

Agency Budget Comparison

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

Agency Budget Comparison								
Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	2,892.38	2,892.38	3,003.43	3,009.93	2,892.38	3,009.93	117.55	4.06%
Personal Services	142,108,302	153,945,422	165,475,009	166,640,725	296,053,724	332,115,734	36,062,010	12.18%
Operating Expenses	96,844,794	95,175,297	105,465,358	105,454,241	192,020,091	210,919,599	18,899,508	9.84%
Equipment & Intangible Assets	1,319,488	473,578	1,519,488	1,469,488	1,793,066	2,988,976	1,195,910	66.70%
Capital Outlay	0	175,067	0	0	175,067	0	(175,067)	(100.00%)
Grants	67,336,765	71,290,230	76,521,273	75,956,804	138,626,995	152,478,077	13,851,082	9.99%
Benefits & Claims	1,049,202,540	1,268,162,821	1,255,566,316	1,318,089,847	2,317,365,361	2,573,656,163	256,290,802	11.06%
Transfers	0	0	0	0	0	0	0	n/a
Debt Service	510,379	695,800	516,779	516,779	1,206,179	1,033,558	(172,621)	(14.31%)
Total Costs	\$1,357,322,268	\$1,589,918,215	\$1,605,064,223	\$1,668,127,884	\$2,947,240,483	\$3,273,192,107	\$325,951,624	11.06%
General Fund	348,225,059	396,614,084	410,380,386	426,864,044	744,839,143	837,244,430	92,405,287	12.41%
State Special	106,278,801	130,660,952	144,060,240	149,573,424	236,939,753	293,633,664	56,693,911	23.93%
Federal Special	902,818,408	1,062,643,179	1,050,623,597	1,091,690,416	1,965,461,587	2,142,314,013	176,852,426	9.00%
Total Funds	\$1,357,322,268	\$1,589,918,215	\$1,605,064,223	\$1,668,127,884	\$2,947,240,483	\$3,273,192,107	\$325,951,624	11.06%

Agency Description

Mission statement: Improving and Protecting the Health, Well-Being and Self-Reliance of All Montanans

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

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

Agency Highlights

Department of Public Health and Human Services Major Budget Highlights	
◆	The 2011 biennium DPHHS budget request is \$326.0 million (\$92.4 million general fund) higher than the 2009 biennium <ul style="list-style-type: none"> • Funding for benefits (direct services to eligible persons) adds \$256 million, largely due to increases in Medicaid service utilization and eligibility increases • Personal services increases by \$36.0 million, including funding for 117.55 new FTE <ul style="list-style-type: none"> ○ 60.00 FTE are requested to implement Healthy Montana Kids (implemented by citizen initiative November 2008), 54.00 of which would primarily work with applications and eligibility ○ 10.00 FTE for local Offices of Public Assistance for application and eligibility work for SNAP (food stamps),

- TANF, and Medicaid
 - 14.30 FTE for the Montana Veterans' Home in Columbia Falls
- ◆ Major initiatives in the executive budget are:
 - Implementation of Healthy Montana Kids - \$114.6 million
 - Continuation of the hospital utilization fee, which expires June 30, 2009 - \$28 million
 - Addition of \$11.0 million total funds, including \$4.0 million general fund to may be used to either increase the Medicaid community waiver services for aged or disabled adults, increase direct care worker wages, or fund additional community services
 - Provider rate increases - \$14.0 million, including \$5.3 million general fund
 - Expansion of Medicaid services to cover certain transplants for adults - \$6.1million
 - Continuation of \$2.1 million of the \$3.0 million one time general fund appropriation for aging community services
 - Annualization of programs implemented during FY 2008 including:
 - Continuation of Medicaid rate increases implemented January 1, 2009 to fund healthcare for healthcare workers - \$10.3 million, with \$0.9 million general fund
 - Medicaid community based waiver service increases for physically disabled and elderly persons as well as adults with a serious and disabling mental illness
 - FY 2009 provider rate increases
 - 72 hour mental health community crisis stabilization services

Major LFD Issues

- ◆ Effect of economic downturn is not reflected in most data used to project 2011 biennium costs for social service programs, which is particularly critical for Medicaid services
- ◆ Implementation of Healthy Montana Kids (HMK) includes significant policy questions. Will:
 - Medicaid eligibility changes enumerated for HMK be interpreted to alter standards for the entire Medicaid program or apply only to an expansion group funded by HMK?
 - A centralized eligibility process be implemented, potentially reducing the need for new staff?
 - Federal funding and regulatory interpretations be changed to allow timely implementation of HMK?
 - The executive budget funding request be more than is needed for the 2011 biennium?
- ◆ Federal grant funds are insufficient to fund current enrollment in the CHIP program beyond July 1, 2009 without federal reauthorization and significant expansion of the grant amount
- ◆ DPHHS reverted a considerable amount of general fund in FY 2008 and projects a minimum \$10.7 general fund reversion in FY 2009
 - The FY 2009 estimate is conservative; reversions likely will be more
 - Legislators could consider amending the 2009 biennium HB 2 to reduce and capture reversions or appropriate unexpended appropriation amounts from FY 2009 that carry forward to fund 2010 biennium service costs
- ◆ Major state special revenue funds (tobacco tax and tobacco settlement

revenues):

- Can be used to potentially offset general fund in the executive budget up to \$3.7 million
- Need to be balanced in either the short or long term depending on the particular fund
- ◆ The majority (54 percent) of DPHHS employees are eligible for full retirement in the 2011 biennium
- ◆ The majority of DPHHS programs submitted general objectives which are not sufficiently specific, measurable, or time-bound so that the legislature can form an appropriations policy on the program's budget
- ◆ Legislative interim committee recommendations are included in the agency summary or the program narratives

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the Legislative Fiscal Division recommends that the legislature review the following:

- o Goals, objectives and year-to-date outcomes from the 2009 biennium
- o Goals and objectives and their correlation to the 2011 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

Agency Personal Services -

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

- o **Agency Market** – The agency target market ratio for the 2011 biennium under the 2008 market survey is 100 percent for all current agency positions. The agency is organized into twenty-one collective bargaining agreements representing 2,088 members or two-thirds of the staff. Each of the bargaining units has aligned the agency's minimum market rate of 80 percent and has based the target market for their bargaining unit between 80 and 95 percent of the market rate depending on available funding. A discuss on the current market ratio, vacancies, pay raises, and retirements is included in the various program narratives
- o **Obstacles** – The most significant obstacle to accomplishing the progression above 80 percent of market rates towards full market pay rates is the lack of available funding. In addition, there is an agency-wide need for consistent policy and human resource support staff to assist in the development and implementation of compensation plans that are fair and consistent across the agency while also being responsive to the unique needs and resources of different units of the agency. Maintaining competitive, equitable pay across the agency continues to be a significant challenge

LFD COMMENT

A Significant Number of the DPPHS Employees are Eligible to Retire in the 2011 Biennium

Of the 3,009.93 full time positions in the 2011 biennium executive budget, 1,623.00 staff or 54 percent are eligible for full retirement. The estimated compensated absence liability associated with the potential retirements is \$1.8 million. The number of staff eligible to retire varies by division. Figure 1 shows by division the number eligible and the associated estimated compensated absence liability.

