	-	2,086,400	3,400,390	1.9%
Childcare Descrtionary	-	-	14,447,271	14,447,271	-	-	6,830,809	6,830,809	-	-	6,830,821	6,830,821	3.7%
Quality - Child Care	-	-	2,395,648	2,395,648	-	-	2,395,652	2,395,652	-	-	2,395,652	2,395,652	1.3%
Head Start	5,077	-	129,681	134,758	5,114	-	129,681	134,795	5,114	-	129,681	134,795	0.1%
Child and Adult Care Food Program	0	0	9,490,911	9,490,911	0	0	10,941,275	10,941,275	0	0	11,496,123	11,496,123	6.3%
Subtotal Early Childhood Services	2,528,756	-	33,363,787	35,892,543	2,251,862	-	31,105,966	33,357,828	1,851,862	-	31,665,073	33,516,935	18.2%
Percent of Total	7.0%	0.0%	93.0%	100.0%	6.8%	0.0%	93.2%	100.0%	5.5%	0.0%	94.5%	100.0%	
Total Human and Community Services Div.	$ 21,737,319	$ 411,046	$ 105,046,788	$ 127,195,153	$ 23,144,840	$ 510,251	$ 162,477,797	$ 186,132,888	$ 21,399,664	$ 510,251	$ 161,878,423	$ 183,788,338	100.0%
Percent of Total	17.1%	0.3%	82.6%	100.0%	12.4%	0.3%	87.3%	100.0%	11.6%	0.3%	88.1%	100.0%	

Program Narrative

Human and Community Services Division
Major Budget Highlights

- General fund support for the division increases about 1 percent for the 2005 biennium over the 2003 biennium, and total funding increases 21 percent between the two biennia
- Increased funding for food stamp benefits totals $111.5 million federal funds for the biennium
- Increases in federal grants totals $20.1 million for the biennium
- Reduction in childcare funding because TANF funds are not transferred is $15.2 million federal funds
- Reduction in TANF spending of $10 million for the biennium
- Increase in the TANF cash assistance caseload totals $7.3 million federal funds for the biennium
- Increases general fund support for TANF MOE is $1.2 million general fund in the first year of the biennium

Major LFD Issues

- Unexpended (reserve) TANF funds
- Additional general fund to support TANF MOE requirements appears unnecessary
- Potential funds that might be used to fulfill the TANF MOE requirements and decrease general fund requirements
- If basic mental health services for kids program does not continue, additional general fund for TANF MOE will be needed

Temporary Assistance for Needy Families (TANF)

Background

The federal Temporary Assistance for Needy Families (TANF) block grant supports public assistance programs for needy families. TANF was created in 1996 by the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA). This federal act is commonly known as "welfare reform". TANF replaced the program formerly known as the Aid to Families with Dependent Children (AFDC).

Under the TANF program, states receive a set level of federal funding to support public assistance programs. Montana's annual federal grant is about $45 million. In order to receive the federal funds a state must continue to expend state and local resources at a level know as the "maintenance of effort" or "MOE". Montana's annual MOE, at 75 percent of historical expenditures, is about $14.8 million. In order to receive federal funds, states must also meet other federal requirements including: mandated work participation rates; fulfilling data reporting requirements; limiting beneficiaries to a maximum of 60 months of benefits in their lifetime; and beneficiary assignment of child support to the state.

TANF funds must be expended to achieve one of four purposes of the program as specified in federal law: 1) to provide assistance to needy families; 2) to end dependency of needy parents by promoting job preparation, work, and marriage; 3) to prevent and reduce out of wedlock pregnancies; or 4) to encourage the formation and maintenance of two-parent families.

TANF Reauthorization

The original authorization of the TANF block grant by Congress expired September 30, 2002. Reauthorization of the grant has been pending in Congress. Currently, the block grant has been continued, as it exists through March 31, 2003. Congress will probably take up reauthorization of the block grant when it reconvenes. While the various bills introduced to reauthorize TANF vary significantly, they do contain some common threads. Most versions of TANF reauthorization include:

- Increased hours of work participation for recipients
- Increased levels (percentages of caseload) that must be participating in work activities
- A narrowing of the definition of activities that meet the federal definition of work, including limits on the number of hours of job search activities that may be counted, and months of training activities and chemical dependency treatment that may be counted
- Discontinuation of waivers - Specifically, Montana's waiver that allows for a broader definition of activities that meet the definition of work will probably be ended

Montana will be challenged to find more jobs, for more hours per week, with less flexibility in the definition of activities that fulfill the federal definition of work. For example, there will be a limit on the number of hours of job search, education and training that may be counted toward the federal requirements. Additionally, time spent in substance abuse and treatment programs that counts as work hours may be limited in duration and frequency. Recipients will be required to spend more hours per week in work activities and a larger percentage of the caseload will be required to participate in work activities. Compliance with work participation rates is important because if a state is in compliance, the percentage of historical expenditures that must be spent as maintenance of effort can be reduced to 75 percent, which Montana has done. If work participation rates are not met, maintenance of effort must be expended equal to 80 percent of the historical expenditure level, an increase of about $1 million for Montana.

The state will likely find it difficult to supply adequate childcare to families subject to the TANF work requirements, and the programmatic requirements of the TANF grant will be more difficult to fulfill. However, it appears that Congress may authorize TANF appropriations at the same level as prior years, and there has not been recent discussion or action indicating that states will lose previous years' grant funds that remain unexpended. Additionally, Congress has considered increasing federal childcare appropriations but not to a level that most states believe will be adequate to fulfill the demand created by the revised TANF requirements.

LFD ISSUE

Potential Impacts of TANF Reauthorization

The legislature may wish to have the department present potential program changes that might be required to achieve compliance with changes in federal TANF requirements.

FAIM Phase IIR (Families Achieving Independence in Montana)

The Governor's budget includes reductions in federal TANF funding for several programs. During the 2001 session, the legislature appropriated over $26 million of unexpended federal TANF funds that had been carried over from previous years for a number of projects. This group of programs is commonly referred to as FAIM Phase IIR or FAIM IIR. The legislature also included language in HB2 that allowed the Office of Budget and Program Planning (OBPP) to proportionally reduce the funding in these items if certain conditions existed. Those conditions were fulfilled and OBPP reduced the funding in FAIM Phase IIR and transferred this funding to an appropriation for cash assistance benefits.

Figure 16
FAIM Phase II-R

Item	2001 Session HB 2 Approp.	Expended Fiscal 2002	Approp.* Fiscal 2003	Biennial Total	Amount of Reduction
Parents As Scholars	$ 1,331,183	$ 254,391	$ 155,510	$ 409,901	$ (921,282)
Tribal Projects	2,489,360	658,810	107,720	766,530	(1,722,830)
Tribal NEW	2,255,561	323,483	371,055	694,538	(1,561,023)
Non-Traditional Job Training	841,394	501,460	1	501,461	(339,933)
Other Non-Traditional Training Programs -Tribal	989,875	70,191	234,614	304,805	(685,070)
Other Non-Traditional Training Programs -Non-Tribal	494,937	152,402	-	152,402	(342,535)
High-Wage, High-Skill Training	980,045	298,975	2,802	301,777	(678,268)
Assessment Services - Intensive Case Management	2,164,241	202,751	463,666	666,417	(1,497,824)
Chemical Dependency Home	629,560	193,856	-	193,856	(435,704)
Learning Disabilities Services (OPI/Tribal Colleges)	593,924	139,923	42,960	182,883	(411,041)
Mental Health Services	494,937	8,176	144,225	152,401	(342,536)
Family Drug Court	395,950	38,654	83,267	121,921	(274,029)
Low-Income Housing**	3,464,561	5,000	1,061,816	1,066,816	(2,397,745)
Transportation	791,899	243,844	-	243,844	(548,055)
Additional Month Grant for Working Families	2,433,549	743,979	5,366	749,345	(1,684,204)
Emergency Supportive Services for Working Families	1,299,719	726,471	1,099	727,570	(572,149)
School Breakfast Program (HB 353)	178,178	-	54,865	54,865	(123,313)
Individual Development Accounts	274,728	54,383	30,212	84,595	(190,133)
Children as Scholars (Head Start)	1,979,874	90,321	519,327	609,648	(1,370,226)
TEAMS Reprocurement/Enhancements	1,474,982	86,790	367,389	454,179	(1,020,803)
Children's Trust Fund	500,000	56,019	97,941	153,960	(346,040)
	$ 26,058,457	$ 4,849,879	$ 3,743,835	$ 8,593,714	$ (17,464,743)
Percent of 2001 Session HB 2 Remaining				33.0%	

Cash Assistance Summary

Fiscal 2002 Actual Expenditures	$ 29,892,033
2001 Session Appropriation	24,000,000
Difference	$ 5,892,033
Biennial Difference if 2003 Expenditures equal 2002***	$ 11,784,066

Comparison of FAIM IIR Reduction to Cash Assistance Increase

Increase in Cash Assistance Costs***	$ 11,784,066
Decrease in FAIM IIR	(17,464,743)
FAIM IIR Reduction less Increase in Cash Assistance	$ (5,680,677)

*The amount shown is the appropriation as established in SABHRS. The amount has been proportionally reduced by the Office of Budget and Program Planning as allowed in HB 2.

**During the August 2002 Special Session the amount of TANF funds provided to the Low-Income Housing account in statute was reduced to $700,000.

***This is the estimated amount that cash asssistance costs for the 2003 biennium will exceed the appropriation made by the 2001 legislature, if fiscal 2003 cash assistance costs are the same as fiscal 2002.

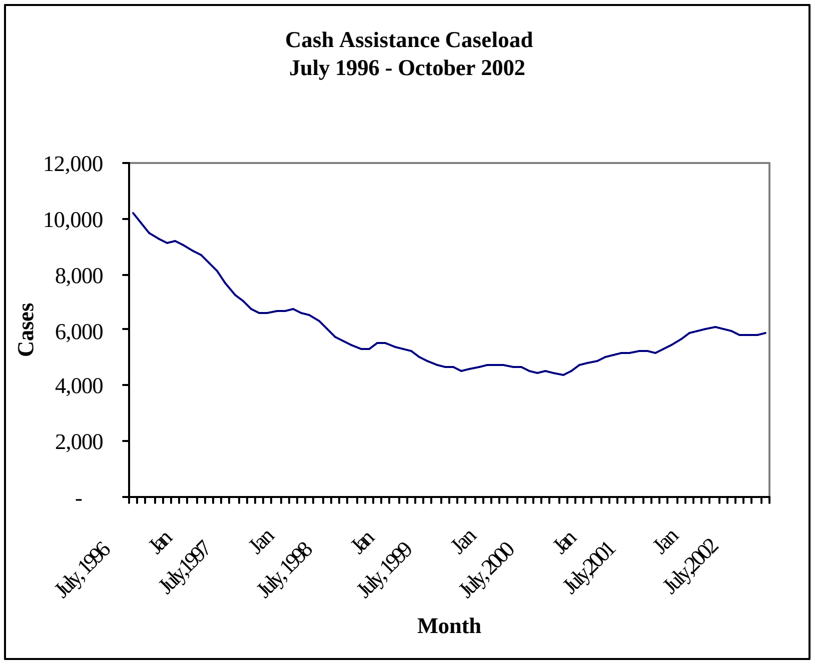
Figure 16 compares the appropriation for FAIM IIR as approved by the 2001 legislature to the funding remaining after the proportional reduction was implement by OBPP. The bottom of Figure 16 also illustrates that while OBPP reduced the funding for FAIM IIR by $17.5 million, cash assistance costs exceeded the appropriation approved by the legislature by $5.9 million in fiscal 2002. If cash assistance costs in fiscal 2003 are the same as in fiscal 2002, cash assistance costs for the biennium will exceed the original appropriation for this purpose by $11.8 million, leaving $5.7 million of the funding removed from FAIM Phase IIR unexpended. This unexpended $5.7 million is sufficient to fund an additional 19 percent increase in cash assistance costs.

While the appropriation of these funds was not specified as one-time-only in the general appropriations act, the legislature understood that these funds would be available only one time and that these new programs could not be supported in future biennia.

Cash Assistance

Since the 2001 legislative session, TANF cash assistance costs have increased from a low of $21.8 million in fiscal 2000 to $29.9 million in fiscal 2002. The executive budget increases cash assistance costs slightly more than 12 percent, to $33.6 million per year in the 2005 biennium. Based upon current caseload data, if the number of cases increases one or two percent per month between October 2002 and March 2003, and decreases one or two percent between April 2002 and June 2003, an increase of about 7 percent for the year, estimated cash assistance costs would be about $33 million. If a more substantial caseload increase such as the 18 percent increase that occurred between fiscal 2002 and 2001 is experienced in this or the next biennium, cash assistance costs will exceed the requested appropriation. The graph in Figure 17 provides a visual illustration of the changes in cash assistance caseload that have occurred since welfare reform was implemented.

Figure 17



TANF Spending Reductions

The increased demand for cash assistance, coupled with the usage of carryover funds, has resulted in a smaller amount of TANF funds being available for appropriation in the 2005 biennium compared to prior biennia. The proposed budget uses the federal TANF grant to support:

- Cash assistance benefits
- Operating and administrative costs
- A portion of the administrative costs for child welfare services
- A portion of foster care service costs

Figure 18 illustrates the flow of federal grant funds and expenditures for each year since inception of the TANF block grant. During the 2003 biennium the expenditures of TANF funds have exceeded the amount of the annual grant, as expected. The proposed budget for the 2005 biennium includes appropriations that are about $10 million less than the annual grant award. To reduce expenditures to this level, the proposed budget removes TANF funding for:

- FAIM Phase IIR projects and selected other items such as adult basic education services, food banks and the prison cannery--$5 million annually
- Transfer to the Childcare Development Fund to provide childcare services, $7.6 million annually

Additionally, the department indicates that TANF transfers to the Social Services Block Grant (Title XX) to provide foster care services in the Child and Family Services Division ($1.4 million annually) and services to the developmentally disabled in the Disability Services Division ($1.4 million annually), will not be made in the 2005 biennium. However, the federal funds supporting these transfers remain in the proposed budget. The Legislative Fiscal Division raises this as an issue in the Child and Family Services and Disability Services Divisions and recommends that the legislature remove these federal funds from the budget.

Figure 18
Temporary Assistance of Needy Families (TANF)
Summary of Federal Funds

DESCRIPTION	SFY 97	SFY 98	SFY 99	SFY 00	SFY 01	SFY 02	SFY 03	SFY 04	SFY 05
Federal Grant	$ 27,885,386	$ 38,706,045	$ 46,599,990	$ 45,350,657	$ 48,038,793	$ 44,678,646	$ 46,438,435	$ 46,438,435	$ 46,438,435
Expenditure of Federal Funds	$ 14,730,474	$ 29,897,481	$ 24,925,376	$ 28,434,468	$ 36,464,512	$ 45,658,304	$ 43,549,591	$ 36,565,082	$ 36,567,670
Transfer to CCDF*	5,657,669	7,000,000	5,500,000	7,612,239	7,612,239	7,612,239	9,372,239	-	-
Transfer to Title XX*	774,065	2,850,000	-	4,250,000	4,250,000	4,250,000	3,860,602	-	-
Total Federal Expenditures/Transfers	$ 21,162,208	$ 39,747,481	$ 30,425,376	$ 40,296,707	$ 48,326,751	$ 57,520,543	$ 56,782,432	$ 36,565,082	$ 36,567,670
Annual Carry-over Funds	$ 6,723,178	$ (1,041,436)	$ 16,174,614	$ 5,053,950	$ (287,958)	$ (12,841,897)	$ (10,343,997)	$ 9,873,353	$ 9,870,765
Cumulative Carry-over Funds		5,681,742	21,856,356	26,910,306	26,622,348	13,780,451	3,436,454	13,309,807	23,180,572
Maximum Amount That May be Transferred to:									
Both Child Care and Title XX (30% of grant)	$ 8,365,616	$ 11,611,814	$ 13,979,997	$ 13,605,197	$ 14,411,638	$ 13,403,594	$ 13,931,531	$ 13,931,531	$ 13,931,531
Title XX (10% or 4.25 percent of grant)*	2,788,539	3,870,605	4,659,999	4,535,066	4,803,879	4,467,865	4,643,844	1,973,633	1,973,633

*Notes:
The TANF Block Grant authorization by Congress expires September 30, 2002. This Table assumes that the TANF grant is reauthorized at the same level.
The transfer amount per state fiscal year may vary somewhat. However, this amount is transferred from the grant for this federal fiscal year.
Through federal fiscal 2002 states may transfer up to 10 percent of the grant to Title XX. The maximum transfer to Title XX is scheduled to decrease to 4.25 perent of the grant, if Congress does not take action to change this.
The transfer of TANF fund to Title XX is not included in this table, although the Executive Budget did not remove these transferred funds from the base budget.