While the potential dollar impact of the retirements is significant, the loss of program knowledge and abilities is also significant. DPHHS division staff is concerned about the planned and potential retirements of employees in several positions and is taking steps for knowledge sharing and cross training.

Figure 1
Department of Public Health and Human Services
Estimated Compensated Absence Liability by Division
Employees Eligible for Full Retirement in the 2011 Biennium

Division	Eligible to Retire	Compensated Absence Liability
Addictive and Mental Disorders Division	271	\$439,992
Disability Services Division	306	391,104
Human and Community Services Division	258	285,180
Child and Family Services Division	187	162,960
Public Health and Safety Division	154	130,368
Quality Assurance Division	77	114,072
Senior and Long-term Care Division	123	97,776
Health Resources Division	4	32,592
Director's Office	32	48,888
Business and Financial Services Division	53	40,740
Child Support Enforcement Division*	115	24,444
Technology Services Division	43	24,444
Total	<u>1,623</u>	<u>\$1,792,560</u>

*The estimated compensated absence liability was provided by DPHHS.

Agency Overview

The DPHHS budget request grows \$326.0 million over the biennium compared to the 2009 biennium. The majority of growth is in the benefits and claims category with \$256.3 million for payment for direct services to individuals. Personal services grow \$36.1 million and include funding for 117.55 new FTE, with 60.00 FTE requested for implementation of the Healthy Montana Kids (HMK) program enacted by passage of I-155 in November 2008. Other major increases include 14.30 new FTE for the Montana Veterans' Home and 10.00 new FTE for the Offices of Public Assistance for application and eligibility work for SNAP (food stamps), TANF, and Medicaid.

Going into the 2009 biennium, there were nearly 3,000 FTE funded by HB 2 of which over 1,200 were employed by the six state institutions operated by DPHHS, over 900 were field staff located throughout the state, and about 900 were located in Helena. The six institutions that employ 40 percent of the DPHHS workforce include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Center, Lewistown; Montana Chemical Dependency Center, Butte; Eastern Montana Veterans' Home, Glendive; Montana Veterans' Home, Columbia Falls; and Montana Developmental Center, Boulder.

Medicaid Services Drive Costs

Medicaid service expenditures are the single largest cost driver in the DPHHS budget, with about \$2 billion in funding in the Governor's 2011 biennium budget request. The divisions responsible for the Medicaid services, the total budget request for the 2011 biennium, and major types of services funded are:

- o Health Resources Division – over \$910 million
 - \$210 million general fund, \$630 million federal Medicaid funds, \$70 million state special revenue
 - Hospital, physician, prescription drugs, dental, and children's mental health services
- o Senior and Long Term Care – over \$470 million
 - \$107 million general fund, \$320 million federal Medicaid funds, \$48 million state special revenue

- Nursing home services, personal assistance, community services for elderly and physically disabled persons, and hospice
- o Disability Services Division – over \$181 million
 - \$53 million general fund, \$128 million Medicaid federal funds, \$6 million state special revenue
 - Community services for developmentally disabled adults and children
- o Addictive and Mental Disorders – over \$92 million
 - \$21 million general fund, \$64 million Medicaid federal funds, \$8 million state special revenue
 - Adult mental health and chemical dependency services

Changes in Medicaid service utilization and the number of persons eligible for services has a major impact on the DPHHS budget. A 1 percent change in Medicaid services costs, excluding provider taxes, county nursing home match, and 100 percent federal pass through to Indian Health Services and schools, would alter DPHHS spending by over \$17 million over the biennium, including over \$5 million in state matching funds.

Federal/State Medicaid Services Match Rates

The federal Medicaid match rate is determined by a formula that compares a state's per capita income to national per capita income over the previous three years. Since Montana per capita income fared better in more recent comparisons, its federal Medicaid match rate declined and the state Medicaid match increased from 31.41 in FY 2008 to 32.51 percent in FY 2010, with a projected increase to 32.97 percent in FY 2011 (for most Medicaid services). The impact of the match rate change is discussed in detail at the program level.

Each 1 percent change in the Medicaid match rate causes an \$18 million change in state matching funds over the 2011 biennium (based on the executive request and including all federal funding streams). The Medicaid match rate is also the match rate for federal Title IV-E funding for foster care, and child care matching funds, and the match rate for the Children's Health Insurance Program (CHIP) is a percentage of the Medicaid match rate.

LFD ISSUE

Match Rate Changes Occur when the Legislature is not in Session

If Montana per capita income declines proportionally more than national per capita income in the next reporting period, the federal Medicaid match rate would increase offsetting a like amount of general fund. Match rates change October 1. Therefore, the FY 2011 match rate is estimated and would be the only year that would be subject to change before the legislature convenes in 2011. Additionally, a federal stimulus package is likely to be considered in early 2009, which could include a bump in the federal Medicaid match rate for all states. The legislature may not know the outcome of any potential stimulus package before it adjourns.

Options:

The legislature may wish consider what action it might take in the event that the federal Medicaid match rate is raised after it is no longer in session. There are two scenarios to consider: 1) changes that occur as a result of calculation of the final 2011 FMAP rate; and 2) changes that occur as a result of a potential federal stimulus package, which may have federal conditions.

**LFD
ISSUE (CONT.)**

The legislature may want to:

- Direct the executive to implement 17-2-108 (2), MCA, which allows the Office of Budget and Program Planning to increase federal appropriations and reduce general fund appropriations by the same amount for federal funds received in excess of an appropriation in an appropriation act
- Allow DPHHS to retain any general fund freed up as a “safety net” in the event service costs increase beyond legislative expectations
- Appropriate general fund available in the event that the federal match rate is increased and specify a priority if there is more than one appropriation
- Establish a reserve for Medicaid costs in excess of a certain level of appropriations in the general appropriations act in the event the economic downturn is more intense or of longer duration than estimated when establishing Medicaid appropriations for the 2011 biennium

Summary of FY 2008 Reversions, Appropriation Transfers, and Operating Plan Adjustments

DPHHS reverted \$21.6 million general fund from unspent appropriations in FY 2008. The reversion would have been \$10.6 million higher, except the agency transferred that amount of excess general fund appropriations to other uses. Figure 2 shows reversions above \$500,000. Nearly half of the total reversion came from surplus Medicaid services appropriations.