LFD ISSUE

Unexpended TANF Funds

As illustrated in Figure 18 it is estimated that $23.2 million of unexpended TANF funds will remain available at the end of the 2005 biennium. The availability of TANF funds raises several policy decisions the legislature may wish to consider, including:

- What amount, if any, of TANF funds should be maintained in reserve? The 1999 legislature established a TANF reserve of $8.35 million for the 2001 biennium. This level of reserve would provide cash assistance benefits for about 3 months at an expenditure level of $2.6 million per month. Or, if expenditures rose $0.5 million per month, this level of reserve would provide sufficient funding for the increased benefit costs for about 17 months.
- Does the legislature wish to appropriate all or a portion of this reserve to mitigate selected service and funding reductions (within allowable limits under federal TANF regulations)? For example, among the services TANF funds could be used to support are services such as childcare, foster care, and services for the developmentally disabled.
- Does the legislature wish to appropriate all or a portion of this reserve to replace general fund supporting services (within allowable limits under federal TANF regulations)? For example, a funding change could be included in the foster care or developmental disabilities program budget.
- Does the legislature wish to appropriate all or a portion of this reserve to continue selected programs that were included in FAIM IIR?
- If the legislature chooses to maintain some TANF funds in reserve, under what circumstances should these reserve funds be expended?
  - At the discretion of the executive?
  - If caseloads exceed projections?
- If caseloads decline and the reserve grows, should all or a portion of this funding be appropriated for a specific purpose?

TANF Maintenance of Effort (MOE)

In order to receive the federal TANF grant, states must continue to expend state and local resources at a level known as the "maintenance of effort" or "MOE". Montana's annual MOE is about $14.8 million. Generally, states must maintain expenditures at a minimum of 80 percent of their historic level in order to receive the federal TANF grant. If states meet the federally mandated work participation rates, they may reduce the MOE to 75 percent of historic expenditures.

Because Montana has met the mandated work participation rates, the 2001 legislature reduced required MOE to 75 percent.

During fiscal 2003 the department implemented a number of spending reductions. Some of these reductions impacted the general fund available for TANF MOE. Notably, a $973,117 reduction in Work Readiness Component (WoRC) contracts and supportive services (at the direction of the Governor in accordance with section 17-7-140, MCA) had a dollar for dollar impact on the funding available for TANF MOE. Other reductions, such as the across the board general fund reduction and reductions in travel and office supplies approved by legislature during the August 2002 Special Session, also had impacts on the funding available for TANF MOE. The department has requested almost $1.2 million to assist them in meeting the TANF MOE requirements, which must be met on a federal fiscal year basis.

LFD ISSUE

TANF Maintenance of Effort (MOE)

Compliance with federal regulations regarding MOE is determined based upon spending during the federal fiscal year. Because Montana's state fiscal year overlaps two federal fiscal years, it is possible to manipulate funding for expenditures between state fiscal years and still comply with the federal requirements. The department can decrease expenditures during three quarters of the year (October 2002 to June 2003, which are in state fiscal 2003) and then increase expenditures in the July - September, 2003 quarter (state fiscal 2004) and comply with MOE requirements on a federal fiscal year basis.

Figure 19 illustrates an expenditure pattern scenario that allows the department to comply with the TANF MOE requirements on a federal fiscal year basis without additional funding above the level included in the base budget. If this expenditure pattern is implemented and maintained, compliance with MOE requirements can be met on a federal fiscal year basis for federal fiscal 2003 and future federal fiscal years. This manipulation of expenditures results in a one-time reduction in general fund expenditures in fiscal 2003 while maintaining compliance with MOE requirements on a federal fiscal year basis.

Figure 19

Temporary Assittance For Needy Families (TANF) Maintenance of Effort (MOE) Spending Scenario

Quarter	Fiscal 2002	Fiscal 2003		Fiscal 2004	Fiscal 2005	Fiscal 2006
July - September	$ 2,640,767	$ 2,624,654		$ 3,778,536	$ 3,778,536	$ 3,778,536
October - December	3,314,224	3,684,927	*	3,684,927	3,684,927	
January - March	3,747,841	3,684,927	*	3,684,927	3,684,927	
April - June	5,146,599	3,684,927	*	3,684,927	3,684,927	
Total	$ 14,849,431	$13,679,436		$14,833,318	$ 14,833,318	$ 3,778,536
Per Federal Fiscal Year						
Federal Fiscal 2002 MOE						
Federal Fiscal 2002 Total	$ 14,833,318					
Federal Fiscal 2003 Total		$14,833,318				
Federal Fiscal 2004 Total				$14,833,318		
Federal Fiscal 2005 Total					$ 14,833,318	

* Reduced by one third of $1,153,882 spending reduction implemented in fiscal 2003.

Options:

- o Direct the department to implement an expenditure pattern such as the one illustrated in Figure 19, which manipulates expenditures between state fiscal years so that MOE is met on a federal fiscal year basis; and not approve the decision package requesting additional funding for TANF MOE
- o Take no action (positive action is necessary to add to the base budget, if no action is taken the decision package is not added to the base budget)

LFD ISSUE

Other potential sources of TANF MOE

In addition to funding appropriated by the legislature for TANF MOE, the department has utilized donated funds ($276,963) expended on eligible families toward the TANF MOE. Specifically, the department has utilized the portion of the weatherization funds donated and used for TANF eligible families toward the TANF MOE. It is possible that there are existing programs funded with general fund or state special revenue where:

- The general fund or state special revenue is not used to match federal funds, and
- The services provided are to low-income families and fulfill a TANF purpose

If programs matching these criteria are identified, the legislature may be able to count the general fund or state special revenue supporting these programs as TANF MOE and reduce the general fund appropriated to DPHHS for TANF MOE.

Options:

- Direct the executive to review all executive branch agency budgets and compile a list of all existing programs that meet the criteria outlined above
- Direct legislative staff to continue efforts to identify existing programs meeting the criteria above and to investigate the feasibility and level of existing program expenditures that might count toward TANF MOE

LFD ISSUE

MOE included in AMDD

The previous legislature included funding of $647,000 general fund for a basic mental health services program for children in the Addictive and Mental Disorders Division (AMDD) budget. This general fund was a portion of the general fund supporting the TANF MOE. The analysis of TANF MOE included here assumes: 1) this program continues, 2) the program continues to be structured in a manner that makes it eligible to count as TANF MOE, and 3) the program funding continues at the level authorized by the previous legislature. If this is not the case, the department will not have adequate funding to meet TANF MOE requirements.

Options:

- Require that AMDD continue this program at the level funded by the previous legislature ($647,000 annually) and structured so that the expenditures count as TANF MOE
- Move $647,000 general fund per year from the AMDD budget to the HCSD budget for TANF MOE, if the basic mental health program for children is not proposed to be maintained in a manner that qualifies those expenditures as TANF MOE expenditures
- Provide the HCSD an additionally general fund appropriation of $647,000 annually for TANF MOE, if the basic mental health program for children is not proposed to be maintained in a manner that qualifies those expenditures as TANF MOE expenditures

Childcare

Background

The Childcare Development Fund (CCDF) was created under a portion of the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA or welfare reform) to provide childcare services to low-income parents and parents receiving TANF to enable them to work or participate in educational and training programs. PRWORA repealed old welfare related childcare programs that existed under the Social Security Act and replaced them with mandatory and matching funds. Funds that states previously received under the Childcare Development Block Grant became known as the discretionary fund portion of CCDF.

The mandatory funds are a stream of federal funds that states receive if they fulfill the maintenance of effort (MOE), (that is, if they continue to expend state funds for childcare services at the historical level based upon a time period specified in federal regulations). For Montana, this CCDF MOE is $1.3 million annually.

Matching funds are funds that are available to states based upon the federal medical assistance participation rate (FMAP). In Montana this matching ratio is about 28 percent general fund and 72 percent federal funds (often the Medicaid matching ratio for Montana is referred to as a 30/70 matching rate).

Discretionary funds are 100 percent federal funds that are allocated to states based upon a formula. Also, if a state transfers funds from its TANF grant to the CCDF, the TANF funds become discretionary funds. As shown in Figure 20, the discretionary fund declines from $16.8 million in fiscal 2002 to $10.2 million for each year of the 2005 biennium. The two items comprising this change are: 1) a projected increase in Montana's discretionary fund allocation, and 2) the lack of a transfer of TANF funds to CCDF. Because TANF caseloads have increased and the amount of TANF funds available in the 2005 biennium are less than those available in previous biennia, no transfer of TANF fund to CCDF is included in the proposed budget.

Childcare Services in Montana

The Childcare Development Fund (CCDF) and its three streams of federal funds provide almost $40 million during the 2005 biennium for childcare services (Figure 20). Federal childcare funds comprise more than 10 percent of the division's funding and over 91 percent of the funding available for childcare services. In addition to this funding, childcare has general fund support of $1.3 million that fulfills the state's CCDF MOE. The balance of the general fund supporting childcare (about $1.5 million for the 2005 biennium) is used as match to draw federal childcare matching funds.

Figure 20
Childcare Funding

Funding Source	Actual 2002	Requested 2004	Requested 2005	Percent of Total
General Fund	$ 2,528,756	$ 2,251,862	$ 1,851,862	9.3%
Percent of Total	9.6%	10.1%	8.5%	
Federal Funds:				
Discretionary Child Care	16,796,919	10,180,461	10,180,473	46.2%
Child Care Manditory/MOE	2,090,175	3,086,400	3,086,400	14.0%
Child Care Admin	403,736	526,048	530,295	2.4%
Child Care Matching	4,406,365	6,196,101	6,196,101	28.1%
Subtotal Federal Funds	23,697,195	19,989,010	19,993,269	
Percent of Total	90.4%	89.9%	91.5%	
Total All Funds	$ 26,225,951	$ 22,240,872	$21,845,131	
Percent Change		-15.2%		

The majority of childcare funds are expended to provide subsidies to low-income families. No more than five percent of the grant may be expended for administrative costs, and four percent must be expended for quality, health and safety activities. Montana currently provides services to families at or below 150 percent of the federal poverty level and employs a sliding fee scale, as required by federal law, to determine the parent's share of the costs. As the family income approaches 150 percent of the federal poverty level, their share of the costs increases. Once the family income exceeds 150 percent of the federal poverty level, the family is ineligible for the program.

Currently, the administrative rules in Montana guarantee childcare subsidies to families receiving cash assistance and families with disabled children, if the parents are working and their income is below 150 percent of the federal poverty level. According to federal regulations, if appropriate childcare is not provided to TANF cash assistance families, the family is not required to participate in activities designed to help them achieve self-sufficiency.

All other families are prioritized by income level with the lowest income families having the highest priority. Single parent families not on cash assistance must be working at least 60 hours per month (except certain teen parents) and two parent families must work at least 120 hours per month to qualify for childcare assistance. Full time students must work at least 40 hours per month if a single parent and 80 hours per month if the family is a two-parent family.

As illustrated in Figure 21, the demand for childcare services has grown rapidly since the implementation of welfare reform and increased federal childcare funding became available. Between 1997 and 2000, childcare expenditure grew while TANF cash assistance expenditures declined. Between 2002 and 2003, childcare expenditures continued to grow and TANF cash assistance expenditures also grew. Childcare expenditures are projected to decline between 2003 and 2005, which is reflective of the decrease in funding available for these services and not a decrease in demand for childcare services. While one might think that the increase in the TANF cash assistance caseload would decrease the demand for childcare, department staff stated that this is not the case due to federal TANF requirements that the family is not required to participate in activities to assist them in becoming self-sufficient if childcare is not available.

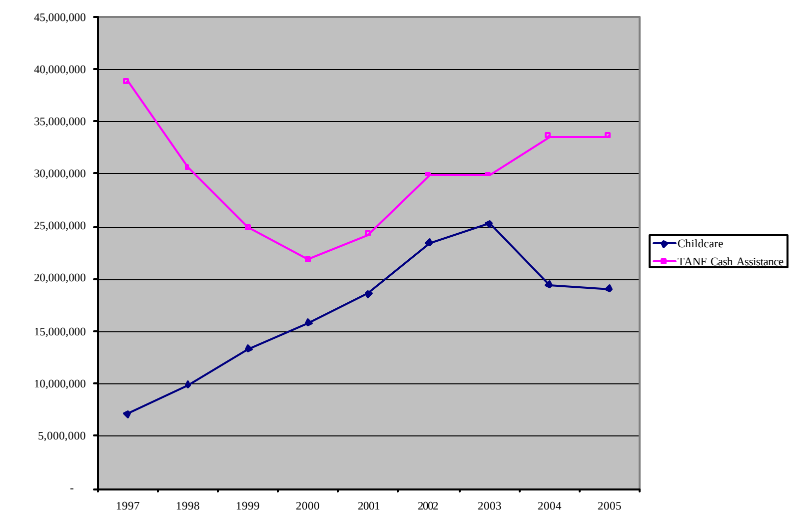


Figure 21

Current state reimbursement rates, (from $11.25 per day to $28.50 per day), which are established based upon local market surveys, vary by type of provider, location of the provider, and age of the child. This equates to monthly costs between $180 and $456 per child for a family working 4 days per week or 16 days per month. At a rate of $16 per day, a family working full-time, 5 days per week, 20 days per month would incur childcare costs of $320 per month for one child. If employed at a job paying $7 per hour, this family's gross monthly income would be $1120. Thus, childcare costs for one child would equate to 29 percent of the family's gross monthly income in this situation.

LFD ISSUE

Childcare program changes

Given that the demand for childcare will continue and that the executive budget decreases funding for childcare, the legislature may wish to:

- Have the department review the program changes that have or will be implemented in order to maintain childcare expenditures within the funding included in the Executive Budget.

Options:

- Specify their concurrence or dissent with the department's planned program changes
- Specify program changes the department should implement
- Review the status of TANF funding and consider the feasibility of transferring TANF funds to childcare (please refer to the earlier discussion of TANF)

CCUBS

During the 2003 biennium the department developed and implemented the Childcare Under the Big Sky (CCUBS) system. This system was developed to replace and add functionality to the Montana Automated Childcare System (MACCS) and the Child and Adult Protective Services (CAPS) system. Prior to the development and implementation of CCUBS, MACCS performed financial and management functions for the childcare subsidy program, and CAPS acted as a childcare provider licensing system.

In addition to functions formerly provided by other systems, CCUBS incorporates new functions including contract management, fair hearing tracking, and web-based invoice entry and payment inquiry for childcare providers. Completion of additional functionality is underway. The department indicates the core system for CCUBS was provided to the state by a contractor at no cost, and that the Montana specific portion of the system costs $1,775,000. Federal childcare discretionary funds were used to fund the CCUBS system.

LFD ISSUE

Review and approval of information technology funded within existing appropriations

The budgeting process does not specifically provide for the review of information technology projects that are funded within the base budget. However, as illustrated by the development of CCUBS, significant information technology developments can be funded within the base funding of the department. In this case, the significance of the decision to invest almost $1.8 million in information technology is amplified because the childcare discretionary funding that was used for this project could have been used to provide childcare subsidies to families, and it appears the proposal to develop CCUBS did not receive legislative review.

The development of information technology within existing appropriations is also discussed in the narrative for the Operations and Technology Division (OTD). As discussed in the OTD narrative, because additional funding was not requested for this project, the decision whether or not to development a replacement system did not receive legislative scrutiny during the 2001 biennium. The legislature may wish to:

- Amend section 2-17-526, MCA (information technology project budget summary) to specify that information technology projects (including system replacements) funded within existing appropriations, and estimated to cost over a specified threshold, be subject to the statutory provisions of this section, including inclusion in the information technology project budget summary
- Take no action

Other Federal Grants

The division requests $20.1 million for increases in several federally funded programs including: 1) childcare mandatory and discretionary programs; 2) the child and adult food care program; 3) several housing, home energy, commodity and weatherization programs; 4) and a grant to provide housing assistance to people with AIDS. Matching fund for these grants are either not required or will be obtained from sources other than the general fund.

Food Stamps

The food stamp program is a federal program administered by the United States Department of Agriculture (USDA). The program provides low-income households funds for the purchase of foods. The federal government reimburses states for 50 percent of the administrative costs of the program and 100 percent of the benefit costs of the program. The USDA mandated that food stamp benefits be distributed by states electronically. The deadline for implementation of electronic transfer of benefits was October 2002.

The department developed a system known as Montana Access for this purpose and phased-in implementation during fiscal 2002. This system uses a magnetic card similar to a credit card for the distribution of benefits. Program participants may use this card at the grocery store and other retail locations. The availability and value of benefits is verified and if benefits are available the transaction is processed through a point of sale device. The department has also made TANF cash assistance payments available via the Montana Access card and has future plans to add additional benefit distributions, including child support payments, to the card.