A portion of the reversions was due to delayed implementation of new initiatives funded from restricted appropriations. Start up of some of the new programs and services was slowed due to unanticipated obstacles and the sheer number of new initiatives approved. For instance, implementation of 72 hour mental health community crisis stabilization services for persons was delayed and \$1.4 million general fund reverted.

Figure 2
Major Reversions by Program and Purpose - FY 2008

Program/Purpose	Amount	Percent	
		Total	Cumulative
Medicaid-Physicians	\$3,836,902	17.7%	17.7%
Medicaid-Dental, Therapies, Transportation	3,452,175	15.9%	33.7%
Medicaid Hospital Services	2,192,093	10.1%	43.8%
Medicaid Children's Mental Health	2,007,954	9.3%	53.1%
72 Hr Community Crisis Stabilization	1,362,357	6.3%	59.4%
Medicaid Nursing Home	1,350,310	6.2%	65.6%
Mental Health Nursing Care Center	761,059	3.5%	69.1%
Montana State Hospital	743,516	3.4%	72.5%
Medicaid Personal Assistance, Hospice	617,016	2.8%	75.4%
Medicaid Administration	544,028	2.5%	77.9%
Other Reversions less than \$500,000 Each	4,783,996	22.1%	100.0%
Total	\$21,651,407		

The reasons that Medicaid appropriations were greater than actual costs are discussed in the Health Resources Division budget analysis. However, two of the most significant contributors were:

- Lower enrollment partially due to higher employment, particularly in the natural resources sector
- A one time speed up of claims payment due to processing a large backlog of claims in a short time period, which caused a significant spike in costs right before the 2007 session

Despite adjustments of more than \$30 million to account for the anomaly in Medicaid cost data, 2009 biennium projections (and therefore appropriations) were significantly greater than actual costs.

Summary of Appropriation Transfers

Appropriation transfers are statutorily defined changes subject to the approval of Office of Budget and Program Planning for most agencies, although transfers meeting a statutory threshold must be reviewed by the Legislative Finance Committee. All of the general fund transfers implemented by DPHHS complied with statute, HB 2 appropriation restrictions, and verbal testimony/commitments to the 2007 Legislature.

Over half of the transfers moved general fund from benefit appropriations to operating costs. As stated, most of the transfers were from excess general fund appropriated for state match for Medicaid services that was available due to lower than anticipated Medicaid benefits costs. Appropriations for state Medicaid matching funds totaled 78 percent of the general fund appropriation transfers - \$9.5 million of the \$10.6 million total.

Some of the transfers were spent in operating cost categories and rolled forward as part of the FY 2008 base budget. In some instances, the 2011 biennium executive budget was revised to remove the impact:

- o \$0.2 million transferred to the Laboratory Services Bureau, which is supported by fee income, was removed from FY 2008 base budget expenditures
- o \$1.2 million general fund was removed from the Montana State Hospital present law request, and most if it reinstated as new proposals

Some of the transfers supported one time costs that may be indirectly included in the agency base budget as payment of the one time costs freed up other funds to be spent for ongoing expenses. One time costs funded were:

- o \$0.3 million for termination payouts (usually paid from personal services funding)
- o \$0.2 million for computer equipment
- o \$1.1 million for remodel work and relocation of staff

LFD staff noted the changes in the executive budget and raised other issues related to general fund transfers or cost allocated functions in analysis of specific program budgets.

**LFD
ISSUE**

Potential General Fund Reversions in FY 2009

As of November 2008, DPHHS estimated that it would revert \$10.7 million general fund for FY 2009, with most of the reversion from Medicaid benefit appropriations, and \$3.0 million for behavioral health inpatient treatment in 15-bed facilities that will not be used. At this point it appears that Medicaid costs will not increase enough before fiscal year end to substantially lower that amount.

The \$10.7 million estimate may be conservative. The budget status report prepared for November 2008 shows restricted appropriations as fully expended and therefore not available for reversion because the authority is not available for transfer to other unrelated uses in the department.

Legislative Options

The legislature could consider two options regarding potential FY 2009 general fund reversions:

- o Reduce general fund appropriations in the FY 2009 general appropriations act to immediately capture part of the excess
- o Reappropriate unspent amounts of FY 2009 general fund appropriations that revert to cover FY 2010 costs

I-155 – Healthy Montana Kids

The Healthy Montana Kids plan (HMK) was enacted by voter initiative November 2008 (I-155). The amendment was effective on passage of the initiative.

The Healthy Montana Kids plan implemented several changes:

- o Raised eligibility for the Children's Health Insurance Plan (CHIP) from 175 percent to 250 percent of the federal poverty level
- o Raised Medicaid eligibility under the HMK program to 185 percent of the federal poverty level (compared to the regular Medicaid program where eligibility ranges 100 to 150 percent of the federal poverty level depending on the age of the child)
- o Exempted asset tests in considering HMK eligibility (the regular Medicaid program establishes asset limits at \$15,000 for all but disabled children served in a Medicaid community based waiver program)
- o Diverted a portion of insurance premium taxes previously deposited to the general fund to a state special revenue account to support HMK (\$60.6 million from November 2008 through the end of the 2011 biennium) and limited the use of funds to state match for federal funds and for enrollment levels in CHIP and Medicaid above the number of children enrolled November 4, 2008

Federal Approval and Funding Needed for Implementation

Implementation of HMK is contingent upon submitting state plan amendments for both CHIP and Medicaid and receiving federal approval for the changes to raise income eligibility for CHIP from 175 percent of the federal poverty level to 250 percent and to raise Medicaid eligibility to 185 percent of poverty and eliminate consideration of assets for the program. Federal funding must be available as well.

Federal Rule Interpretations Impact Implementation of HMK

A recent federal interpretation of the interplay between CHIP and Medicaid eligibility concluded that “once in CHIP, always in CHIP”. The federal guidance means that if CHIP eligibility has been established for a particular income range, for instance if the eligibility range were up to 175 percent of the federal poverty level, then the children who would be covered under that income range must be covered under the state CHIP program. If costs exceed CHIP funding, the children eligible in that particular income range cannot be covered by a Medicaid eligibility expansion for income ranges below 175 percent of the federal poverty level. If this federal interpretation remains in force; Montana could be prohibited from implementing most of the Medicaid expansion. It is not clear whether the income limit for CHIP would be interpreted to be 175 or the newly enacted 250 percent of the federal poverty level.

Montana Federal CHIP Allotment will be Fully Expended by July 2009

The executive budget assumption that federal reauthorization of CHIP will occur quickly in 2009 and that grant funding will be increased is also important for continuation of current enrollment in the CHIP program. CHIP enrollment stood at 17,240 in November 2008. The federal funding remaining for CHIP is sufficient to carry the program to July 1, 2009. If federal reauthorization lags, and grant levels are not increased, federal funding will not be sufficient to continue existing enrollment.

Montana has been spending carry forward federal grant funds due to lower enrollment in previous years. However, enrollment expanded during the 2009 biennium, drawing down federal reserves. FY 2008 federal funding for CHIP was \$23.9 million, compared to an annual average grant amount of \$15.4 million. Average monthly enrollment in FY 2008 was about 15,600.

Executive Budget Request Assumes Federal Approval and Federal Funding Increases

The executive budget assumes re-authorization of the federal CHIP bill early in the next congressional session. The executive budget also assumes that if CHIP re-authorization is not approved, HMK will be expanded through Medicaid for children under 19 years old to 185 percent of the federal poverty level through the state plan amendment.

Legislative Options with Respect to I-155 Healthy Montana Kids

This section summarizes major issues related to implementation of HMK and potential options for legislative consideration.

1. Federal funding and eligibility expansion approval

The legislature may wish to contact Montana’s congressional delegation regarding CHIP reauthorization either to request that CHIP be reauthorized and funding expanded or to determine what is likely to happen at the federal level. Since a new president will take office, it is unclear what changes might occur and how quickly. The legislature may wish to request that DPHHS present a “back up plan” in the event federal funding levels and federal approval is not available in a timely manner, especially as federal funding relates to the CHIP program.

2. Implementation Plan and Schedule

The legislature may wish to ask DPHHS for its implementation plan and milestones. The executive budget request assumes that HMK will be implemented starting October 1, 2009. Several of the administrative activities that need to be completed to meet that deadline are:

- Submitting and receiving federal approval of state plan amendments for CHIP and Medicaid
- Developing, publishing, and adopting program rules
- Changing automated eligibility and claims payment systems

- o Defining eligibility process – centralized or field staff
- o Hiring and training new staff
- o Developing and implementing an outreach plan

3. Staffing Needs

The legislature may wish to ask DPHHS whether it will implement a centralized eligibility process like the CHIP process or whether it will implement an eligibility process through deployment of additional field staff. Depending on the agency response, the legislature may wish to consider the level of funding for FTE.

4. DPHHS Interpretation of Changes Made by I-155

I-155 seems to implement a new, limited eligibility pool for Medicaid by raising income standards and exempting consideration of assets for HMK. It does not eliminate the assets test for other children applying for Medicaid. The legislature may wish to ask DPHHS how it will administer the changes made by I-155.

- o Will DPHHS change Medicaid eligibility for all groups of children to the standards established in HMK?
- o Will DPHHS ensure that program expenditures for expansions authorized by HMK will not exceed the state special revenue allocated to the program? If so, how will DPHHS monitor funding and how would it cap enrollment to avoid shifting expansion costs to the general fund?

5. Funding Needs Based on Phased in Implementation

Once the legislature reviews the implementation plan provided by DPHHS, it may wish to revise the HMK appropriation request. The executive budget is based on nearly full enrollment and implementation starting October 1, 2009.

6. Funding Enrollment in Current Programs Prior to Expansion

I-155 is limited to funding additional enrollment in CHIP and Medicaid. The state special revenue allocated to HMK could be used to provide services to eligible children enrolled in the existing Medicaid and CHIP programs after November 4, 2008 if enrollment increases. The legislature may wish to ask DPHHS if it anticipates using HMK funds for expanded enrollment in existing programs and if so, how will the funding changes be tracked and implemented.

Recent Medicaid Trends will not Reflect Experience During the 2011 Biennium

Medicaid costs experienced a period of cost moderation over the last several years. Figure 3 shows a comparison of total Medicaid costs by major eligibility group, the number of persons eligible, and the average cost per eligible person for FY 2003, 2005 and 2007.

Eligibility Category	<-----FY 2003----->			<-----FY 2005----->			<-----FY 2007----->		
	Average Eligible	Total Expenditures	Average Cost	Average Eligible	Total Expenditures	Average Cost	Average Eligible	Total Expenditures	Average Cost
Aged	7,736	\$145,817,084	\$18,849	7,806	\$161,928,618	\$20,744	7,583	\$158,522,107	\$20,905
Blind & Disabled	17,380	257,224,638	14,800	18,459	301,910,542	16,356	19,359	323,444,945	16,708
Adults *	14,890	63,425,014	4,260	13,639	80,726,075	5,919	11,937	71,424,882	5,983
Children	43,014	102,574,541	2,385	46,992	130,176,550	2,770	45,281	152,288,912	3,363
Total**	83,020	\$569,041,277	\$6,854	86,896	\$674,741,785	\$7,765	84,160	\$705,680,846	8,385
Annual Change				2.3%	8.9%	6.4%	-1.6%	2.3%	3.9%

*Adults who are not disabled or aged are eligible only if they are in families/households with dependent children and have countable incomes under 40.5% of the federal poverty level and fewer than \$3,000 in resources. They are entitled to a basic set of services more limited than Medicaid services available to all other groups.
 **The totals include costs and persons who are qualified Medicare beneficiaries.
 All data based on state Medicaid reports provided to the legislature in advance of its biennial sessions.
 Source: DPHHS, October 31, 2008.

The number of persons eligible for Medicaid declined between FY 2005 and FY 2007. Average monthly eligibility declined by 1,700 for adults (persons between the ages of 18 and 64) and expenditures for the group dropped by \$9.3 million. Eligibility and total expenditures also dropped for the most expensive group – persons over 65. There were 227 fewer persons eligible for services and total costs declined by \$3.4 million.

Economic Downturn

The nation entered a recession December 2007. The natural resources sector of the Montana economy helped insulate the state from the initial effects of the recession. However, when the price of oil fell and the recession worsened in other areas of the nation, the Montana economy began to show signs of an economic slowdown.

Effect on Human Services Programs

Many programs administered by DPHHS provide services to low income people and eligibility for services is often tied to a specific income. Montana income tax revenues have fallen sharply in the last several months, indicating that personal income may be declining. It is likely that additional persons will be eligible for services administered by DPHHS.

Some DPHHS services are entitlements, meaning that the service must be provided if the person meets eligibility criteria. The most significant entitlement programs administered by DPHHS are most Medicaid services, SNAP, and to a certain extent TANF cash assistance payments. Medicaid is funded by state and federal funds and SNAP benefits are entirely federally funded. TANF cash assistance payments are funded from the TANF block grant, which has a set level of funding. Therefore, should the number of families eligible for cash assistance increase substantially, reductions in the amount of the monthly cash benefits and/or the income level used in determining eligibility for the cash assistance program would be addressed.

Projecting Fiscal Impact

The data used to estimate Medicaid services during the legislative session will not capture the effect of the economic down turn because the most recent two years were periods of cost moderation. Additionally, Medicaid cost data is usually five to six months “behind” due to lags in claims payment. Other data anomalies that complicate Medicaid cost estimation are discussed in more detail in the Health Resources Division budget analysis.