Prior the distribution of food stamp benefits through electronic means, the department contracted with a company that distributed food stamp coupons to eligible households. The coupons were provided to the contractor by the federal government. Thus, the financial transaction for the issuance of food stamp benefits did not impact the state treasury. Because the state treasury was not impacted, Montana statutes did not require that these benefits be appropriated. However, the implementation of electronic benefit transfer has changed the manner in which these transactions are processed. The expenditure is now processed through the state treasury and the state obtains reimbursement for the benefits issued from the federal government. Because the financial transactions are now processed through the state treasury, an appropriation for the expenditure must be made. During fiscal 2002, the phase-in period for electronic benefit transfer, the department expended approximately $10 million for food stamp benefits. The department is requesting an additional $55.7 million per year to increase funding for food stamp benefit costs to the level projected for the 2005 biennium.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Human And Community Services Division

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	$ 21,737,319	17.1%	$ 23,144,840	12.4%	$ 21,399,664	11.6%
02375 6901-02 Indrct Activity Prog 02	728	0.0%	75	0.0%	75	0.0%
02931 Food Stamps Recoupment Acct	165,000	0.1%	165,000	0.1%	165,000	0.1%
02974 Univ Low-Income Energy Assist	245,318	0.2%	345,176	0.2%	345,176	0.2%
03066 81.042 Bpa	283,734	0.2%	284,026	0.2%	283,995	0.2%
03096 Discretionary Child Care	16,796,919	13.2%	10,180,461	5.5%	10,180,473	5.5%
03103 Tanf Administration	179,742	0.1%	442,301	0.2%	443,965	0.2%
03109 Tanf Benefits	34,826,009	27.4%	33,472,781	18.0%	33,473,705	18.2%
03236 Child Nutrition	9,109,798	7.2%	10,446,430	5.6%	11,004,809	6.0%
03250 Child Care Manditory/Moe	2,090,175	1.6%	3,086,400	1.7%	3,086,400	1.7%
03251 Child Care Admin	403,736	0.3%	526,048	0.3%	530,295	0.3%
03252 Child Care Matching	4,406,365	3.5%	6,196,101	3.3%	6,196,101	3.4%
03382 Pgm 2 Indirects	9,237,697	7.3%	9,539,492	5.1%	9,344,944	5.1%
03390 Reach	397,414	0.3%	-	-	1	0.0%
03518 93.044 - Aging Sup S & Train 1	37,617	0.0%	42,314	0.0%	42,265	0.0%
03523 93.566 - Refugee Soc. Serv	77,331	0.1%	62,717	0.0%	62,717	0.0%
03539 93.600 Headstart	129,681	0.1%	129,681	0.1%	129,681	0.1%
03544 10.561 - Fs E & T - 50%	224,982	0.2%	224,982	0.1%	224,982	0.1%
03545 10.561 - Fs E & T - 100%	573,919	0.5%	364,589	0.2%	364,589	0.2%
03546 10.561 - Fs Adm - Fed Exp 50%	757,229	0.6%	1,155,812	0.6%	1,156,581	0.6%
03547 10.568 - Emerg Food Assist 100	157,534	0.1%	200,508	0.1%	200,377	0.1%
03548 10.569 - Food Distr - Fed Exp	1,520,064	1.2%	1,574,391	0.8%	1,572,365	0.9%
03550 14.231 - Emerg Shelter - Hud 5	365,018	0.3%	364,946	0.2%	364,937	0.2%
03552 81.042 - Weather Ben 100%	1,846,526	1.5%	2,592,454	1.4%	2,591,801	1.4%
03571 93.566 - Off Ref Reset Adm 10	33,750	0.0%	118,081	0.1%	118,081	0.1%
03572 93.568 - Lieap Blk Grt Adm	8,007,700	6.3%	11,524,179	6.2%	11,522,739	6.3%
03573 93.569 - Csbg Adm	2,881,815	2.3%	2,886,449	1.6%	2,886,360	1.6%
03579 93.667 - Ssbg - Benefits	46,000	0.0%	46,000	0.0%	46,000	0.0%
03580 93.778 - Med Adm 50%	106,386	0.1%	50,000	0.0%	50,000	0.0%
03669 Doe Region 8	-	-	228,905	0.1%	-	-
03677 6901-Cacfp 10.558 & 10.560	381,113	0.3%	494,845	0.3%	491,314	0.3%
03678 6901-Food Stamp Benefits	9,821,755	7.7%	65,000,446	34.9%	65,005,841	35.4%
03679 6901-Hopwa Cfda#14-241	-	0.0%	738,909	0.4%	-	0.0%
03824 Child Care Apprenticeship Prog	-	0.0%	-	0.0%	-	0.0%
03955 Elderly Refugee Grant	35,558	0.0%	55,000	0.0%	55,000	0.0%
03965 Csfp	311,221	0.2%	448,549	0.2%	448,105	0.2%
Grand Total	$ 127,195,153	100.0%	$ 186,132,888	100.0%	$ 183,788,338	100.0%

The HCSD is funded by a combination of general fund, state special revenue, and federal funds. General fund provides 11.6 percent of the division funding and supports:

- Maintenance of effort (MOE) for the Temporary Assistance for Needy Families (TANF) and Childcare Development Fund (CCDF) block grants
- Matching funds for federal program functions including food stamp and Medicaid eligibility determination

Prior to the 2001 legislative session, a portion of the division's funding came from county reimbursement for welfare related costs. HB 124 passed by the 2001 legislature, changed the funding of public assistance costs. Rather than counties reimbursing the state for a portion of these costs, they are now funded entirely from the general fund.

Federal funds comprise 88 percent of the division budget. The two largest funding sources, food stamps and TANF, provide more than 50 percent of the division's funding. Funding from various federal childcare grants provides 11 percent of the division's funding. As illustrated in the table above, the level of funding for the food stamp program included in the budget request is more than six times the costs that are included in the base budget. As discussed earlier, this dramatic increase is the result of a change in how food stamp benefits are distributed.

Biennial Comparison

2005 biennium general fund support for the division increases about 1 percent above the 2003 biennium level (Figure 22). Federal funding increases 24 percent and total funding for the division increases 21 percent between the two biennia. Federal funding increases due to a change in the budgeting methodology for food stamp benefits and increases in other federal grants.

Figure 22
2003 Biennium Compared to 2005 Biennium
Human & Community Services Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	452.20	451.20	(1.00)	
Personal Services	$ 35,482,047	$ 35,822,510	$ 340,463	0.5%
Operating	24,499,155	10,958,169	(13,540,986)	-21.1%
Equipment	167,684	56,970	(110,714)	-0.2%
Capital Outlay	6,356	-	(6,356)	0.0%
Grants	31,537,933	32,585,174	1,047,241	1.6%
Benefits/Claims	213,915,652	290,311,545	76,395,893	119.1%
Transfers	29,221	-	(29,221)	0.0%
Debt Service	115,185	186,858	71,673	0.1%
Total Costs	$ 305,753,233	$ 369,921,226	$64,167,993	100.0%
General Fund	$ 43,944,546	$ 44,544,504	$ 599,958	0.9%
State Special	837,197	1,020,502	183,305	0.3%
Federal Funds	260,971,490	324,356,220	63,384,730	98.8%
Total Funds	$ 305,753,233	$ 369,921,226	$64,167,993	100.0%
Percent Increase			21.0%	

Executive Proposed Legislation

LC0437 proposes changes to section 53-4-210, MCA regarding the provision of state TANF MOE funds to tribes operating a Tribal Family Assistance Plan. The department seeks to change the statute to require this transfer only if an appropriation for this specific purpose is provided by the legislature.

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					1,660,200					1,669,514
Vacancy Savings					(754,242)					(754,606)
Inflation/Deflation					55,083					70,415
Fixed Costs					1,850					(808)
Total Statewide Present Law Adjustments					**$962,891**					**$984,515**
DP 2 - ECSB Admin and Subsidy Caseload Adjustment	0.00	(276,931)	0	3,862,890	3,585,959	0.00	(676,931)	0	3,865,161	3,188,230
DP 3 - Elimination of TANF FAIM Phase IIR	0.00	0	0	(4,977,143)	(4,977,143)	0.00	0	0	(4,977,143)	(4,977,143)
DP 4 - CACFP Present Law Adjustment	0.00	0	0	1,348,230	1,348,230	0.00	0	0	1,901,500	1,901,500
DP 6 - IHSB Present Law Adjustment	1.00	0	100,000	4,088,173	4,188,173	1.00	0	100,000	4,088,090	4,188,090
DP 8 - TANF Cash Benefits	0.00	0	0	3,666,648	3,666,648	0.00	0	0	3,666,648	3,666,648
DP 10 - Food Stamp Benefits and EBT	0.00	25,864	0	55,727,444	55,753,308	0.00	25,864	0	55,727,444	55,753,308
DP 11 - Refugee Resettlement	0.00	0	0	111,442	111,442	0.00	0	0	111,442	111,442
DP 12 - Food Stamp Program (FSNEP)	0.00	0	0	189,836	189,836	0.00	0	0	189,836	189,836
DP 13 - TANF MOE For FFY 2003	0.00	1,153,882	0	0	1,153,882	0.00	0	0	0	0
DP 14 - Reduction in Child Care Base Budget	0.00	0	0	(7,612,239)	(7,612,239)	0.00	0	0	(7,612,239)	(7,612,239)
DP 15 - County OPA Base Budget Reduction	0.00	(188,103)	0	(188,103)	(376,206)	0.00	(388,103)	0	(388,103)	(776,206)
Total Other Present Law Adjustments	**1.00**	**$714,712**	**$100,000**	**$56,217,178**	**$57,031,890**	**1.00**	**($1,039,170)**	**$100,000**	**$56,572,636**	**$55,633,466**
Grand Total All Present Law Adjustments					**$57,994,781**					**$56,617,981**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2 - ECSB Admin and Subsidy Caseload Adjustment - This request includes a reduction of $953,862 general fund and an increase of $7,728,051 federal funds for childcare services. The federal funds in this request will be used to: 1) replace expenditures such as overtime that are removed from the base; 2) annualize travel funds; 3) adjust the general fund match for the federal match grant due to FMAP changes; and 4) support anticipated increases in the federal mandatory and discretionary childcare grants. It is anticipated that both the discretionary and mandatory grants will be increased by about $1,000,000 each for each year of the biennium. This also includes an increase in federal childcare matching funds between fiscal 2002 and 2003 of $1,792,009. General fund matching dollars are decreased in this request. Alternative sources for matching funds to draw down the federal portion of the childcare matching grant are being researched by the department.

LFD COMMENT

Please refer to the program narrative for a discussion of childcare.

DP 3 - Elimination of TANF FAIM Phase IIR - The department requests a reduction in federal funds of $9,954,286 for the biennium including a reduction in FAIM Phase IIR programs and selected other TANF funded programs such as: operations at the prison cannery, TANF Evaluation, and adult basic education services. The 2001 legislature funded a number of new or expanded programs from federal TANF funds that had not been expended but were available as a carryover or reserve funding. This funding, although not designated as such in HB 2, was intended to be a one-time only appropriation of available reserve funds. This decision package removes this funding from the base budget. The elimination of TANF funding for the Food Banks, cannery, and Adult Basic Education are due to TANF block grant constraints. The TANF evaluation project is complete and no longer needs funding.

LFD ISSUE

Please see the program narrative for a discussion of TANF funds.

DP 4 - CACFP Present Law Adjustment - The executive requests $3,249,730 federal funds for the biennium for the Child and Adult Care Food Program (CACFP). This increase will be used for overtime, compensatory time payouts, to annualize out of state travel, and for benefits. This increased funding is estimated to provide an additional 1,968,625 meals during the 2005 biennium. The executive anticipates this level of growth in the program based upon historical increases and projected participation of for-profit childcare centers in the program approved recently by the United States Department of Agriculture (USDA). For-profit childcare centers are eligible for the program if at least 25 percent of the children enrolled at the center are eligible for free and reduced price meals.

DP 6 - IHSB Present Law Adjustment - This decision package requests $200,000 state special revenue and $8,176,263 federal funds for the Universal Systems Benefits Charge (USBC) state special revenue and the following federal grants: 1) U.S. Department of Energy (DOE) weatherization grant; 2) U.S. Department of Agriculture (USDA) Emergency Food Assistance Program (TEFAP) grant; 3) USDA Commodity Supplemental Food Program (CSFP); and 4) U. S. Department of Health and Human Services Low Income Energy Assistance Program (LIEAP). A decrease in federal funds for the Residential Energy Assistance Challenge (REACH) grant, which will be discontinued, is also included in this request. In addition to benefits, a portion of the funds in this request will be used to support increasing existing part time employees to full time, overtime for truck drivers, temporary services, and out of state travel for the administration of these grants.

DP 8 - TANF Cash Benefits - The department requests an increase of $7,333,296 federal funds for cash assistance benefit costs. The TANF caseload has increased from just fewer than 4,500 cases to over 6,000 cases in a period of 15 months. TANF cash benefit expenditures have grown from a monthly low of about $1.75 million in October of 2000 to over $2.6 million in July 2002. During the recent recession, caseloads have increased but growth cannot be pinpointed to any one reason or region. Caseloads appear to be increasing faster in the higher populated areas of the state and there is significant recidivism caused by job loss, pregnancy, medical crisis, or a personal crisis. Common causes for requesting assistance include reduced income (lay-off, reduced hours, quit, fired), increases in basic needs, cost such as housing or reliable transportation; medical emergencies and pregnancy; a change in family stability due to separation, divorce, or domestic violence; or moving away from extended family.

LFD COMMENT

Please see the program narrative for additional information on TANF and cash assistance.

DP 10 - Food Stamp Benefits and EBT - The executive requests $51,728 general fund and $111,454,888 federal funds to annualize the costs of food stamp benefits and TANF cash assistance electronic benefit transfer (EBT). The funding requested in this decision package was reduced by $352,000 general fund for the biennium to reflect reductions in the Food Stamp Employment and Training program that were implemented in fiscal 2003. The Food Stamp Employment and Training program was reduced from five sites to three sites.

EBT was implemented as a pilot program in fiscal 2002 and allows food stamp and TANF clients to use an ATM type of a card to pay for purchases and/or to get their TANF cash benefit. Food stamp EBT was mandated by the United States Department of Agriculture (USDA) to be implemented by October 2002. Montana maintained a food stamp issuance contract throughout most of fiscal 2002 while EBT was phased-in. With the new EBT system there is no longer a need to maintain this contract or mail food stamps to qualified clients. The funding supporting the food stamp issuance contract and the mailing costs in 2002 was $509,416. It is estimated that the operational costs for maintaining the EBT system will be $1,250,884 annually. The department intends to use the funding included in the 2002 base budget for the issuance contract and mailing costs to help fund the food stamp portion of operating costs for the EBT system.

Additionally, the department projects food stamp benefit costs will increase due to changes in federal law. The department estimates that: 1) the selection of the federal option of a six-month reporting requirement will increase benefit costs $2,880,000 per year; 2) a federal policy regarding offering transitional assistance will increase benefit costs $1,348,200 per year; and 3) a change in the federal requirement regarding services to aliens will increase benefit costs by $960,000 per year.

LFD COMMENT

Please refer to the program narrative for additional information on the Food Stamp Program.

DP 11 - Refugee Resettlement - The department requests $222,884 federal funds for the biennium to fund three different refugee resettlement grants. The grants are: 1) Cash/Medical/Administration (CMA) Grant; 2) the Refugee Social Services Grant; and 3) the Elderly Refugee grant.

The Cash/Medical/Administration (CMA) Grant provides funding for all administrative costs of the Refugee Resettlement Program, including salary and indirect expenditures. It also allows the state to provide medical interpretation services as necessary in a particular locale.

The Refugee Social Services Grant provides funding for direct services to provide individual support to assist refugees and their families resettling in Montana, and assist them in attaining an employment readiness position and then employment as quickly as possible.

The Elderly Refugee grant provides coordinated joint services to assist elderly refugees in becoming self-reliant. The elderly grant provides the resources for a contractor who provides culturally and linguistically appropriate services to the elderly refugees.

DP 12 - Food Stamp Program (FSNEP) - The executive requests $379,672 federal funds for the biennium to annualize the Food Stamp Nutrition Education Program (FSNEP) grant and expand the program to two additional counties. The goal of the FSNEP is to teach families how to wisely use and stretch their food stamp benefits in the most cost effective and nutritious way. FSNEP is an optional federal program operating in 31 Montana counties. The various counties receiving services provide the matching funds for this program. The addition of the two counties will increase the current total of food stamp recipients served by FSNEP from 35,105 to 46,601 in the first year of the biennium.

DP 13 - TANF MOE For FFY 2003 - The department is requesting $1,153,882 general fund in a one-time-only appropriation to provide funding for the TANF maintenance of effort (MOE) for federal fiscal 2003. During the summer of 2002 the Governor directed executive agencies to implement spending reductions in fiscal 2003 based upon the statutory requirements of Section 17-7-140, MCA. Some of these reductions impacted the department's spending of general fund that supports that TANF maintenance of effort. The department believes it needs this additional general fund appropriation to expend in the first quarter of fiscal 2004 in order to meet federal requirements for MOE expenditures in federal fiscal 2003. The spending reductions ordered by the Governor affected the funding for supportive services benefits. Additionally, across the board funding reductions approved by the legislature during the August 2002 Special Session impacted funding for supplies and equipment, and resulted in increased vacancy savings.

LFD ISSUE The requested increase in funding may not be necessary. Please refer to the TANF discussion in the agency narrative for additional information regarding this decision package.

DP 14 - Reduction in Child Care Base Budget - This decision package decreases federal funds available for childcare services by $15,224,478 for the biennium. The 2001 legislature appropriated a portion of the TANF block grant to be transferred to the Child Care Development Fund (CCDF) to be spent on childcare. Because of increases in the cash assistance caseload and because Montana no longer has a reserve of federal TANF funds, TANF funds are no longer available for transfer to the CCDF. This decision package reduces the base budget by the amount of expenditures in the base year, or $7,612,239 federal funds, annually.

LFD COMMENT Please refer to the program narrative discussions of TANF and childcare services.

DP 15 - County OPA Base Budget Reduction - This request reduces funding for county Offices of Public Assistance (OPA) by $576,206 general fund and $1,152,412 total funds. Personnel assigned to an OPA provide eligibility determination, case management, resource coordination and implementation of services for the: 1) Temporary Assistance for Needy Families (TANF) block grant; 2) food stamps; and 3) Medicaid. The department indicates that to achieve this savings a reduction in force of 12 -18 staff, decreasing 4 positions from full time to half time, and reducing the compensation of 6 staff will be necessary. Three county offices and one training center will be closed. Additionally, the department indicated that $114,051 of the general fund reduction in this decision package was counted as Temporary Assistance for Needy Families (TANF) maintenance of effort.

New Proposals

		Fiscal 2004					Fiscal 2005				
Program		FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 7 - DOE Weatherization Training Grant											
	02	0.00	0	0	228,905	228,905	0.00	0	0	0	0
DP 9 - Housing Opportunities for Persons With AIDS-HOPWA											
	02	0.00	0	0	738,909	738,909	0.00	0	0	0	0
DP 280 - FTE Reduction											
	02	(1.00)	(12,430)	0	(12,430)	(24,860)	(1.00)	(12,398)	0	(12,398)	(24,796)
Total		**(1.00)**	**($12,430)**	**$0**	**$955,384**	**$942,954**	**(1.00)**	**($12,398)**	**$0**	**($12,398)**	**($24,796)**

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7 - DOE Weatherization Training Grant - The department requests $228,905 federal funds in a biennial federal appropriation for the Department of Energy (DOE) Weatherization Training grant. The DOE Weatherization Training grant is a five-year award that ends September 30, 2005. The department contracts with Montana State University Extension Service Housing Program (MSUES) to develop and improve professional standards and practices involved in the administration of the weatherization assistance program. This is accomplished by MSUES providing training and technical assistance to weatherization managers within the Denver DOE region.

DP 9 - Housing Opportunities for Persons With AIDS-HOPWA - The department requests $738,909 federal funds in a biennial appropriation for the Housing Opportunities for Persons with AIDS (HOPWA) Grant received from the U.S. Department of Housing and Urban Development (HUD). The department contracts with the Montana State University Extension Service Housing Program for data collection and program assessment. The department also contracts with two agencies in Montana, one agency in South Dakota, and one agency in North Dakota to provide rental assistance, supportive services, and emergency assistance to persons living with AIDS in these states.

DP 280 - FTE Reduction - This decision package removes $24,828 general fund and $49,656 total funds supporting a 1.00 FTE position that is vacant.

Executive Language Recommendations

"The department may reduce the monthly TANF cash benefit payments to recipients for the following purpose(s): 1) to maintain the solvency of the grant; and /or 2) as an attempt to meet departmental goals and performance indicators. In either case, the department will certify to the Office of Budget and Program Planning that the benefit reduction is required. Additionally, the department must conduct this cash benefit reduction in accordance with established administrative rules."

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	329.75	14.50	(6.30)	337.95	17.00	(6.30)	340.45	340.45
Personal Services	12,955,382	1,194,464	(227,879)	13,921,967	1,301,486	(227,283)	14,029,585	27,951,552
Operating Expenses	3,471,220	404,482	0	3,875,702	485,246	0	3,956,466	7,832,168
Equipment	22,955	0	0	22,955	0	0	22,955	45,910
Capital Outlay	28,398	0	0	28,398	0	0	28,398	56,796
Grants	3,712,927	0	(327,641)	3,385,286	0	(327,641)	3,385,286	6,770,572
Benefits & Claims	24,962,507	1,607,003	2,274,442	28,843,952	3,119,664	2,168,158	30,250,329	59,094,281
Transfers	0	0	0	0	0	0	0	0
Debt Service	12,649	0	0	12,649	0	0	12,649	25,298
Total Costs	**$45,166,038**	**$3,205,949**	**$1,718,922**	**$50,090,909**	**$4,906,396**	**$1,613,234**	**$51,685,668**	**$101,776,577**
General Fund	21,330,764	762,440	(2,331,212)	19,761,992	1,036,551	(2,383,238)	19,984,077	39,746,069
State/Other Special	1,474,092	196,200	(2,742)	1,667,550	523,200	(2,742)	1,994,550	3,662,100
Federal Special	22,361,182	2,247,309	4,052,876	28,661,367	3,346,645	3,999,214	29,707,041	58,368,408
Total Funds	**$45,166,038**	**$3,205,949**	**$1,718,922**	**$50,090,909**	**$4,906,396**	**$1,613,234**	**$51,685,668**	**$101,776,577**

Program Description

The Child and Family Services Division (CFSD) administer child protective services, child abuse and neglect services, prevention services, domestic violence grants, and other programs designed to keep children safe and families strong. CFSD structure includes five regional offices that are responsible for program administration in their geographic area. These regional offices are advised by Local Family Services Advisory Councils, which serve as the link between local communities and the department. CFSD is the primary user of the Child and Adult Protective Services (CAPS) computer system.

Statutory authority for the program is provided in Titles 41, 42, and 52, MCA, and 45 CFR, Parts 1355, 1356, 1357 and 1370.

Program Narrative

Child and Family Services Division
Major Budget Highlights

- 2005 biennium general fund support for the division decreases almost 8 percent compared to the 2003 biennium while total funds increase over 9 percent compared to the 2003 biennium
- New proposals include elimination or reductions in funding for Big Brothers Big Sisters, Child Protective Services daycare, in-home and family reunification services, domestic violence services, and staff
- Subsidized adoption caseload is projected to increase about 8 percent per year, foster care costs are projected to increase about 10 percent the first year of the biennium
- Reduction in child protective services daycare reduces availability of federal childcare funds
- Division requests FTE to increase recovery of funds from non-general fund sources

Major LFD Issues
o Foster care projection includes $1.4 million per year of federal funds that will not be available
o Foster care caseload estimate may be overstated
o Subsidized adoption caseload increase appears inadequate given historical rate of increase
o Refinancing or maximizing recovery of state special and federal revenue

While general fund support for present law adjustments and new proposals are offset with reductions, resulting in a net general fund decrease, state special revenue and federal funds support for the division increase due to the department's proposals to refinance some costs and increase FTE to assist in recovery of additional state special revenue and federal funds. Please refer to the agency narrative for a discussion of refinancing.

Program Reductions and Eliminations

The Executive Budget proposes reduction or elimination of some programs and program components within the division.

Big Brothers and Big Sisters

The Executive Budget eliminates funding for the Big Brothers Big Sisters program ($366,528 general fund for the biennium). Big Brothers Big Sisters is a statewide organization that matches children with an adult volunteer big brother or big sister. Big Brothers Big Sisters provides services to about 350 children each month.

Child Protective Services Daycare

The Executive Budget eliminates funding for Child Protective Services (CPS) daycare ($650,026 general fund for the biennium). CPS daycare funds are used to provide childcare services to families involved with child protective services. A general fund appropriation for daycare services for families not eligible for federally funded daycare was first established in the 1981 biennium and by the 1985 biennium a program of Child Protective Services daycare funded with general fund was in place. These families are not eligible for other childcare subsidy programs.

In addition to funding services for families involved in the child protective services system, CPS daycare funds are used as matching funds for the Childcare Development Fund (CCDF) Grant. These funds are matched by the federal government at the Medicaid matching ratio. This $650,026 of general fund allows the state to draw about $1.7 million of federal funds. In Montana, federal childcare funds are used to provide services to families below 150 percent of the federal poverty level. The department estimates this funding reduction will result in the elimination of 230 childcare slots. For further discussion of CCDF and childcare funding, refer to the program narrative for the Human and Community Services Division.

Domestic Violence Services

The Executive Budget reduces funding for domestic violence services by $155,282 general fund. The department states that this reduces general fund support for this program to the minimum level necessary to obtain the federal grant, which requires a 20 percent match. A portion of the matching funds for the federal grant are provided by the general fund and state special revenue provides the balance of the necessary matching funds. This reduction equates to a 14 percent reduction in funding for the program.

In-home Services

The Executive Budget reduces funding for in-home services by $2,250,720 general fund for the biennium. The department utilizes in-home services as both a preventive and reunification measure for children in foster care. The department states the funds remaining are the minimum level of general fund necessary as matching funds for the federal Promoting Safe and Stable Families (Title IV-B, subpart 2) Grant. The federal grant requires a 25 percent match. The reduction equates to a 45 percent reduction in the program total funds. The department estimates that 1,564 children from 875 families will not receive services due to this reduction and that 400 children will enter foster care because in-home services are not available. The department does not have data to support the estimate that 400 children will enter foster care, rather it is their best guess.

Caseload Changes

Foster Care

Adjustments to the foster care budget increase general fund support by $4,912,152 and federal funds by $2,363,764 for the biennium. The federal funds included in this budget are overstated by $1.4 million per year due to inclusion of Title XX funds (a transfer from the Temporary Assistance for Needy Families (TANF) grant) that occurred in the base year, but will not be available in the 2005 biennium.

LFD ISSUE

Overstatement of Federal Funds Included in the Executive Budget

Federal funds supporting foster care services are overstated by $1.4 million per year because Title XX funds are included in the budget, but will not be available due to the unavailability of TANF funds to transfer to Title XX. For discussion of the TANF grant, please refer to the Human and Community Services Division program narrative. For the purposes of analysis, these funds have been removed from the projected budget for foster care services.

The legislature may wish to decrease the funding for foster care by $1.4 million federal funds per year so that the budget more accurately reflects the funding available to support these services.

Figure 23 summarizes foster care caseload, costs and average annual costs per client, while Figures 24 and 25 display this data graphically. Historically, the average annual rate of increase in the number of clients receiving foster care services has been 2.1 percent between fiscal 1996 and 2002, with no increase experienced between fiscal 2001 and 2002. While the department anticipates the number of clients will increase 3 percent per year plus 400 children who will enter foster care because in-home services are not available, funding for foster care (less the overstated Title XX funds) increases 13 percent above the fiscal 2002 base. No provider rate increases are specifically requested in the Executive Budget.

The foster care budget may be stressed by costs shifts as a result of service reductions in other programs in this division (discussed above) and external to the division such as mental health service reductions and Medicaid eligibility changes. The department indicated that the estimate of 400 children entering foster care due to a lack of in-home services was a "best guess" and that no specific data supporting this estimated increase was available. Additionally, the department did not have an estimate of caseload increases that might occur due to mental health service reductions.

Anecdotal information suggests that many of the children in foster care require mental health services and some foster care children have significant mental health issues. Reductions in funding mental health services (both mental health services plan and Medicaid mental health services), such as outpatient counseling, therapeutic family care, and therapeutic group care, are likely to have an impact on the foster care budget. Because federal foster care funds cannot be used to pay for treatment and most children in foster care are Medicaid eligible, reductions in Medicaid mental health services for children increases the general fund costs for mentally ill foster care children. Additionally, if parents are unable to pay for or access necessary mental health services, they may be unable to care for their children and it may be unsafe for some children to remain at home.

Figure 23
Foster Care and Subsidized Adoption
Summary of Clients, Costs and Costs Per Client
Historical and Executive Budget

	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Estimate* Fiscal 2003	Requested* Fiscal 2004	Requested* Fiscal 2005
Subsidized Adoption Caseload										
Annual Increase in Number of Subsidies		105	119	147	150	208	182	118	120	120
Number of Adoption Subsidies	449	554	673	820	970	1,178	1,360	1,478	1,598	1,718
Annual Percent Increase (Decrease)		23.4%	21.5%	21.8%	18.3%	21.4%	15.4%	8.7%	8.1%	7.5%
Average Annual Rate of Change		23.4%	22.4%	22.2%	21.2%	21.3%	20.3%	18.6%	17.2%	16.1%
Subsidized Adoption Total Costs	$ 1,401,882	$ 1,666,449	$ 2,164,369	$ 2,743,660	$ 3,307,633	$ 4,144,749	$ 5,278,288	$ 6,537,715	$ 5,891,640	$ 7,412,525
Annual Percent Increase (Decrease)		18.9%	29.9%	26.8%	20.6%	25.3%	27.3%	23.9%	-9.9%	25.8%
Average Annual Rate of Change		18.9%	24.3%	25.1%	23.9%	24.2%	24.7%	24.6%	19.7%	20.3%
Average Annual Costs Per Client	$ 3,122	$ 3,008	$ 3,216	$ 3,346	$ 3,410	$ 3,518	$ 3,881	$ 4,423	$ 3,687	$ 4,315
Annual Percent Increase (Decrease)		-3.7%	6.9%	4.0%	1.9%	3.2%	10.3%	14.0%	-16.6%	17.0%
Average Annual Rate of Change		-3.7%	1.5%	2.3%	2.2%	2.4%	3.7%	5.1%	2.1%	3.7%
Foster Care										
Number of Foster Care Clients (duplicated)	3,528	4,079	3,381	3,690	3,886	4,003	4,004	4,124	4,248	4,375
Annual Percent Increase (Decrease)		15.6%	-17.1%	9.1%	5.3%	3.0%	0.0%	3.0%	3.0%	3.0%
Average Annual Rate of Change		15.6%	-2.1%	1.5%	2.4%	2.6%	2.1%	2.3%	2.3%	2.4%
Foster Care	$ 11,832,804	$ 12,817,431	$ 13,370,882	$ 14,252,025	$ 16,245,712	$ 17,482,086	$ 17,384,567	$ 17,906,104	$ 19,694,298	$ 19,640,040
Annual Percent Increase (Decrease)		8.3%	4.3%	6.6%	14.0%	7.6%	-0.6%	3.0%	10.0%	-0.3%
Average Annual Rate of Change		8.3%	6.3%	6.4%	8.2%	8.1%	6.6%	6.1%	6.6%	5.8%
Average Annual Costs Per Client	$ 3,354	$ 3,142	$ 3,955	$ 3,862	$ 4,181	$ 4,367	$ 4,342	$ 4,342	$ 4,636	$ 4,489
Annual Percent Increase (Decrease)		-6.3%	25.9%	-2.3%	8.2%	4.5%	-0.6%	0.0%	6.8%	-3.2%
Average Annual Rate of Change		-6.3%	8.6%	4.8%	5.7%	5.4%	4.4%	3.8%	4.1%	3.3%
Total - Foster Care and Sub Adopt	$ 13,234,686	$ 14,483,880	$ 15,535,251	$ 16,995,685	$ 19,553,345	$ 21,626,835	$ 22,662,855	$ 24,443,819	$ 25,585,938	$ 27,052,565

*Notes:

Subsidized Adoption fiscal 2003 estimated per DPHHS (November, 2002).

Foster Care fiscal 2003 estimated based upon 3 percent increase in the number of clients and no increase in the average annual costs per client.

Foster care request for fiscal 2004 and 2005 MBARS data reduced by $1,355,356 Title XX funds that will not be available in the 2005 biennium.

Figure 24

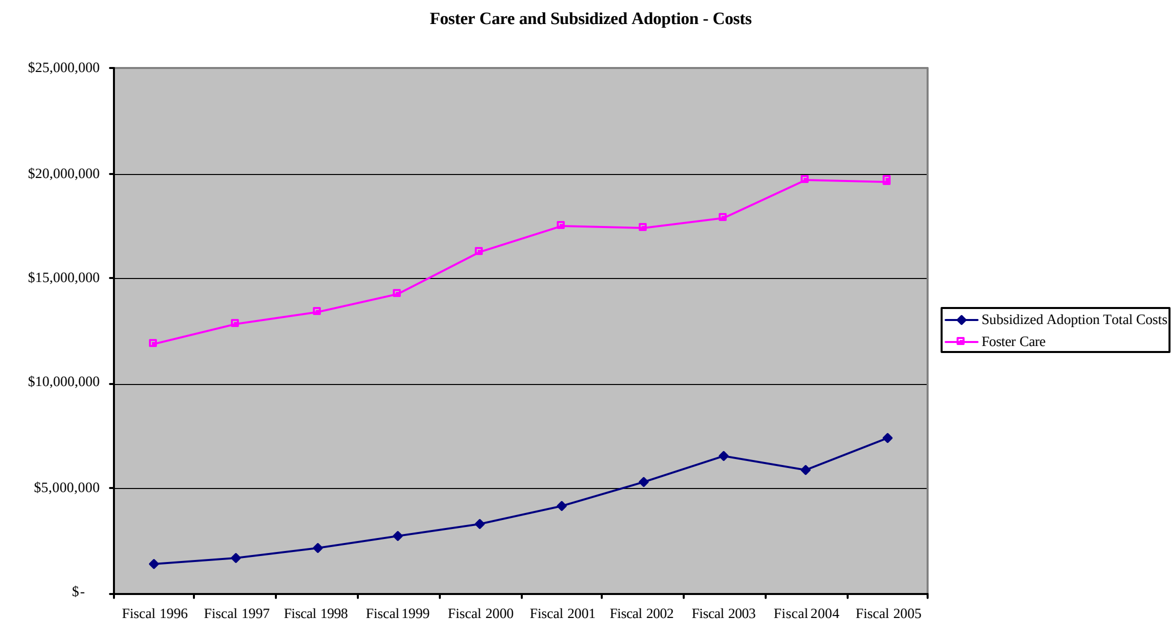
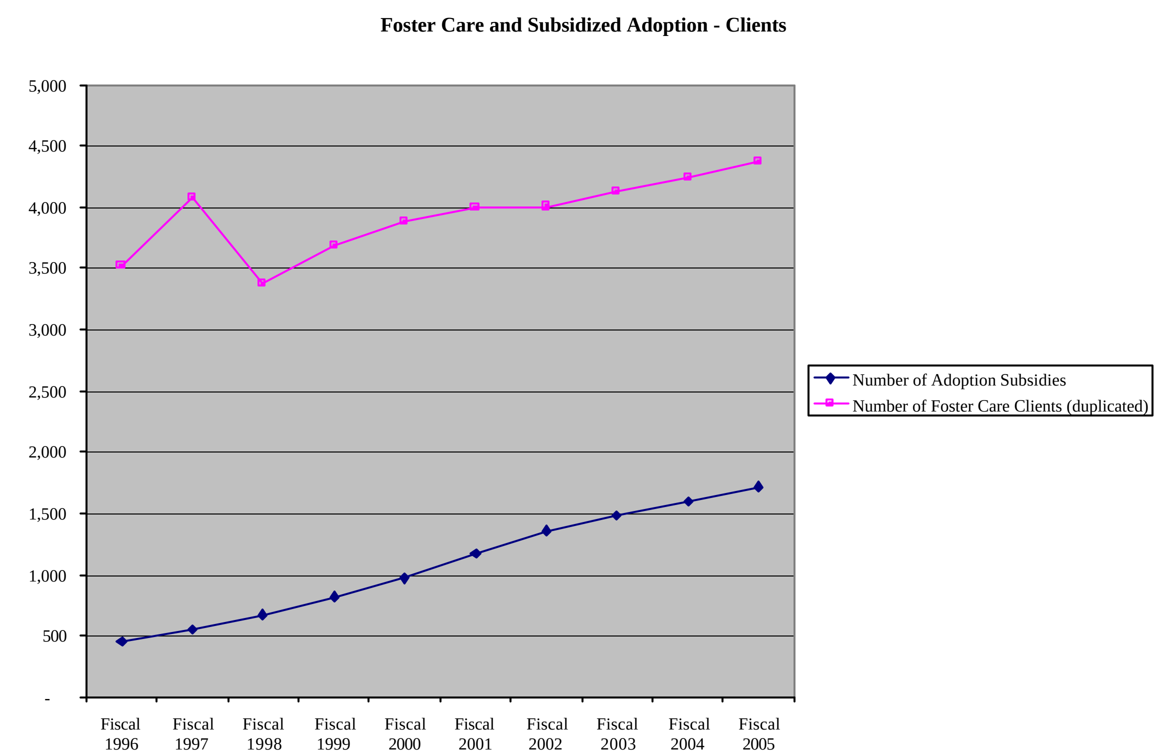


Figure 25



Subsidized Adoption

Figure 23 summarizes the subsidized adoption caseload, costs, and average annual costs per client while Figures 24 and 25 display this data graphically. The average annual rate of change in the subsidized adoption caseload between fiscal 1996 and 2002 was 20.3 percent. The Executive Budget includes estimated caseload increases of 120 cases per year, or 8.1 and 7.5 percent for fiscal 2004 and 2005, respectively.