Application Data

LFD staff requested data that DPHHS was compiling about the number of applications for public assistance programs. Since the automated system does not report the number of applications, it is a manual process to collect the number. DPHHS measured two points in time – May 2008 and October 2008. DPHHS has asked field staff to track the number of applications received in November and December 2008 and will provide that data to the legislature. This data may provide insight about the impact of the recession.

Rising Enrollment

The Medicaid cost estimates in the 2011 biennium executive budget were based on the most recent and complete expenditure data available. Due to the lag in claims payment, the most complete monthly expenditure data is usually five to six months “behind”. Therefore, the data used to develop the executive budget would not have captured the effects of the slowing economy.

Medicaid Update

The Medicaid cost estimates will be updated during legislative consideration of the DPHHS budget. The most recent enrollment trends will be evaluated. DPHHS staff is reviewing historic data in an effort to estimate what might happen to Medicaid costs in the next two years.

Legislative Options:

If the Medicaid cost projections are higher than the executive request, legislative options generally are:

- o Appropriating additional state matching funds
- o Making reductions
- o Finding efficiencies

Provider Rate Increases

The 2007 Legislature funded nearly \$43 million for provider rate increases, including \$7 million general fund. The increase was provided with a delayed implementation date of October 1, 2008 in all divisions except the Senior and Long Term Care Division, which administers services for elderly and disabled persons.

The 2011 biennium budget includes \$14.0 million, including \$5.3 million general fund for a 1 percent provider rate increase. The proposal continues the delayed implementation and rate increases, and would be effective October 1 each year. Because of the delayed implementation, the proposal annualizes as 0.75 percent each year of the biennium. If all providers are to receive a 1 percent increase each year, it appears that the Child and Family Services Division may not have sufficient funds in FY 2011. The provider rate increases are also addressed at the program level.

The following figure shows the proposed provider rate increases by division.

Type of Service/Division	FY 2010 Budget Request		FY 2011 Budget Request		% of Total
	General Fund	Total Funds	General Fund	Total Funds	
Medicaid Services					
Senior and Long Term Care	\$529,459	\$1,628,605	\$1,268,539	\$3,847,556	40.9%
Health Resources Division	370,088	1,138,383	760,033	2,305,227	24.5%
Disability Services Division					
Developmentally Disabled Services	197,530	608,578	472,262	1,435,231	15.2%
Addictive and Mental Disorders					
Mental Health	98,493	302,961	206,080	648,449	6.9%
Chemical Dependency	0	11,429	0	23,395	0.2%
Subtotal Medicaid Services	1,195,570	3,689,956	2,706,914	8,259,858	87.7%
Non-Medicaid Services					
Disability Services Division					
Developmentally Disabled Services	67,498	67,498	159,183	159,183	1.7%
Early Intervention Ages 0 - 3	40,544	40,544	95,616	95,616	1.0%
Vocational Rehabilitation	87,429	87,429	206,185	206,185	2.2%
Senior and Long Term Care					
Aging Community Services	86,112	86,112	203,082	203,082	2.2%
Child and Family Services	101,791	142,768	138,776	194,641	2.1%
Addictive and Mental Disorders					
Mental Health Services Plan	65,965	65,965	133,576	133,576	1.4%
Chemical Dependency Community Services	63,197	63,197	127,972	127,972	1.4%
Health Resources Division					
CHIP (Dental/Vision)	0	16,616	0	33,645	0.4%
Subtotal Non-Medicaid Services	512,536	570,129	1,064,390	1,153,900	12.3%
Total Rate Increase	\$1,025,072	\$4,260,085	\$3,771,304	\$9,413,758	
Biennial Total			\$4,796,376	\$13,673,843	

Funding

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

Total Agency Funding 2011 Biennium Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
02 Human And Community Services	\$ 66,961,298	\$ 2,559,868	\$ 413,929,907	\$ 483,451,073	14.77%
03 Child & Family Services	71,015,877	5,015,079	57,095,437	133,126,393	4.07%
04 Director'S Office	7,743,230	712,720	14,835,209	23,291,159	0.71%
05 Child Support Enforcement	7,725,680	3,363,745	12,025,417	23,114,842	0.71%
06 Business & Financial Services Division	8,023,372	2,291,703	9,697,086	20,012,161	0.61%
07 Public Health & Safety Div.	6,789,236	35,619,831	89,287,638	131,696,705	4.02%
08 Quality Assurance Division	5,772,893	501,082	12,475,359	18,749,334	0.57%
09 Technology Services Division	17,226,126	2,209,814	23,214,732	42,650,672	1.30%
10 Disability Services Division	119,177,901	10,086,800	190,886,636	320,151,337	9.78%
11 Health Resources Division	268,876,635	138,887,743	880,780,461	1,288,544,839	39.37%
22 Senior & Long-Term Care	124,008,596	66,691,051	349,716,480	540,416,127	16.51%
33 Addictive & Mental Disorders	133,923,586	25,694,228	88,369,651	247,987,465	7.58%
Grand Total	<u>\$837,244,430</u>	<u>\$ 293,633,664</u>	<u>\$ 2,142,314,013</u>	<u>\$ 3,273,192,107</u>	<u>100.00%</u>

DPHHS is funded by over 190 distinct funding sources and more than half are federal sources. General fund supports 26 percent of the 2011 biennium budget request, state special revenue provides 9 percent, and federal funds are 65 percent of total funding. The DPHHS budget request accounts for over 24 percent of the total executive budget HB2 request and over 21 percent of the total general fund request.

Individually the top six DPHHS division budgets exceed most state agency budgets.

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

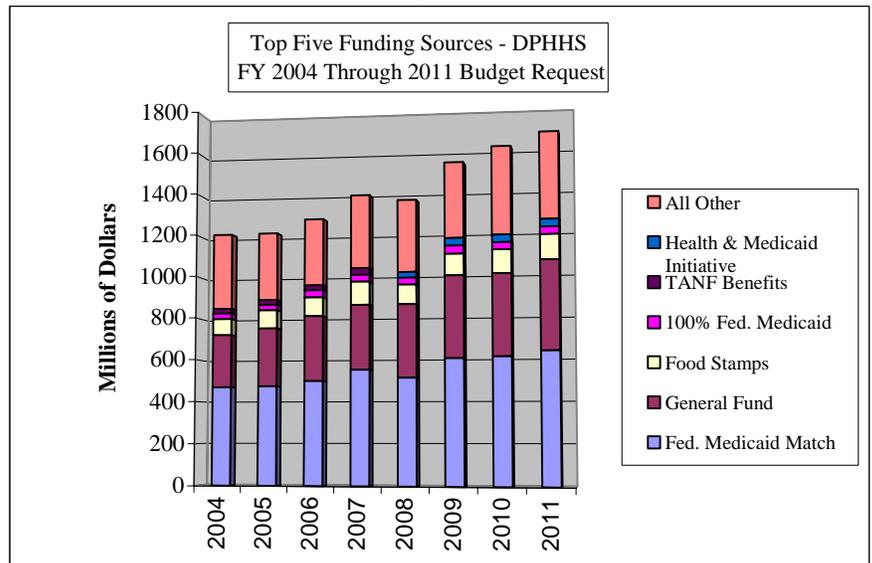
Top Five Funding Sources

Figure 5 shows the top five funding sources for DPHHS from FY 2004 through the FY 2011 executive request. Together these five funding sources account for over 80 percent of the total funding for each year shown. Federal Medicaid matching funds average about 38 percent of total funding in each year, followed by general fund at 25 percent. All of the other funding sources listed contribute less than 12 percent of total funds for each year of the biennium, including federal funds supporting food stamp benefits and federal Medicaid funds that are passed through to Indian Health Services and schools. In FY 2008, health and Medicaid initiative account funds broke into the top five funding sources, edging out the federal TANF block grant. The remaining funding sources that support DPHHS are discussed in greater detail in division budget narratives.