LFD ISSUE

Foster Care and Subsidized Adoption Caseload Increases

While various program funding reductions and eliminations may exert upward pressure on the foster care caseload, data to quantify these impacts is currently unavailable. Legislative staff projected foster care and subsidized adoption caseloads based upon historical trends, giving no consideration to unquantified factors that may influence caseloads.

If foster care caseloads are calculated assuming a 2 percent per year increase in the number of clients, no increase in the average costs per client (no provider rate increases for these services are included in the Executive Budget) and that about 48 percent of the estimated costs are supported by the general fund, fiscal 2004 and 2005 total costs are estimated to be about $18.1 million and $18.5 million, respectively. General fund costs for fiscal 2004 and 2005 are estimated to be about $8.7 and $8.9 million, respectively, or $1.5 million less than the Executive Budget. It appears that foster care funding included in the Executive Budget may be overstated by about $1.5 million. However, if 400 additional children enter foster care in the first year of the biennium, at average annual costs of $4,342, annual foster care costs increase about $1.7 million total funds. Given that about 48 percent of foster care costs are funded from the general fund, an additional $0.8 million per year ($1.6 million for the biennium) general fund would be needed.

However, it also appears that the subsidized adoption caseload and funding are understated by about $1.7 million. As illustrated in Figure 23, the annual percent increase in the subsidized adoption caseload has been less than 20 percent only twice since 1996 (18.3 percent in fiscal 2000 and 15.4 percent in fiscal 2002). Given that the subsidized adoption program is an entitlement program and there are no known changes in federal or state law or practice that are likely to change the historical experience for caseload growth in this program, it appears appropriate to use a caseload growth rate similar to that historically experienced. If the caseload increase is calculated assuming an annual rate of change of 15 percent per year in the number of cases (based upon the most recent year) and a 4 percent per year increase in the average costs per case (consistent with the historical rate of change), caseload costs for fiscal 2004 and 2005 are estimated to be about $7.5 million and $9.0 million in fiscal 2004 and 2005, respectively. General fund costs are estimated to be $3.6 million and $4.3 million for fiscal 2004 and 2005, respectively, or about $1.7 million more than is included in the Executive Budget.

Given that funding for foster care appears to be overstated and that funding for subsidized adoption appears to be understated, the legislature may wish to:

- Decrease the funding (for the biennium) requested for foster care by $1.5 million general fund and increase the funding provided for subsidized adoption by a like amount (and provide federal matching funds at the appropriate rate for each service)
- Decrease the funding requested for foster care by $1.5 million general fund for the biennium
- Increase the funding requested for subsidized adoption by $1.7 million general fund for the biennium
- Have the department outline the actions that will be taken to fund the subsidized adoption caseload, if caseload costs increase above the level requested in the Executive Budget
- Take no action

Refinancing Proposals

The Executive Budget includes two proposals that are expected to decrease general fund and increase state special revenue and federal funds supporting foster care services. The division proposes adding 2.0 FTE that would be responsible for pursuing social security benefits on behalf of children in care. These benefits are used to offset the costs of care for the child. The department indicated that currently about 10 percent of the children in care receive social security benefits and that other states such as Washington have been able to recover social security benefits for as much as 20 percent of their foster care caseload.

The division also proposes adding 6.00 FTE in fiscal 2004 and an additional 2.00 FTE in fiscal 2005 (total of 8.00 FTE) to complete eligibility determination for assistance under Title IV-E of the Social Security Act. Currently, staff of the Human and Community Services Division (HCSD) complete this function. Prior to welfare reform, eligibility for Title IV-E was similar to public assistance (AFDC) eligibility. However, when welfare reform was implemented, federal law froze the eligibility criteria for Title IV-E at the same criteria the state was using on July 16, 1996. While public assistance eligibility has changed significantly, Title IV-E eligibility has not--rather, the state must "look back" to 1996. Because workers had been accustomed to public assistance and Title IV-E eligibility being similar, the change in one but not the other increased the complexity of completing eligibility determinations, creating difficulties and increasing the likelihood that an error in eligibility determination could occur.

While a small amount of Title IV-E funding may be used in the HCSD to support eligibility determination functions, it is not a significant funding source for the HCSD division. Title IV-E is a significant funding source for CFSD, providing more than 22 percent of the division's funding during the fiscal 2002 base year and predicted to provide more than 33 percent of the division's funding in the 2005 biennium. The department does not expect this change, if approved, to reduce the level of staff in the HCSD. Given that Title IV-E eligibility determination is a function currently divided among public assistance staff statewide, it is probably not feasible to reduce public assistance staff serving 56 counties an allocated proportion of the 8.00 FTE that will perform Title IV-E eligibility determinations.

Additional information on refinancing, including other refinancing efforts being undertaken by this and other divisions in the department, is included in the agency narrative.

Child Protective Services Performance Audit

House Joint Resolution 32 passed by the 2001 legislature requested that the Legislative Audit Division (LAD) conduct a performance audit of the child protective services system. Among the items HJR 32 recommended for review were: 1) uniformity of practices statewide; 2) application of the Indian Child Welfare Act; 3) integration of cultural needs; 4) relevancy of training for social workers, county attorneys, and courts; and 5) recommendations regarding management, personnel, and training needs of DPHHS for child protective services. The LAD made 17 recommendations to DPHHS, including that the department should:

- Improve coordination and communications among CFSD, the Department of Justice, the Supreme Court, and social workers, county attorneys, and district court judges
- Establish specific policies and procedures for case file documentation, including improved documentation of rationale for decisions
- Improve the system of supervisory review
- Develop a quality control system
- Develop administrative rules governing substantiation fair hearings
- Establish a caseload/workload tracking system
- Establish minimum ongoing training requirements for social workers
- Seek legislation to clarify authority to maintain CPS information on individuals where the division determined children are not in danger and investigations are not needed

The LAD found that cases where the Indian Child Welfare Act (ICWA) applied had documentation deficiencies similar to non-ICWA cases and also found that:

- Expert witnesses are not always called to testify in ICWA cases as required by law and that there are not adequate numbers of expert witnesses available
- More Indian foster homes are needed

The department partially concurred with three recommendations and concurred with all other recommendations. In its response to the audit findings, the division indicated that the audit recommendations parallel conclusions drawn from internal assessments. Additionally, the division indicates that complete implementation of all recommendations may not be possible due to a lack of resources.

LFD COMMENT The joint subcommittee on Health and Human Services may wish to have the Legislative Audit Division review its finding and recommendations with the subcommittee. The subcommittee may also wish to request that the division update the subcommittee with its progress in implementing changes as recommended by the LAD.

Centralized Intake

The 2001 legislature approved the department's proposal to centralize the function of intake of reports of child abuse and neglect. Under the department's proposal, rather than individuals contacting the local office of child protective services, a centralized unit would be contacted via a toll free (800) telephone number. The divisions proposed this change in an effort to improve statewide consistency and to more efficiently manage the division's workload. The division implemented this change effective January 1, 2002.

LFD COMMENT The legislature may wish to have the department report on the implementation of centralized intake.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Child & Family Services Div

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	$ 21,330,764	47.2%	$ 19,761,992	39.5%	$ 19,984,077	38.7%
02089 Child Abuse & Neglect Program	18,989	0.0%	18,989	0.0%	18,989	0.0%
02209 Third Party Contributions-F.C.	1,286,154	2.8%	1,479,612	3.0%	1,806,612	3.5%
02473 Assault Intervention & Trtmnt	141,701	0.3%	141,701	0.3%	141,701	0.3%
02483 Adoption Services / Sa	25,088	0.1%	25,088	0.1%	25,088	0.0%
02496 Family Preservation Conference	2,160	0.0%	2,160	0.0%	2,160	0.0%
03109 Tanf Benefits	2,650,000	5.9%	2,650,000	5.3%	2,650,000	5.1%
03224 Access & Visitation Grt 93.597	89,414	0.2%	89,414	0.2%	89,414	0.2%
03522 93.556 - Family Preservation	682,803	1.5%	713,866	1.4%	713,947	1.4%
03526 93.643 - Child Justice	144,341	0.3%	144,013	0.3%	144,013	0.3%
03527 93.645 - Iv-B Cws	271,396	0.6%	271,396	0.5%	271,396	0.5%
03528 93.656 - Mt Crisis Nursey Proj	-	-	15,763	0.0%	15,763	0.0%
03530 93.658 - Iv-E Fost Care & Adp	7,077,646	15.7%	12,573,293	25.1%	12,697,015	24.6%
03531 6901 Subsidized Adopt 93.659	3,004,003	6.7%	3,321,576	6.6%	4,169,719	8.1%
03532 93.669 - Child Abuse	82,705	0.2%	84,134	0.2%	84,134	0.2%
03533 93.671 - Domestic Violence	299,000	0.7%	299,000	0.6%	299,000	0.6%
03534 93.672 - Child Abuse Challenge	176,827	0.4%	176,828	0.4%	176,828	0.3%
03536 93.674 - Iv-E Independent Livi	298,768	0.7%	298,768	0.6%	298,768	0.6%
03579 93.667 - Ssbg - Benefits	1,355,356	3.0%	1,355,356	2.7%	1,355,356	2.6%
03593 03 Indirect Activity Prog 03	6,078,849	13.5%	6,517,889	13.0%	6,591,617	12.8%
03964 Adoption Incentive Funds	150,074	0.3%	150,071	0.3%	150,071	0.3%
Grand Total	$ 45,166,038	100.0%	$ 50,090,909	100.0%	$ 51,685,668	100.0%

The CSFD is funded with general fund (38.7 percent), state special revenue (3.9 percent), and federal funds (57.5 percent). The general fund provides matching funds for federal programs. The most significant source of state special revenue is third party contributions such as social security, child support, parental contributions, and other sources of revenue that are collected and used to offset the costs of foster care services for the particular child who is the recipient of the funds.

Funding for foster care and subsidized adoption provided under Title IV-E of the Social Security Act provides more than one-third of the division's funding and is the largest single source of funding for the division other than general fund. The budget includes requests for additional staffing that the department believes will enable them to increase the recovery of third party contributions from social security and federal funds under the Title IV-E program. The general fund is decreased to reflect the increase in federal funds and state special revenue that is anticipated. The most significant of these funding adjustments is a $3 million reduction in general fund offset by a like amount of federal funds due to refinancing of eligible costs with federal Title IV-E funds.

Figure 26
2003 Biennium Compared to 2005 Biennium
Child and Family Services Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	344.25	340.45	(3.80)	
Personal Services	$ 26,117,637	$ 27,951,552	$ 1,833,915	20.7%
Operating	7,456,987	7,832,168	375,181	4.2%
Equipment	33,513	45,910	12,397	0.1%
Capital Outlay	28,398	56,796	28,398	0.3%
Grants	8,666,265	6,770,572	(1,895,693)	-21.4%
Benefits/Claims	50,499,610	59,094,281	8,594,671	96.9%
Debt Service	101,799	25,298	(76,501)	-0.9%
Total Costs	$ 92,904,553	$ 101,776,917	$ 8,872,364	100.0%
General Fund	$ 43,162,557	$ 39,746,069	$ (3,416,488)	-38.5%
State Special	2,874,837	3,662,100	787,263	8.9%
Federal Funds	46,866,815	58,368,408	11,501,593	129.6%
Total Funds	$ 92,904,209	$ 101,776,577	$ 8,872,368	100.0%
Percent Increase			9.6%	

Biennial Comparison

Figure 26 summarizes the 2003 biennium funding for the division compared to the 2005 biennium. General fund support for this division decreases almost 8 percent when the two biennia are compared. Total funding for the division increases 9.6 percent between the two biennia, primarily due to estimated increases in federal funds.

Potential Legislation

The department has requested legislation including:

- LC0424 clarifies that abandonment does not include parents attempting to surrender their children to the department due to inability to access publicly funded services.
- LC0427 establishes case entrance and exit standards, defines "protective services", establishes that the department may provide, without court intervention, services to permit the child to remain safely in the home, or if removed from the home to return safely to the home.

The department has no estimates of the budgetary impact of these legislative changes.

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					1,082,700					1,092,805
Vacancy Savings					(561,542)					(561,913)
Inflation/Deflation					724					16,287
Fixed Costs					31,076					34,181
Total Statewide Present Law Adjustments					**$552,958**					**$581,360**
DP 16 - Convert Modified FTEs to Permanent FTEs	7.00	218,150	0	117,465	335,615	7.00	218,150	0	117,465	335,615
DP 17 - Increased Federal Grants	0.00	0	0	1,055,000	1,055,000	0.00	0	0	1,055,000	1,055,000
DP 18 - Subsidized Adoption Caseload Increase	0.00	295,779	0	317,573	613,352	0.00	968,521	0	1,165,716	2,134,237
DP 25 - SSI Specialists	1.50	(42,720)	196,200	(78,480)	75,000	2.00	(213,920)	523,200	(209,280)	100,000
DP 26 - IV-E Eligibility	6.00	(190,122)	0	430,122	240,000	8.00	(458,885)	0	778,885	320,000
DP 27 - Rent Increases - Inflation	0.00	183,713	0	150,311	334,024	0.00	209,101	0	171,083	380,184
Total Other Present Law Adjustments	**14.50**	**$464,800**	**$196,200**	**$1,991,991**	**$2,652,991**	**17.00**	**$722,967**	**$523,200**	**$3,078,869**	**$4,325,036**
Grand Total All Present Law Adjustments					**$3,205,949**					**$4,906,396**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 16 - Convert Modified FTEs to Permanent FTEs - The division requests $436,300 general fund and $671,230 total funds for the biennium to support 7.00 FTE grade 15 positions as permanent positions. Because these positions were considered modified FTE, they were not included in the fiscal 2002 base budget. These positions have been supported by funds appropriated for contracted in-home services. The division indicates that it is more cost and service effective to utilize employees to provide these services rather than contractors. Four of these positions provide in-home services and three provide family group decision-making services.

DP 17 - Increased Federal Grants - The division requests $2,110,000 federal funds for the biennium to support increases in Domestic Violence, Safe and Stable Families (Title IV-B, Subpart 2), Adoption Incentive, Children's Justice Act, Child Abuse Prevention and Treatment Act, and Community Based Challenge grants. The division has adequate matching funds available and does not need additional general fund to utilize the increases in these federal grants.

DP 18 - Subsidized Adoption Caseload Increase - This request includes $1,264,300 general fund and $2,747,5891 total funds for the biennium to support increases in the subsidized adoption caseload. The department projects the caseload will increase by 15 cases per month and the average rate per day will increase by eight cents per month. The funding for Subsidized Adoption is 48 percent general fund and 52 percent federal funds (Title IV-E).

LFD ISSUE

Please refer to the program narrative for a discussion of the subsidized adoption caseload.

DP 25 - SSI Specialists - The division requests $175,000 total funds, including decreases of $256,640 general fund and $287,760 federal funds offset by an increase of $719,400 state special revenue, to fund 2.00 FTE, grade 14 Supplemental

Security Income (SSI) Specialists. The division proposes adding 1.50 FTE in fiscal 2004 and increasing from 1.50 to 2.00 FTE in fiscal 2005. This proposal assumes the new FTEs will be hired on October 1, 2003.

SSI specialists would be tasked with aggressively pursuing social security assistance for children meeting the social security criteria. Social security payments received would be used to offset the costs of providing services to these children. The division indicates that Washington state uses this concept and is one of four states that receive social security payments for more than 20 percent of the children in care. Montana currently receives social security payments for less than 10 percent of the children in care. In addition to personal services cost this decision package includes funding for $8,658 and $14,594 of operating costs in fiscal 2004 and 2005, respectively. The funds for operating costs would be used for rent, computers, office supplies, telephone, travel (to Washington state for training and technical assistance), and other operating costs associated with performance of this function.

LFD COMMENT

Please refer to the program narrative for discussion of this and other refinancing options.

DP 26 - IV-E Eligibility - The department requests $560,000 total funds for the biennium, comprised of a decrease of $649,007 general fund offset by an increase of $1,209,007 federal funds, for 6.00 FTE in fiscal 2004 and an additional 2.00 FTE (a total of 8.00 FTE, one grade 16 and seven grade 14 positions) in fiscal 2005 to move Title IV-E eligibility determination functions from the Human and Community Services Division (HCSD) to the Child and Family Services Division (CFSD). CFSD believes that doing so will result in more aggressive pursuit of Title IV-E eligibility resulting in a higher percentage of cases becoming eligible for federal Title IV-E funding. This request uses the general fund savings realized due to more cases becoming eligible for federal Title IV-E funding to support the positions.

LFD COMMENT

Please refer to the program narrative for discussion of this and other refinancing options.

DP 27 - Rent Increases - Inflation - The division requests $392,814 general fund and $714,208 total funds for the biennium to fund increases in rental costs at current office locations throughout the state. Increases in rent are expected due to inflation and changes in office location. Many of the lease agreements for office space include yearly inflationary increases and are multi-year contracts. The largest rent increase is in the Billings regional office. Because the division had to move to a new location, the rent increased from $62,485 to $251,992 per year.

New Proposals

	Fiscal 2004					Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 28 - Refinancing - Federal Funds										
03	0.00	(3,000,000)	0	3,000,000	0	0.00	(3,000,000)	0	3,000,000	0
DP 271 - Base Adjustment to BBBS										
03	0.00	(183,264)	0	0	(183,264)	0.00	(183,264)	0	0	(183,264)
DP 272 - Base Adjustment to Central Office										
03	0.00	0	0	0	0	0.00	(30,034)	0	0	(30,034)
DP 273 - Base Adjustment for CPS Daycare										
03	0.00	(325,013)	0	0	(325,013)	0.00	(325,013)	0	0	(325,013)
DP 274 - Base Adjustment for Domestic Violence										
03	0.00	(77,641)	0	0	(77,641)	0.00	(77,641)	0	0	(77,641)
DP 275 - Base Adjustment for Foster Care										
03	0.00	2,500,000	0	1,147,083	3,647,083	0.00	2,500,000	0	1,092,825	3,592,825
DP 276 - Base Adjustment for In Home Services										
03	0.00	(1,114,364)	0	0	(1,114,364)	0.00	(1,136,356)	0	0	(1,136,356)
DP 281 - FTE Reduction										
03	(6.30)	(130,930)	(2,742)	(94,207)	(227,879)	(6.30)	(130,930)	(2,742)	(93,611)	(227,283)
Total	**(6.30)**	**($2,331,212)**	**($2,742)**	**$4,052,876**	**$1,718,922**	**(6.30)**	**($2,383,238)**	**($2,742)**	**$3,999,214**	**$1,613,234**

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 28 - Refinancing - Federal Funds - The department is currently working on a "Refinancing" project, which is estimated to save $6 million general fund and increase federal funds a like amount during the 2005 biennium. Per the executive, the increase in Title IV-E revenue will be accomplished using several different methodologies, including a retroactive review of cases to determine which cases can be brought into compliance with Title IV-E requirements and thus, be funded from this source. Although the funding increase has been included in the budget entirely as Title IV-E federal funds, the division also plans to implement Medicaid funded Targeted Case Management (TCM) for non-Title IV-E cases, which will increase federal Medicaid revenue.

DP 271 - Base Adjustment to BBBS - This decision package eliminates $366,528 general fund for the Big Brothers Big Sisters program from the 2005 biennium budget. The CFSD has nine contracts with BBBS in the most populous counties of Montana. BBBS serves approximately 350 children each month. If this decision package is approved, these children will no longer receive services unless another source of funding is obtained.

LFD COMMENT

Please refer to the division narrative for a discussion of this reduction.

DP 272 - Base Adjustment to Central Office - This decision package reduces central office funding for in-home services by $30,034 general fund for the 2005 biennium. This reduction in in-home services means that approximately 40 children from 22 families will not receive services. Without these services, some of the children may be removed from their homes and placed into foster care.

LFD COMMENT

Please refer to the division narrative for discussion of the impacts of in-home service reductions.

DP 273 - Base Adjustment for CPS Daycare - The Child Protective Services (CPS) daycare budget is eliminated saving $650,026 general fund for the 2005 biennium. These funds are used to provide childcare services to families involved with the child protective services system. Also, the Human and Community Services Division utilizes these funds as matching funds for the federal Child Care Development Fund Block Grant. Elimination of this general fund results in a loss of more than $1.7 million in federal funds. The department estimates that 230 childcare slots will be lost as a result of this reduction.

LFD COMMENT

Please refer to the Human and Community Services Division narrative for a discussion of childcare services.

DP 274 - Base Adjustment for Domestic Violence - This decision package removes $155,282 general fund support for the domestic violence program from the 2005 biennium budget, reducing the funding available for about 24 domestic violence service providers. The department indicates that this is the maximum amount of funding that can be reduced while retaining the ability to spend the entire federal grant, which has a matching rate of 80 percent federal funds to 20 percent state and local funds.

DP 275 - Base Adjustment for Foster Care - This adjustment would increase the foster care general fund by $5,000,000 and federal funds by $2,239,908 for the 2005 biennium. A portion ($1.4 million general fund) of this increase is because

Title XX funds are not available in the 2005 biennium. In addition, the foster care budget is expected to increase as a result of the proposed reductions to in-home services.

LFD ISSUE

Please refer to the program narrative for a discussion of the overstatement of federal funds, and foster care caseload estimates and funding.

DP 276 - Base Adjustment for In Home Services - This decision package reduces general fund support for in-home services by $2,250,720 for the 2005 biennium. Per the division, this amount reflects the maximum general fund reduction that may be implemented without losing the ability to spend the federal IV-B, Subpart 2 Promoting Safe and Stable Families Grant, which requires 25 percent state matching funds. The division contracts with about two-dozen providers for in-home and family reunification services. If this decision package is approved, contracts would be reduced by approximately 50 percent. The department estimates that contractors will have to terminate 35-40 employees.

DP 281 - FTE Reduction - This proposal reduces 6.30 FTE for a savings of $261,860 general fund, $5,484 state special revenue and $187,818 federal funds for the biennium.

LFD COMMENT

The division plans to eliminate the following positions: Administrative Support (2.30 FTE), Administrative Officer (1.00 FTE), Attorney (1.00 FTE), Case Aide (1.00 FTE) and Program Specialist (1.00 FTE).

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	47.00	0.00	2.75	49.75	0.00	2.75	49.75	49.75
Personal Services	2,420,580	(209,346)	108,213	2,319,447	(208,051)	107,867	2,320,396	4,639,843
Operating Expenses	2,345,303	192,864	456,743	2,994,910	202,413	456,743	3,004,459	5,999,369
Equipment	0	0	0	0	0	0	0	0
Grants	22,896	0	0	22,896	0	0	22,896	45,792
Transfers	0	0	0	0	0	0	0	0
Debt Service	22,025	0	750	22,775	0	750	22,775	45,550
Total Costs	**$4,810,804**	**($16,482)**	**$565,706**	**$5,360,028**	**($5,638)**	**$565,360**	**$5,370,526**	**$10,730,554**
General Fund	1,594,576	(560,184)	0	1,034,392	(557,476)	0	1,037,100	2,071,492
State/Other Special	1,171,486	626,095	179,527	1,977,108	631,975	179,423	1,982,884	3,959,992
Federal Special	2,044,742	(82,393)	386,179	2,348,528	(80,137)	385,937	2,350,542	4,699,070
Total Funds	**$4,810,804**	**($16,482)**	**$565,706**	**$5,360,028**	**($5,638)**	**$565,360**	**$5,370,526**	**$10,730,554**

Program Description

The Director's Office provides overall policy development and administrative guidance for the department. Several functions and programs are also directly administered by the Director's Office including legal affairs, personnel services, public information, the prevention resource center, the Montana Tobacco Use Prevention Program, the AmeriCorps*VISTA Program, the Montana Abstinence First Education Program, and the Montana Telecommunications Access Program (MTAP). The Department of Public Health and Human Services Statewide Advisory Council and the Native American Advisory Council are administratively attached and the director serves on the Interagency Coordinating Council for State Prevention Programs, which is attached to the Governor's Office.

Program Narrative

Director's Office
Major Budget Highlights

- Funding switch reduces general fund by $1 million and increases tobacco settlement state special revenue by a like amount per I-146
- MTAP program increases about $710,000 over the biennium and 1.00 FTE
- Additional VISTA program volunteer placements in communities adds about $690,000 over the biennium and 0.75 FTE
- Federal grant increases for abstinence program
  - About $84,000 over the biennium and 1.00 FTE

Major LFD Issues

- Executive Budget does not request funding for expanded tobacco control and prevention program authorized by I-146
- MTAP issues
  - Remaining fund balance is about $71,000 at the end of the biennium based on the executive request and legislative staff revenue estimates
  - Annual program expenditures higher than annual revenues
  - Executive request may be understated for relay costs, which state is required to provide
  - States not required to provide equipment
  - Collecting equipment fees appears to not be cost effective

The Director's Office budget request increases about 12 percent from the base budget to fiscal 2005 and includes funding for 2.75 new FTE. General fund declines from 33 percent of the base budget funding to 19 percent of the 2005 biennium request, for a total reduction of about $1.3 million.

The reduction in general fund and increase in state special revenue is due to a fund switch, which reduces general fund by $453,611 each year of the biennium and increases tobacco settlement state special revenue by a like amount. This funding switch was made in response to passage of I-146, which amended state statute to allocate 32 percent of the tobacco settlement proceeds to a state special revenue account to fund a statewide tobacco disease prevention program.

The major increases in the executive request include:

- MTAP program increases for replacement equipment and additional relay services, including addition of video relay services- about $710,000 over the biennium and 1.00 FTE
- Additional VISTA program volunteer placements in communities - about $690,000 over the biennium and 0.75 FTE
- Federal grant increases for the abstinence program - about $84,000 over the biennium and 1.00 FTE

LFD ISSUE

The Executive Budget does not include a request to expend the amount of tobacco settlement proceeds allocated to tobacco prevention and cessation by I-146. This issue is presented in more detail in the agency narrative, where potential to offset additional general fund, beyond the offset included in the Executive Budget, is noted.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Director'S Office

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	$ 1,594,576	33.1%	$ 1,034,392	19.3%	$ 1,037,100	19.3%
02099 69010-Vista-Community Cost Share	71,603	1.5%	71,869	1.3%	71,931	1.3%
02159 Handicapped Telecommunications	924,918	19.2%	1,300,731	24.3%	1,306,169	24.3%
02377 02 Indirect Activity Prog 04	174,965	3.6%	150,897	2.8%	151,207	2.8%
02790 Statewide Tobacco Prevention Fund	-	-	453,611	8.5%	453,577	8.4%
03072 Vista Projects	-	-	343,915	6.4%	343,811	6.4%
03208 Abstinence Education Blk Grant	203,562	4.2%	243,828	4.5%	243,764	4.5%
03594 03 Indirect Activity Prog 04	1,020,554	21.2%	917,480	17.1%	919,718	17.1%
03822 Tobacco Control	820,626	17.1%	843,305	15.7%	843,249	15.7%
Grand Total	$ 4,810,804	100.0%	$ 5,360,028	100.0%	$ 5,370,526	100.0%

The 2005 biennium budget request for the Director's Office is funded through a combination of general fund (19 percent), state special revenue (37 percent) and federal funds (44 percent). Some functions are supported directly by state special revenue and federal grants. Otherwise, the functions in the Director's Office are allocated among funding sources depending on cost allocation plans that are federally reviewed and approved. General fund matches some costs subject to the federally approved cost allocation plans and makes up some of the differences between what federal sources will fund and the balance of program costs.

State special revenue funds are derived through Interagency Coordinating Council funding transfers, the DPHHS cost allocation plan and the MTAP tax -- a 10-cent per month assessment on every telephone line in the state, which is collected by telecommunication services providers.

Federal funds include federal grants for the Montana Abstinence Program, tobacco education and prevention, VISTA volunteer programs administered by the Director's Office, and grant funds received through the cost allocation plan, which pays a portion of Director's Office administrative costs.

Figure 27 shows the projected fund balance for the telephone line tax that supports MTAP at the end of the 2005 biennium. The actual ending fund balance for fiscal 2002 was $754,575. Revenues are projected to grow at rates of 3 to 5 percent annually, slightly lower than historic rates of growth, leaving a projected ending fund balance of about $71,000 in fiscal 2005.

Figure 27
Projected MTAP Fund Balance
Executive 2005 Biennium Budget and LFD Revenue Estimates

Fund Balance Expenditure/Revenue	Actual Fiscal 2002	Projected Fiscal 2003	Executive Budget Fiscal 2004	Executive Budget Fiscal 2005
Beginning Fund Balance	$ 755,723	$ 754,575	$ 656,499	$ 334,008
Expenditures*	1,031,154	1,153,111	1,442,643	1,448,046
Revenues**	1,030,006	1,055,035	1,120,152	1,185,269
Ending Balance	$ 754,575	$ 656,499	$ 334,008	$ 71,231

*Expenditures are based on information provided by DPHHS and the Executive Budget request.
**Revenues are based on LFD staff projections.

LFD ISSUE

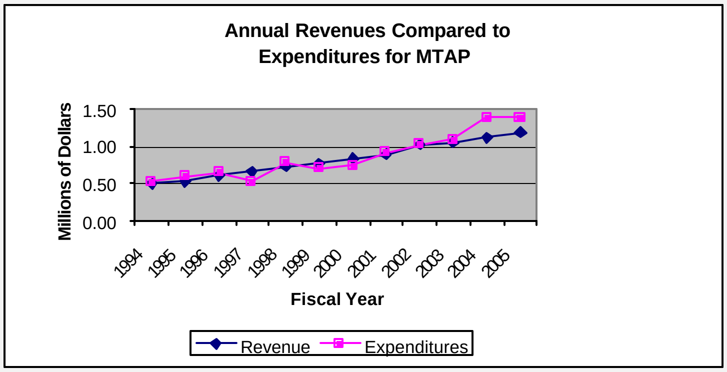
Structural Imbalance

The MTAP program funds telecommunication relay services for all hearing and mobility impaired persons and provides specialized telecommunication equipment to persons with incomes below 400 percent of the federal poverty level. Federal criteria require states to provide relay services, but not equipment. The program is funded by a 10 cent monthly tax on each telephone line.

LFD ISSUE (Cont.)

The Executive Budget for MTAP is based on expenditures that exceed annual projected revenues (see Figure 28). The legislature may wish to request that the executive present a budget next biennium that will resolve this structural imbalance and provide policy options for consideration by the legislature.

Figure 28



The program is required to develop and apply a means test for its services. The legislature could direct the program to live within its appropriation by adjusting services provided, financial eligibility, or cost sharing in such a manner as to assure that the ending fund balance at the end of a biennium together with projected revenues would be sufficient to operate the program in the coming biennium. Such a change would require an amendment to statute. The legislature could consider the following language:

> "The board must manage the Montana Telecommunications Access Program so that unspent funds from the fee imposed in 53-19-311 at the end of the current fiscal year together with projected revenues in the following fiscal year are adequate to fund services in the following fiscal year. If the current fiscal year projected ending fund balance together with projected revenues in the following fiscal year will be inadequate to fund services in the following year, the board must revise services provided, financial eligibility criteria, the fees charged for services, or a combination of those actions so that the program remains solvent."

Figure 29
2003 Biennium Compared to 2005 Biennium
Director's Office

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	47.00	49.75	2.75	
Personal Services	$ 4,365,410	$ 4,639,843	$ 274,433	24.6%
Operating Costs	5,113,121	5,999,369	886,248	79.6%
Equipment	8,948	0	(8,948)	-0.8%
Grants	91,779	45,792	(45,987)	-4.1%
Debt Service	37,612	45,550	7,938	0.7%
Total Costs	$ 9,616,870	$ 10,730,554	$ 1,113,684	100%
General Fund	$ 2,871,211	$ 2,071,492	$ (799,719)	-71.8%
State Special	2,480,869	3,959,992	1,479,123	132.8%
Federal Funds	4,264,790	4,699,070	434,280	39.0%
Total Funds*	$ 9,616,870	$ 10,730,554	$ 1,113,684	100%
Percent Increase			11.6%	

Biennial Comparison

As show in Figure 29, the Director's Office budget increases $1 million in total funds, including a $0.8 million general fund reduction, between the 2003 biennium and the 2005 biennium request. The majority (132 percent) of the increase is in state special revenue from MTAP and tobacco settlement revenues, while federal grants for VISTA and abstinence programs increase.