As mentioned in the agency narrative, a new program, the Montana Healthy Kids Initiative, is supported by over \$18 million in FY 2010 and nearly \$22 million in FY 2011 in state matching funds and accounts for about 1.3 percent of the total state special revenue for each year. Other sources of state special revenue that support in excess of 0.3 percent of FY 2011 costs are:

- o Hospital and nursing home utilization fees (utilization fees for services) – 1.9 percent
- o Tobacco settlement funds and interest on the tobacco settlement trust fund – 0.7 percent
- o Intergovernment county revenue transfers for Medicaid match – 0.4 percent
- o Cigarette taxes that support the veterans’ homes – 0.4 percent
- o Alcohol taxes allocated to support chemical dependency services – 0.3 percent

Figure 5



Other federal sources individually support less than 1 percent of DPHHS costs in FY 2011 and are discussed in the division budget narratives.

State Special Revenue that Spends Like General Fund

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

Health and Medicaid Initiatives State Special Revenue

Voters enacted initiative 149 (I-149 – codified as 53-6-1201), MCA in the November 2004 election. The initiative raised tobacco taxes, directed deposit of the portion of the increased proceeds to the health and Medicaid initiatives account, and specified the uses of account funds. The state special revenue funds can be used:

- o To maximize enrollment in CHIP and provide outreach to eligible children
- o For a new need-based prescription drug program for children, seniors, chronically ill, and disabled persons
- o For increased Medicaid services and Medicaid provider rates
- o To fund new programs to assist eligible small employers with the costs of providing health insurance benefits to eligible employees
- o To offset a loss of revenue to the general fund as a result of new tax credits
- o To provide a state match for the Medicaid program for premium incentive payments or premium assistance payments to the extent that a waiver is granted by federal law

The initiative included language to prohibit the use of health and Medicaid initiative funds to supplant existing funds for prescription drug programs, Medicaid costs, and CHIP enrollment as of June 30, 2005. The funds cannot be used to offset general fund or other state funds to support present law caseload estimates for Medicaid.

Legislative Policy

The 2005 and 2007 legislatures raised CHIP funding, increased Medicaid provider rates, and established several new programs using health and Medicaid initiative account funds. The new programs were:

- o Insure Montana – a program to help small employers provide health insurance for employees by subsidizing insurance premiums and to reimburse the general fund for the costs of tax credits for small employers already offering health insurance
- o Big Sky Rx – a program for Medicare eligible persons with incomes below 200 percent of the federal poverty level to pay up to \$33.11 per month for premiums for Medicare Part D prescription drug coverage
- o Pharmassist – a program for Montanans to have in person consultations with a pharmacist about the prescription drugs they are taking

The legislature has attempted to structure appropriations to allow the account to remain solvent through FY 2012. Initial revenues into the account exceeded appropriations and the legislature intended that the account balance be drawn down gradually in order to fund the new programs and CHIP and Medicaid expansions. Fund balances have grown more than first anticipated due to lower enrollment in Big Sky Rx and delays in CHIP enrollment.

Executive Budget Request

Figure 6 shows the health and Medicaid initiatives account fund balance. The total fund balance available in FY 2008 was \$87.2 million and expenditures were \$36.9 million, about \$13.0 million less than appropriated. Ongoing revenues are about \$41.0 million annually.

Figure 6
Health and Medicaid Initiatives Fund Balance - 2011 Biennium Executive Budget Request
Tobacco Tax Revenue Dedicated to Health Initiatives

Fund Balance	Actual	Budgeted	Executive Budget Request		% of
Revenue/Expenditures	FY 2008*	FY 2009	FY 2010*	FY 2011*	Ttl
Beginning Fund Balance	\$47,397,697	\$50,283,077	\$43,020,758	\$29,631,415	41.9%
Revenue - Tobacco Tax*	39,824,984	40,196,000	40,592,000	41,014,000	58.1%
Total Revenue	\$87,222,681	\$90,479,077	\$83,612,758	\$70,645,415	100%
Expenditures					
Medicaid Services - Provider Rate Increases and Service Expansions					
Nursing Home Services	\$5,455,068	\$5,484,432	\$5,480,319	\$5,480,319	10.0%
Managed Care Bureau	5,187,530	5,134,353	5,187,530	5,187,530	19.4%
DD Medicaid Benefits	2,667,826	3,135,587	3,135,587	3,135,587	25.1%
Children's Mental Health Services	2,176,518	2,301,184	2,176,518	2,176,518	29.1%
Hospital and Clinical Services	822,569	1,070,253	1,822,569	1,822,569	32.4%
Senior/Physically Disabled Waiver	1,447,528	1,837,193	1,837,193	1,837,193	35.8%
Home-based Services	1,088,712	1,107,207	1,107,207	1,107,207	37.8%
Adult Mental Health Waiver	0	1,613,488	1,471,493	1,492,314	40.5%
Mental Health Medicaid	886,192	680,475	886,192	886,192	42.1%
Medicaid Pharmacy	753,823	46,930	753,823	753,823	43.5%
Acute Services	262,205	2,177,787	262,205	262,205	44.0%
Chemical Dependency Medicaid	194,625	207,753	194,625	194,625	44.3%
Breast and Cervical Cancer	5,171	19,100	5,171	5,171	44.3%
Other Programs					
Insure Montana (Premium Assistance)	5,618,763	6,525,413	6,557,168	6,558,167	56.3%
Elected Official-State Auditor Proposal**	0	0	6,581,739	7,637,566	70.2%
Health Insurance Tax Credits	4,028,570	4,350,286	4,370,344	4,372,113	78.1%
Elected Official-State Auditor Proposal**	0	0	18,418	16,988	78.1%
Big Sky Rx					
Medicare Part D Premium Assistance	2,534,524	6,579,486	5,772,755	5,774,966	88.6%
Pharmassist Program	9,455	353,063	236,297	236,298	89.1%
Mental Health Services Plan/HIFA	2,768,810	3,152,605	3,433,968	3,433,968	95.3%
CHIP	907,760	1,582,085	2,565,437	2,432,433	99.7%
Mental Health NonMedicaid	25,100	0	25,100	25,100	99.8%
Human and Community Services Div.	58,936	59,213	58,900	58,896	99.9%
Children's Special Health Services	25,685	25,766	25,684	25,684	99.9%
HRD Cost Allocated Administration	14,234	14,661	15,101	15,554	100.0%
Subtotal Expenditures	36,939,604	47,458,320	53,981,343	54,928,986	
Annual Change		28.5%	25.8%	15.7%	
Ending Fund Balance	\$50,283,077	\$43,020,758	\$29,631,415	\$15,716,429	

*Revenue based on estimates adopted by the Revenue and Transportation Oversight Committee.
 **Statute would need to be amended in order to implement the State Auditor's new proposals.