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					(117,212)					(115,861)
Vacancy Savings					(92,134)					(92,190)
Inflation/Deflation					3,498					4,607
Fixed Costs					17,069					20,106
Total Statewide Present Law Adjustments					**($188,779)**					**($183,338)**
DP 31 - MTAP Program Increases - OTO	0.00	0	172,297	0	172,297	0.00	0	177,700	0	177,700
DP 100 - Reduce Tobacco Prevention Funding	0.00	(453,611)	453,611	0	0	0.00	(453,577)	453,577	0	0
Total Other Present Law Adjustments	**0.00**	**($453,611)**	**$625,908**	**$0**	**$172,297**	**0.00**	**($453,577)**	**$631,277**	**$0**	**$177,700**
Grand Total All Present Law Adjustments					**($16,482)**					**($5,638)**

Executive Present Law Adjustments

The primary changes to the adjusted base budget included in the executive present law are shown in the table "Present Law Adjustments". Statewide present law adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD COMMENT Personal services include a vacancy savings reduction of 4 percent, totaling $184,324 over the biennium.

DP 31 - MTAP Program Increases - OTO - This request adds $349,997 state special revenue over the biennium for Montana relay service growth, equipment costs, increased outreach efforts, and increased rent. The appropriation is requested as a one-time-only appropriation.

The largest share of this request ($142,407) would support increased service relay costs, which assumes an annual compounded growth rate of 6.6 percent per year from fiscal 2002. During fiscal 2002, Montana Relay achieved and sustained an average call rate of 10,000 calls per month, resulting in an average number of billable minutes of three minutes per call. Montana Relay contracts with Sprint to provide the relay service at $1.30 per billable minute and the contract rate will be in effect through the end of the 2005 biennium.

LFD ISSUE The Executive Budget is based on a growth rate in TDD (telecommunication devices for the deaf) usage that is lower than historic growth rates, which have ranged from a low of 10 percent to a high of 16 percent annually. The executive request may be as much as $104,381 too low to support TDD relay usage based on historic growth rates. If the legislature wishes to budget for TDD usage closer to historic rates, it could consider raising the executive request by $104,381. There would potentially be enough funding to budget for higher TDD usage because DP 29 Video Relay Service may be overstated in fiscal 2004.

The request includes $104,540 for equipment. The program will be renegotiating its equipment contract, which expires July 2002. This request anticipates addition of the CapTel phone to replace the current amplified and voice carry over (VCO) telephone units for those people who have significant hearing loss and lose 70 percent of their conversation ability. The standard TTY and relay service does not meet their needs. The cost of the CapTel phone is approximately $400 per unit. Amplified telephones cost $63 per unit, TTY machines cost $340 per unit, and the two VCO units cost $125 and $200. Seventy percent of the clients MTAP serves are elderly with hearing loss. With the CapTel phone, users will be able to direct dial the number they want to call and will be connected to the Relay Service. This feature eliminates the need for the user to remember multiple numbers such as the Relay Service 1-800 number.

Of the 500 TTY units currently in use in Montana, MTAP anticipates replacing 125 of these units with the CapTel phone for a one-time cost of approximately $50,000. MTAP also anticipates distributing approximately 89 CapTel phones per year; this figure is based on past experience with the number of clients served and their needs.

LFD ISSUE

States are federally required to pay for relay services. However, there is no federal mandate to provide equipment used by state citizens. Montana has opted to provide funding for equipment for persons below a certain income limit (400 percent of the federal poverty level).

The executive request does not include relay service costs for CapTel phones. If provision of the phones increases relay services or if the relay cost of using a CapTel phone is higher than equipment currently in use, the executive request will be understated.

The cost of a CapTel phone is about the same as some of the equipment currently provided by MTAP, but is greater than an amplified telephone. So, provision of CapTel phones will increase equipment costs if persons select a CapTel phone instead of an amplified phone.

In light of these issues the legislature could consider several options:

- Accepting the executive proposal with no change
- Providing equipment to persons at a lower income level than 400 percent of the federal poverty level
- Not providing equipment

An increase in rent of $18,450 over the biennium would provide more work and storage space for specialized telecommunications equipment distributed by the program and would allow the program to establish a station so that consumers can test and train on the equipment prior to installation in their home.

<u>DP 100 - Reduce Tobacco Prevention Funding -</u> This request replaces $907,188 general fund with $907,188 state special revenue funds (tobacco use prevention funds) for the biennium due to the passage of Initiative 146. The initiative created a state special revenue account, which receives 32 percent of the tobacco settlement proceeds received by the state each year. Funds remaining in the account at fiscal year end are transferred to the constitutional tobacco settlement trust fund established by voter initiative during the November 2000 elections.

LFD ISSUE

The Executive Budget does not include a request to fund the tobacco prevention program established by I-146. Legislative staff requested that DPHHS provide a tobacco prevention plan for review by the legislature. This issue is discussed in greater detail in the agency narrative, including identification of potential areas where the legislature could consider additional offsets of general fund in other DPHHS programs.

New Proposals										
	Fiscal 2004					Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 29 - MTAP Mt Relay Video Relay Service - OTO										
04	0.00	0	144,600	0	144,600	0.00	0	144,600	0	144,600
DP 30 - MTAP Eligibility Technician										
04	1.00	0	34,927	0	34,927	1.00	0	34,823	0	34,823
DP 32 - Montana Abstinence Program										
04	1.00	0	0	42,264	42,264	1.00	0	0	42,126	42,126
DP 33 - Corporation for National Services										
04	0.75	0	0	343,915	343,915	0.75	0	0	343,811	343,811
Total	**2.75**	**$0**	**$179,527**	**$386,179**	**$565,706**	**2.75**	**$0**	**$179,423**	**$385,937**	**$565,360**

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 29 - MTAP Mt Relay Video Relay Service - OTO - biennium to provide video relay service. This request is for a one-time-only appropriation. Using this service, a deaf or hearing person could call a certified interpreter who could then relay interpretive services through a video call in American Sign Language (ASL) and verbally. Businesses, medical professionals and hospitals could use video services when they need interpreter services to relay a conversation to a deaf person. Montana has a shortage of interpreters as well as a large rural community that need interpretive services where interpreters are not available.

This proposal funds only the relay service cost, not equipment. The Federal Communications Commission (FCC) is considering whether to require states to provide video relay capability. Video relay services are currently being offered on a trial basis for 18 months, which ends December 31, 2003. Montana and other states are not being required to fund services during the trial period. The rate for video relay services during the trial period is $17 per minute.

LFD ISSUE

There are several issues that the legislature may want to consider if it approves this proposal.

Since the FCC will not rule on the issue until the end of 2003, the legislature may want to restrict the use of this appropriation to video relay services and reduce the first year appropriation commensurate with implementation and start up delays. The legislature could consider a reduction of as much as 50 percent in fiscal 2004.

Since the cost and utilization of video relay services is unknown and the cost may be substantially higher than other relay devices, the legislature may want to consider a statutory amendment to require that the MTAP program be managed in such a way as to ensure adequate funds will be available for services (see suggested language discussed in the funding section).

DP 30 - MTAP Eligibility Technician - The Executive Budget adds $69,750 state special revenue for the biennium and 1.00 FTE grade 13 eligibility technician to determine if applicants qualify to receive equipment based on changes by the 2001 legislature to the MTAP program.

LFD ISSUE

The 2001 legislature passed SB 360 to establish financial eligibility limits for MTAP to address concerns that without an upper limit the statute may constitute an unconstitutional delegation of legislative authority. Effective July 1, 2001, the financial eligibility standards for MTAP are: family income of not more than 400 percent of the federal poverty level.

LFD ISSUE (Cont.) LFD staff requested information on how MTAP implemented the statutory requirement for means testing during the most recent biennium. While rules have been drafted to address the statutory change, the rules were not yet adopted as of November 20, 2002. MTAP program staff assisted in drafting SB 360, which included the financial eligibility changes. The bill did not include a fiscal note. Since that time, the program has determined the significance of the workload and cost of implementation of fees. Estimated fee collections are less than $12,000 over three years. The legislature may wish to discuss whether collection of fees is cost effective and if not, amend statute to remove the requirement to collect fees. The new FTE may not be needed if the requirement to collect fees is removed.

DP 32 - Montana Abstinence Program - This proposal requests $84,390 federal funds and funds 1.00 FTE for the biennium for the Abstinence Program. Abstinence education is primary prevention for out-of-wedlock pregnancy, abortion, sexually transmitted disease, and the related psychological and social issues. The 1.00 FTE is to replace a current modified grade 16 position.

DP 33 - Corporation for National Services - This proposal adds $687,726 federal funds and funds 0.75 FTE for the biennium for the Corporation for National Services grant. These funds will augment funding for the administration and support of the AmeriCorps*VISTA program in the State of Montana.

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	176.25	0.00	0.00	176.25	0.00	0.00	176.25	176.25
Personal Services	6,477,726	921,840	0	7,399,566	937,544	0	7,415,270	14,814,836
Operating Expenses	2,708,616	(13,530)	0	2,695,086	(12,226)	0	2,696,390	5,391,476
Local Assistance	0	0	0	0	0	0	0	0
Debt Service	14,264	0	0	14,264	0	0	14,264	28,528
Total Costs	**$9,200,606**	**$908,310**	**$0**	**$10,108,916**	**$925,318**	**$0**	**$10,125,924**	**$20,234,840**
General Fund	224,997	0	0	224,997	0	0	224,997	449,994
State/Other Special	2,799,172	358,742	0	3,157,914	364,297	0	3,163,469	6,321,383
Federal Special	6,176,437	549,568	0	6,726,005	561,021	0	6,737,458	13,463,463
Total Funds	**$9,200,606**	**$908,310**	**$0**	**$10,108,916**	**$925,318**	**$0**	**$10,125,924**	**$20,234,840**

Program Description

The Child Support Enforcement Division (CSED) pursues and obtains financial and medical support for children by establishing, enforcing, and collecting financial support owed by obligated parents. Program staff locates absent parents, identifies assets, establishes paternity, and ensures obligated parents maintain medical health insurance coverage for their dependent children. Child support payments are collected for families receiving public assistance, Families Achieving Independence in Montana (FAIM), and those not on assistance. Services are available to any applicant regardless of income level.

Activities carried out by program staff are authorized in Title 40, Chapter 5, MCA, and are mandated by the federal government in accordance with Title IV-D of the Social Security Act, 42 USC 651 et seq., and 45 CFR, Chapter 3.

Program Narrative

Child Support Enforcement Division
Major Budget Highlights

- No increase in general fund support compared to the 2003 biennium, total funds increase 6.1 percent compared to the 2003 biennium
- Department estimates include collection of revenue from a $7 per check fee for child support enforcement services
- A decrease in federal incentive fund revenue
- An increase in personal services costs due to the reclassification of child support investigators
- A continuation of staffing reductions implemented during the 2003 biennium that decreased the level of FTE from 191.75 funded by the 2001 legislature to 176.25 funded in the 2005 biennium budget request

Major LFD Issues

- Adequacy of state special revenue - statutory changes required in order for the division to realize revenues as estimated by the department
- Compliance with federal regulations regarding use of federal incentive funds to supplement rather than supplant program expenditures
- Implementation of a fee for service to provide additional state special revenue

Decrease in Federal Incentive Funds

During the fall of 2001, the division became aware that: 1) the federal incentive funds Montana receives would fall $4 million below the anticipated level for the 2003 biennium; and 2) Montana had overdrawn reimbursement from the federal government for incentives and would be required to repay the federal government for this overdraw. Because these funds are deposited into a state special revenue account and used to leverage federal funds available under Title IV-D of the Social Security Act on a ratio of 34 percent state funds and 66 percent federal funds, this loss of $4 million in state special revenue equated to a $12 million loss in total funds appropriated for the 2003 biennium.

The department and the Office of Budget and Program Planning (OBPP) implemented an expenditure mitigation plan and notified the Legislative Finance Committee that a supplemental appropriation would be requested. After implementation of cost containment measures and revision of revenue estimates, the department estimated that 2003 biennium state special revenue funding for CSED would fall approximately $0.8 million below the anticipated expenditure level. Due to the use of state special revenue to leverage federal funds, this shortfall equates to $2.4 million total funds.

The most significant cost containment measures implemented by CSED during fiscal 2002 included:

- Termination of the contract with Maximus for the customer service unit
- Transfer of costs for the System for the Enforcement and Recovery of Child Support (SEARCHS) to the Operations and Technology Division
- Reduction in staff

Because personal services costs account for 73 percent of the division's budget, any reduction in funding likely equates to a decrease in staffing. The level of FTE funded in this division has decreased 8 percent, from 191.75 funded by the 2001 legislature, to 176.25 included in the 2002 base budget and continued in the 2005 biennium budget request.

Reclassification of Child Support Investigators

On March 12, 2002 the Montana Supreme Court issued its decision in a case that challenged the personal services pay classification of child support investigators. The court determined that child support investigators should have been classified one grade level higher than they had been classified. This resulted in the division owing employees back pay for the difference in salary and increased ongoing expenditures for this group of employees. As a result, $1,207,827 ($410,661 state special revenue and $797,166 federal funds) was transferred from the personal services contingency fund in the Governor's office to CSED for the costs of retroactive payment of child support investigators.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor. The 2005 biennium budget as requested is funded by the general fund (2.2 percent), state special revenue (31.2 percent) and federal funds (66.5 percent). The primary sources of state special revenue are retention of the state's share of collections for clients who receive or have received cash assistance from the state, and performance based incentives awarded by the federal government.

Program Funding Table
Child Support Enforcement

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	$ 224,997	2.4%	$ 224,997	2.2%	$ 224,997	2.2%
02187 Child Support State Share	2,799,172	30.4%	3,157,914	31.2%	3,163,469	31.2%
03109 Tanf Benefits	186,386	2.0%	-	-	-	-
03570 93.563 - Child Support Ivd 66%	5,878,684	63.9%	6,614,638	65.4%	6,626,091	65.4%
03605 93.563 - Child Support Ivd 90/	111,367	1.2%	111,367	1.1%	111,367	1.1%
Grand Total	$ 9,200,606	100.0%	$ 10,108,916	100.0%	$ 10,125,924	100.0%

The Child Support Performance and Incentive Act of 1998 mandated a revised method for calculating incentive payments. The implementation of this revised incentive calculation was phased in over a 3-year period. Initially, it appeared that the change in federal incentive calculations would be beneficial to Montana. However, when Montana received notification of its federal incentive award, in the fall of 2001, the award amount was approximately $2 million less than had been anticipated. A comparison of the estimate of incentive fund and the actual award calculation revealed that Montana had not properly applied the factor that compares incentives earned by Montana to the incentives earned by all states. This type of error was possible because final regulations governing the change in federal incentive fund calculations were not published until December 27, 2000 and because states are not notified until a year after the close of the federal fiscal year of the incentive funds earned by the state. However, states draw incentive funds from the federal government based upon state estimates.

In November 2002 Montana was notified of the incentive funds earned for federal fiscal 2001. Montana earned incentive funds of $1.2 million for federal fiscal 2001, but drew $2.1 million of federal funds.

LFD ISSUE

2003 Biennium Negative Fund Balance

The CSED is currently operating in a deficit situation. June 2002 estimates prepared by DPHHS projected that the CSED would experience a funding short fall of $0.8 million general fund in fiscal 2003. This amount was included in the department's estimated supplemental appropriation at that time. However, the supplemental appropriation for the department that was presented to the Legislative Finance Committee at their November 2002 meeting did not include a supplemental appropriation for CSED. Department staff indicated that they are in the process of updating estimates for fiscal 2003, verifying financial activity for this fund, recording necessary accounting corrections, and exploring ways to adequately fund the division. Department staff indicated options for funding the division include use of available general fund from other divisions in the agency and requesting that the Office of Budget and Program Planning approve a request for a supplemental appropriation.

While further program reductions could be considered, the program would need to be reduced by more than one-third of its current size to reduce expenditures to a level that can be supported by the available revenue for the remainder of the year. A reduction of this magnitude would likely have a significant detrimental effect on the program and compliance with federal requirements. Whether or not the division is in compliance with federal regulations will be determined when the federal audit is completed. Montana is schedule to be audited within the next year. Because CSED is not able to generate sufficient state special revenue to support the division's operation for the 2003 biennium, the department's options for funding CSED are:

- Request a supplemental appropriation
- Transfer of general fund from another division to CSED. Because current budget status information is unavailable, the likelihood of funds being available to transfer from another division is currently unknown.

LFD ISSUE

Department Projections Include Collection of Fees to Achieve Solvency

Figure 30 summarizes the estimated fee revenue and expenditures for the Child Support Enforcement state special revenue account. The Executive Budget includes state special revenue funding for CSED and SEARCHS of $6.9 million for the biennium. Legislative staff estimates that based upon current information CSED will earn only $5.4 million of state special revenue, $1.5 million less than the proposed level of expenditures included in the Executive Budget. This is in addition to shortfalls estimated for the 2003 biennium.