The majority of funds from the account support Medicaid provider rate increases and service expansions. About one quarter of the FY 2011 budget request funds health insurance assistance for small employers (Insure Montana administered by the State Auditor). Big Sky Rx and Pharmassist are about 10 percent of the FY 2011 budget request. The amount allocated to CHIP is about 5 percent. Several small administrative appropriations take up about 2 percent of the budget request.

The executive budget request (including the State Auditor elected official request) grows \$17 million annually above the FY 2008 base budget amount. Most of the budget request continues appropriations at the FY 2008 expenditure level, with the exception of Insure Montana, Big Sky Rx, CHIP, and the Mental Health Services Plan (MHSP).

FY 2007 Deposit to Older Montanans' Trust Fund

The 2007 Legislature appropriated the remainder of the unspent health and Medicaid initiatives account appropriated for Big Sky Rx at the end of the 2007 biennium to the older Montanans trust fund. \$7.3 million was transferred to the trust fund.

**LFD
ISSUE**

Health and Medicaid Initiatives Account Summary

The LFD has identified several issues related to use of the health and Medicaid initiatives account in the executive budget. Each of the issues is discussed with specific division budget requests. The issues and division budget where they are discussed are:

- o Projected cost increases are too high – Health Resources Division (HRD), Big Sky Rx
- o Potential illegal use – Addictive and Mental Disorders, MHSP
- o Potential shift from health and Medicaid initiatives account to general fund in the CHIP program
- o New proposals funded from the account

Some of these issues identify areas where health and Medicaid initiative state special revenue could be used to offset general fund, while another notes the need to shift costs to another state funding source (most likely general fund) or amend statute to allow continued use of funds for activities that do not appear to be authorized by statute.

Health and Medicaid Initiatives Structural Balance

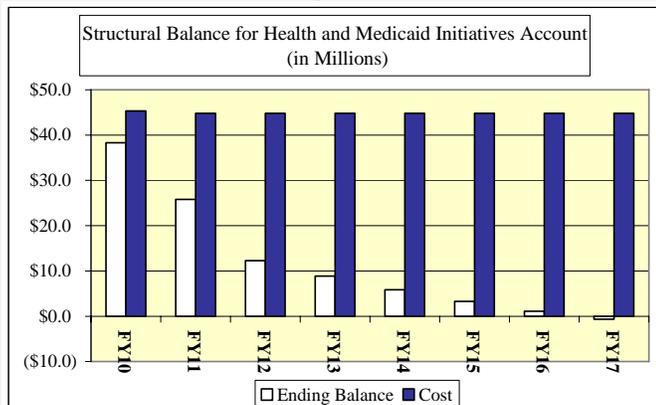
If the legislature approves the executive budget request, including the State Auditor elected official new proposals, the account would have a \$2.1 million ending fund balance at the end of FY 2012 and be in an \$11.5 million deficit by the end of FY 2013.

If the legislature wants to ensure an ending fund balance sufficient to carry programs through FY 2016, it would need to appropriate no more than \$44.8 million per year in FY 2010 through FY 2017. Figure ___ shows projected revenues and expenditures from FY 2012 through FY 2017 assuming:

- o The legislature continues total appropriations from the account at no more than the \$44.8 million
- o Tobacco tax revenues grow at an annual rate of 1.01 percent
- o FY 2009 appropriations from the account are fully expended

If FY 2009 appropriations from health and Medicaid initiatives are not fully expended, the account could be solvent through FY 2017.

Figure 7



Depending on legislative appropriations, the account can remain solvent about four more years than anticipated by the 2007 Legislature, which believed the account would be in a deficit position by the end of FY 2012 – 2013. The account will be solvent longer because several programs did not fully expend appropriations, most notably:

- o Big Sky Rx – FY 2008 appropriation of \$5.5 million, expenditures of \$2.5 million
- o Insure Montana – FY 2008 appropriation of \$6.5 million, expenditures of \$5.6 million
- o CHIP – FY 2008 appropriation of \$1.6 million, expenditures of \$0.9 million

Options:

Clearly, the health and Medicaid initiatives account is not structurally balanced over the long term – annual expenditures exceed projected revenues. The legislature can take several actions including limiting ongoing expenditures, increasing revenues, or waiting until next biennium to address the issue.

Use of Tobacco Settlement Proceeds

Tobacco Settlement Revenues

Montana receives revenue as a settling party to a Master Settlement Agreement (MSA) with several tobacco companies. The MSA places no restrictions on how states are to spend the money. The Montana voters approved:

- o Constitutional Amendment 35 in November 2000 requiring not less than 40 percent of tobacco settlement money to go to a permanent tobacco trust fund
- o Initiative 146 to allocate 32 percent of the total tobacco settlement funds to tobacco prevention/cessation programs and 17 percent to CHIP and Montana Comprehensive Health Association (MCHA)

Money not appropriated within two years is transferred to the general fund. The remaining 11 percent of the MSA money is deposited to the general fund. Figure 8 shows revenues, proposed expenditures, and fund balances for these two uses of tobacco settlement funds.