Figure 30

Summary of State Special Revenue Fund - Child Support Collections

Description	Fiscal 2002	Fiscal 2003*	Fiscal 2004	Fiscal 2005
Beginning Balance	$ (67,256)	$ (2,698,269)	$ (5,042,598)	$ (5,822,544)
Revenues:				
State Share of TANF Collections	1,319,236	1,300,000	1,300,000	1,300,000
Federal Incentive Funds	370,279	471,450	1,358,352	1,358,352
Other Revenue	(210,486)	20,000	20,000	20,000
Total Revenues	$ 1,479,029	$ 1,791,450	$ 2,678,352	$ 2,678,352
Expenditures:				
CSED Expenditures	$ 3,821,426	$ 3,229,333	$ 3,161,374	$ 3,167,203
Present Law Adjustments	-	-	(3,460)	(3,734)
SEARCHS	288,616	906,446	300,384	300,384
Total Expenditures	$ 4,110,042	$ 4,135,779	$ 3,458,298	$ 3,463,853
Revenue Over (Under) Expenses	$ (2,631,013)	$ (2,344,329)	$ (779,946)	$ (785,501)
Ending Balance	$ (2,698,269)	$ (5,042,598)	$ (5,822,544)	$ (6,608,045)

Summary of General Fund Support :*

CSED	$ 224,997	$ 225,000	$ 224,997	$ 224,997
SEARCHS	649,563	254,214	676,049	676,049
Total General Fund Support	$ 874,560	$ 479,214	$ 901,046	$ 901,046

*Notes:
CSED is the Child Support Enforcement Division
SEARCHS is the System for the Enforcement and Recovery of Child Support
Fiscal 2003 revenues are estimted revenues given current data, fiscal 2003 expenditures are based upon appropriations.

The department estimates that state special revenue collections will be adequate to fund the division and SEARCHS at the requested level. The department's estimates of state special revenue due to retained collections of child support and federal incentive funds exceed legislative staff estimates somewhat. However, the key difference between department estimates and legislative staff estimates is revenue collection through the imposition of a $7 per check fee for the collection of child support. The department estimates that state special revenue collections of fees will be $785,400 per year ($1,570,800 for the biennium). Inclusion of revenue generated by fees is key to the department's projection for this fund. However, the department currently does not have statutory authority to charge fees. Thus, the proposed budget is dependent upon legislative approval of statutory changes to allow the division to charge and collect fees.

Without additional revenues or an appropriation of general fund, the division will need to reduce expenditures and services by about one third of their annual budget in order to maintain operations within the projected state special revenue funding for the 2005 biennium (not including the 2003 biennium shortfall). A reduction of this size is likely to have significant impact on the amount of support collected for families and reduce the amount of Medicaid costs avoided due to medical support orders. Additionally, a decrease in funding of this magnitude would likely make it difficult for

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the state to maintain compliance with federal requirements.

The current sources of state special revenue for CSED are unlikely to change significantly. However, Montana could generate additional state special revenue by charging users of child support enforcement services a fee. Under federal law the division is required to provide services to anyone who applies, regardless of their ability to pay for services.

A Government Accounting Office (GAO) report, completed in June 1992, estimated that 53 percent of the non-welfare clients receiving child support enforcement services had incomes exceeding 150 percent of the poverty level. The GAO also estimated that of women requesting services, 42 percent reported incomes exceeding 200 percent of the federal poverty level, and 21 percent exceeded 300 percent of the federal poverty level.

The most current available federal financial reports indicate that: 1) in federal fiscal 1999 and 2000 about 33 and 31 percent, respectively, of the cases in which collections were made were cases that had never received welfare assistance; and 2) Montana's distributed collections for non-welfare cases has increased from $21.2 million to $35.0 million between federal fiscal 1996 and 2000. Based upon this information, a 10 percent fee on fiscal 2000 non-welfare collections would have generated $3.5 million of revenue, of which the state's share would have been approximately $1.0 million. The costs of implementing and collecting a fee for use of CSED services are currently unknown. It would be reasonable to anticipate that costs would be incurred for items such as changes in computer programming and processing if a fee for services is implemented.

The concept of charging a fee for child support collection is not new in Montana. The 1997 legislature provided CSED the statutory authority to implement charging of a fee for services and included language in HB 2 directing the implementation of a fee to recover costs from parties receiving services if CSED estimated that state special revenue was insufficient to fund appropriations. CSED implemented the use of a fee in July of 1998 and collected $348,182[1] of state special revenue during fiscal 1999. CSED charged non-welfare users a fee of $7 per check issued, or 10 percent of the check amount, whichever was lower.[2] The 1999 legislature amended statute and removed the authority previously granted to CSED to charge fees for services rendered. The legislative budget analysis of the 2001 biennium budget stated fee charges were estimated to generate state special revenue of $826,000 for the 2001 biennium.[3] The 1999 legislature provided CSED a one-time general fund appropriation to make up for the estimated revenue lost if fees were not charged.

If the CSED is to provide services at the level funded in the proposed budget, additional revenue must be generated or funding from the general fund is necessary. Given that department projections rely on the collection of fees to balance fund revenues and expenditures, legislative action is necessary. Options that the legislature may consider are:

- Approve legislation allowing the division to charge and collect fees for provision on child support enforcement services, and direct the department to increase state special revenues available for leveraging federal funds by implementing a fee for service. If this option is chosen the legislature may wish to have the division prepare a proposal(s) that complies with federal program requirements for legislative review
- Provide the division an additional $1.6 million general fund appropriation for the 2005 biennium and decrease the funding from state special revenue to the level that is likely to be realized

[1] Legislative Budget Analysis, 2001 Biennium, prepared by Montana Legislative Fiscal Division, January 1999, Table 14, page B-41.
[2] Legislative Budget Analysis, 2001 Biennium, prepared by Montana Legislative Fiscal Division, January 1999, page B-42.
[3] Federal regulations require that costs recoveries be shared with the federal government. In the case of child support enforcement cost recovery the state retains an amount equivalent to the federal medical assistance participations rate (FMAP). Montana's FMAP is generally about 28 – 30 percent. The $826,000 estimated state special revenue for the 1999 biennium is the state share of the estimated costs recovery.

LFD ISSUE

Compliance with Federal Requirement to Use Incentive Fund to Supplement

It is important funding for CSED be at a level adequate to maintain compliance with federal requirements. If the program does not comply with applicable federal regulations, not only does the state lose the federal funding available from this source, it also becomes ineligible to receive a Temporary Assistance for Needy Families (TANF) block grant to support public assistance programs. Currently, Montana's annual TANF grant award is about $44 million per year. Additionally, there are a number of penalties that may be assessed to a state if the state is out of compliance with federal requirements.

Federal regulations require that incentive funds be used to supplement the program and not to supplant state support for the program. A base level of minimum state support that must be maintained was calculated and will be used to measure state compliance with this requirement. Montana must continue to expend $2,692,644 annually of state funds (general fund and state special revenue) to comply with this federal requirement.

The federal penalty for failing to comply with this requirement is a dollar for dollar decrease in the federal incentive funds awarded to the state. Thus if Montana spends $500,000 less than is required, federal incentive funds awarded to the state are decreased $500,000. Because these funds become state special revenue and are then used as match in a 2:1 ratio this $500,000 reduction also results in the loss of $1 million of federal funds.

The proposed budget, including revenue generated from charging fees, is adequate funding for the division to comply with this requirement. However, if the legislature fails to either pass legislation allowing the department to charge fees, or provide the division increased general fund support, it is likely that the division will be in jeopardy of failing to comply with this federal requirement.

Biennial Comparison

As illustrated in Figure 31, 2005 biennium funding for the division increases 6 percent when compared to the 2003 biennium. General fund support for the division remains essentially the same. The majority of the division's funding, 73 percent, supports personal services, while the division's remaining funding supports operating costs.

Figure 31
2003 Biennium Compared to 2005 Biennium
Child Support Enforcement Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	191.75	176.25	(15.50)	
Personal Services	$ 13,852,864	$ 14,814,836	$ 961,972	73.2%
Operating	5,184,993	5,391,476	206,483	26.6%
Equipment	-	-	-	0.0%
Capital Outlay	-	-	-	0.0%
Grants	6,249	-	(6,249)	0.0%
Benefits/Claims	-	-	-	0.0%
Transfers	-	-	-	0.0%
Debt Service	26,722	28,528	1,806	0.1%
Total Costs	$ 19,070,828	$ 20,234,840	$ 1,164,012	100.0%
General Fund	$ 448,878	$ 449,994	$ 1,116	2.2%
State Special	5,830,896	6,321,383	490,487	31.2%
Federal Funds	12,791,054	13,463,463	672,409	66.5%
Total Funds	$ 19,070,828	$ 20,234,840	$ 1,164,012	100.0%
Percent Increase			6.1%	

Present Law Adjustments	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					1,230,160					1,246,502
Vacancy Savings					(308,320)					(308,958)
Inflation/Deflation					31,517					33,627
Fixed Costs					(34,871)					(34,871)
Total Statewide Present Law Adjustments					**$918,486**					**$936,300**
DP 236 - Reduce the Number of Leased Vehicles	0.00	0	(3,460)	(6,716)	(10,176)	0.00	0	(3,734)	(7,248)	(10,982)
Total Other Present Law Adjustments	**0.00**	**$0**	**($3,460)**	**($6,716)**	**($10,176)**	**0.00**	**$0**	**($3,734)**	**($7,248)**	**($10,982)**
Grand Total All Present Law Adjustments					**$908,310**					**$925,318**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 236 - Reduce the Number of Leased Vehicles - This request removes $7,194 in state special revenue and $13,964 in federal funds supporting the leasing of two state motor pool vehicles from the division's budget. As a costs saving measure, the division replaced two motor pool leased vehicles with vehicles that were surplused by other agencies.

Program Proposed Budget Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	50.00	0.00	0.00	50.00	0.00	0.00	50.00	50.00
Personal Services	1,907,552	143,188	0	2,050,740	145,761	0	2,053,313	4,104,053
Operating Expenses	3,011,475	133,720	0	3,145,195	(133,907)	0	2,877,568	6,022,763
Debt Service	40,895	0	0	40,895	0	0	40,895	81,790
Total Costs	**$4,959,922**	**$276,908**	**$0**	**$5,236,830**	**$11,854**	**$0**	**$4,971,776**	**$10,208,606**
General Fund	2,322,416	117,943	0	2,440,359	(6,635)	0	2,315,781	4,756,140
State/Other Special	278,275	25,347	0	303,622	(8,079)	0	270,196	573,818
Federal Special	2,359,231	133,618	0	2,492,849	26,568	0	2,385,799	4,878,648
Total Funds	**$4,959,922**	**$276,908**	**$0**	**$5,236,830**	**$11,854**	**$0**	**$4,971,776**	**$10,208,606**

Program Description

The Fiscal Services Division (FSD) provides support services for the Department of Public Health and Human Services. The division provides purchasing services, financial, and accounting services that include cash management, preparation and filing of federal financial reports, and fiscal policy development and implementation. The FSD is staffed with 50.00 FTE.

Statutory authority for the program is provided in Title 17, Chapters 1 and 2, MCA, 45CFR subtitle A, part 92 & subpart C92.2.

Program Narrative

Fiscal Services Division
Major Budget Highlights

- When compared to the 2003 biennium, the 2005 biennium general fund support for this division decreases 1.1 percent and total funding decreases 1.4 percent
- Statewide present law adjustments account for the entire increase
- New division was created through reorganization of the Operations and Technology Division
- The only adjustments proposed are statewide present law adjustments
- The department has proposed legislation related to some audit deficiencies

Major LFD Issues

None

The Fiscal Services Division (FSD) provides support services for the Department of Public Health and Human Services. The division provides financial, accounting, and purchasing services for the department that include cash management, preparation and filing of federal financial reports, and fiscal policy development and implementation. The only adjustments proposed for this division are statewide present law adjustments. No other present law adjustments or new proposals are included in the requested budget.

Financial Compliance Audit

The 2001 legislature included language in HB 2 stating,

> The department shall make every effort to achieve an unqualified opinion in the financial compliance audit issued by the Legislative Audit Division for the two years ending June 30, 2003. The legislature expects the department to take action to ensure that this achievement occurs, including exempting the fiscal bureau from vacancy savings requirements, exempting the fiscal bureau from reductions in staffing, establishing clear and appropriate fiscal policies and processes, and any other management actions that may reasonably be expected to result in the achievement of an unqualified audit opinion.

The department indicates the following actions were taken in an effort to comply with HB 2:

- The position of deputy director was created. Included in the responsibilities of this position is emphasis on the fiscal affairs of the agency. The administrators of the Fiscal Services Division, Quality Assurance Division, and Operations and Technology Division work closely with the deputy director on planning, coordinating and monitoring the fiscal activities of the agency
- The creation of the FSD through reorganization of the Operations and Technology Division raised fiscal and accounting functions within the agency structure from the bureau level to the division level
- An internal audit function was established
- The FSD and fiscal management issues are a focus of and supported by the director's office
- The FSD has been and will continue to develop clear and appropriate policies and processes
- The FSD has been exempt from vacancy savings and reductions in staffing. However, the division continues to experience staff turnover

In the last financial compliance audit, 24 recommendations were made to the department including that the department:

- Implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations
- Implement effective controls to ensure compliance with federal cash management requirements and draw federal funds in accordance with federal regulations
- Complete the calculation of per diem rates by July 1 each year, as required by state law
- Develop a health care database as required by 50-4-502, MCA

In response to the audit the department developed several plans including:

- A corrective action plan to address audit recommendations
- A financial management control structure development plan
- A cash management improvement plan

As of November 2002, action to correct 13 of the 24 audit recommendations had been completed. Action on four items was ongoing and seven items had target dates that had not yet passed.

LFD COMMENT	The legislature may wish to have the department provide an update of their progress in completing actions necessary to achieve compliance with audit recommendations and an unqualified audit opinion.

Potential Legislation

The Legislative Audit Division financial compliance audit for the two fiscal years ending June 30, 2001 identified circumstances where the department was not in compliance with statute. Legislative action to change statutory requirements is being sought by the department in three areas.

LC 430 clarifies that reimbursement to the state hospital and nursing care center, in excess of that needed for bond repayments, is to be deposited to the general fund.

LC 431 changes the deadline for computing per diem rates for the state institutions. Section 53-1-404, MCA directs the department to calculate the per diem costs of each institutional facility by July 1 of the fiscal year. Department staff indicates that it is not possible to meet this deadline because the information needed for the calculation is not available until fiscal year end closing, which typically occurs at the end of July, is completed.

LC 432 proposes to repeal the statutory requirement for a health care database. Section 50-4-502, MCA states:
The department, with advice from the health care advisory council, shall design and develop a health care database that includes data on health care resources and the cost and quality of health care services. The purpose of the database is to assist in developing and monitoring the progress of incremental health care reform measures that increase access to health care services, promote cost containment, and maintain quality of care.

The department has not designed or implemented such a system.

Program Reorganization

The department created the Fiscal Services Division by removing: 1) accounting and fiscal management; 2) fiscal policy development and oversight; 3) institutional reimbursement; and 4) purchasing services from the Operations and Technology Division. The department revised the organizational structure after the Legislative Audit Division (LAD) issued a qualified audit opinion for the two fiscal years ending June 30, 2001. The issuance of a qualified audit opinion indicates that the reader of the financial statements should use caution when analyzing the presented financial information and supporting data.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Fiscal Services Division

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	$ 2,322,416	46.8%	$ 2,440,359	46.6%	$ 2,315,781	46.6%
02382 6901-02 Indrct Activity Prog 06	278,275	5.6%	303,622	5.8%	270,196	5.4%
03591 6901 - 03 Indrct Activity Prog 06	2,359,231	47.6%	2,492,849	47.6%	2,385,799	48.0%
Grand Total	$ 4,959,922	100.0%	$ 5,236,830	100.0%	$ 4,971,776	100.0%

The division is funded 47 percent from the general fund, 5 percent from state special revenue, and 48 percent from federal funds. The funding for the division is determined through a complex federally approved costs allocation that charges all programs administered by the department with a portion of the division's costs.

Biennial Comparison

As illustrated in Figure 32, 2005 biennium funding for the division increases 1.4 percent when compared to the 2003 biennium. General fund support for the division decreases 1.1 percent. The majority of the division's funding, 99.2 percent, supports operating costs (59.0 percent) and personal services (40.2 percent).

Figure 32

2003 Biennium Compared to 2005 Biennium
Fiscal Services Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	50.00	50.00	-	
Personal Services	$ 3,764,183	$ 4,104,053	$ 339,870	40.2%
Operating Costs	6,492,701	6,022,763	(469,938)	59.0%
Debt Service	99,438	81,790	(17,648)	0.8%
Total Costs	$ 10,356,322	$ 10,208,606	$ (147,716)	100.0%
General Fund	$ 4,809,983	$ 4,756,140	$ (53,843)	46.6%
State Special	502,072	573,818	71,746	5.6%
Federal Funds	5,044,267	4,878,648	(165,619)	47.8%
Total Funds	$ 10,356,322	$ 10,208,606	$ (147,716)	100.0%
Percent Increase			-1.4%	

Present Law Adjustments

	Fiscal 2004 FTE	Fiscal 2004 General	Fiscal 2004 State Special	Fiscal 2004 Federal Special	Fiscal 2004 Total Funds	Fiscal 2005 FTE	Fiscal 2005 General	Fiscal 2005 State Special	Fiscal 2005 Federal Special	Fiscal 2005 Total Funds
Personal Services					228,637					231,314
Vacancy Savings					(85,449)					(85,553)
Inflation/Deflation					7,046					7,062
Fixed Costs					126,674					(140,969)
Total Statewide Present Law Adjustments					**$276,908**					**$11,854**
Grand Total All Present Law Adjustments					**$276,908**					**$11,854**

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.