Fund Balances, Revenues, Expenditures	FY 2008	FY 2009	FY 2010	FY 2011	% of Total
<u>32% Allocation to Tobacco Cessation/Prevention</u>					
Beginning Fund Balance	\$2,914,644	\$2,579,810	\$2,563,220	\$2,564,587	
Revenues	\$11,076,568	\$11,524,800	\$11,674,560	\$11,861,760	
Expenditures					
Department of Revenue	\$247,737	\$233,499	\$312,665	\$312,824	2.7%
Department of Justice	108,357	130,472	115,943	116,106	1.0%
Public Health and Safety Division					
Tobacco Control & Prevention	7,655,381	7,847,419	7,771,774	7,774,278	66.6%
Chronic Disease Programs	2,619,852	2,700,000	2,692,811	2,694,193	23.1%
Tribal Programs	630,000	630,000	630,000	630,000	5.4%
Division Administrative Costs	0	0	150,000	150,000	1.3%
Total Expenditures	<u>\$11,261,327</u>	<u>\$11,541,390</u>	<u>\$11,673,193</u>	<u>\$11,677,401</u>	<u>96.3%</u>
Percent Increase		2.49%	1.14%	0.04%	
Ending Fund Balance - 32% Allocation	<u>\$2,729,885</u>	<u>\$2,563,220</u>	<u>\$2,564,587</u>	<u>\$2,748,946</u>	
<u>17% Allocation to CHIP/MT Comprehensive Health Association</u>					
Beginning Fund Balance	\$1,244,368	\$498,045	-\$184,274	\$138,409	
Revenues	\$5,884,427	\$6,122,550	\$6,202,110	\$6,301,560	
Expenditures					
CHIP	\$5,806,576	\$5,879,255	\$4,953,813	\$5,004,921	84.4%
MCHA	824,173	925,614	925,614	925,614	15.6%
Total Expenditures	<u>\$6,630,749</u>	<u>\$6,804,869</u>	<u>\$5,879,427</u>	<u>\$5,930,535</u>	<u>100.0%</u>
Percentage of Annual Increase		2.63%	-13.60%	0.87%	
Ending Fund Balance - 17% Allocation	<u>\$498,045</u>	<u>-\$184,274</u>	<u>\$138,409</u>	<u>\$509,434</u>	

The executive proposes expending 86 percent of the total revenues designated for the tobacco treatment and cessation programs over the biennium and 96 percent of the revenues designated for CHIP/MCHA. By statute any funds designated for the tobacco treatment and cessation funds or CHIP/MCHA that are not appropriated to these activities are deposited into the tobacco trust.

According to the statute, 32 percent of the total tobacco settlement money may only be used for tobacco prevention and cessation programs designed to prevent children from starting tobacco use and to help adults who want to quit tobacco use.

LFD COMMENT

The executive budget does not fully expend the tobacco settlement funds allocated to tobacco cessation in the 2011 biennium. LFD estimates that \$2.7 million is available for legislative appropriation for tobacco cessation and prevention activities. The LFD has identified a potential use of the funds which can reduce general fund appropriations for the Public Health and Safety Division (PHSD) by up to \$1.1 million and could also reduce appropriations from tobacco trust fund interest, which is over appropriated in the executive budget. See the narrative section on PHSD for further information.

Tobacco Trust Fund Interest

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

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

Figure 9 shows the revenues, proposed expenditures, and fund balance for the tobacco trust fund interest over the 2009 biennium. Expenditures from the account exceed revenues each year of the 2011 biennium, leaving a deficit in each year of the 2011 biennium.

Figure 9
Tobacco Settlement Trust Fund Interest - Fund Balance

Fund Balances, Revenues, Expenditures	FY 2008	FY 2009	FY 2010	FY 2011	% of FY2011
Beginning Fund Balance	\$2	\$123,924	\$25,812	(\$7,994)	
Revenues*	\$4,091,095	\$4,769,100	\$5,508,900	\$6,288,300	
Expenditures					
Public Health and Safety Division					
HPV Vaccine	\$0	\$400,000	\$400,000	\$400,000	6.2%
Public Home Health Visits/MIAMI	178,652	200,000	178,642	178,641	2.7%
Children's Special Health Services	128,020	290,000	128,015	128,014	2.0%
Maternal and Children's Health Data	0	0	75,000	75,000	1.2%
Women's and Men's Health	0	0	30,000	30,000	0.5%
Emergency Medical Services	0	0	125,000	125,000	1.9%
HIV Treatment	0	0	84,000	84,000	1.3%
Public Health and Safety Div. Subtotal	306,672	890,000	1,020,657	1,020,655	15.7%
Health Resources Division					
Hospital & Clinical Services Bureau	484,406	484,406	543,647	543,647	8.4%
Acute Services Bureau	1,580,175	1,599,378	1,580,175	1,580,175	24.3%
Dental Access	495,759	555,000	495,759	495,759	7.6%
Children's Mental Health Services	233,552	233,552	233,552	233,552	3.6%
Health Resources Division Subtotal	2,793,892	2,872,336	2,853,133	2,853,133	43.9%
Senior and Long-term Care Division					
Nursing Homes	831,850	832,217	831,850	831,850	12.8%
Resource Facilitation Services	0	100,000	0	0	0.0%
Healthcare for Healthcare Workers	0	0	750,000	1,691,361	26.0%
Senior and Long Term Care Div. Subtotal	831,850	932,217	1,581,850	2,523,211	38.8%
Addictive and Mental Disorders					
Mental Health Medicaid Benefits	27,659	27,659	27,659	27,659	0.4%
Mental Health Other Services		145,000	3,764	18,962	0.3%
Mental Health Administration	7,098	0	55,643	55,652	0.9%
Addictive and Mental Disorders Subtotal	34,757	172,659	87,066	102,273	1.6%
Total Expenditures	\$3,967,171	\$4,867,212	\$5,542,706	\$6,499,272	100.0%
Ending Fund Balance	\$123,926	\$25,812	(\$7,994)	(\$218,966)	

*90% of the trust interest may be appropriated and 10% is deposited to the trust corpus

The executive budget allocates all trust fund interest to programs within DPPHS. Most programs are funded at the FY 2008 expenditure level or the amount appropriated by the legislature for FY 2009 for human papillomavirus virus (HPV) vaccination.

The executive budget allocates interest funds to new uses including:

- o Emergency medical services
- o HIV treatment
- o Medicaid match for healthcare for healthcare workers.

The executive proposes using the remaining interest to support Medicaid benefits, home health visiting services, children's special health services, mental health benefits, and nursing home services.

**LFD
ISSUE**

Tobacco Settlement Interest Funds Over Appropriated in the 2011 Biennium

As shown in Figure 9, the executive budget request includes more tobacco settlement trust interest than there is estimated to be available by \$218,966 over the 2011 biennium. The LFD has identified a way to mitigate the shortfall in trust fund interest. Excess tobacco settlement cessation and prevention funds could be shifted to home health visiting services in the PHSD. The services are currently funded by trust interest. This funding shift would free up \$357,283 of tobacco settlement trust fund interest.

Options:

- o Fund public home health visits/MIAMI using tobacco settlement tobacco cessation and prevention funds and reduce the appropriation of tobacco settlement trust fund interest by \$178,642 in FY 2010 and \$178,641 in FY 2011
- o Reduce program costs supported by tobacco settlement trust fund interest by a total of \$218,966 over the biennium to ensure the account is structurally balanced at the end of FY 2011

**LFD
ISSUE**

Shift from State Special Revenue to General Fund for CHIP

The executive budget reduces state special revenue allocated to the CHIP program and increases general fund by \$2.6 million over the biennium. State matching funds for CHIP have been funded from two state special revenue accounts over the last several years - health and Medicaid initiatives and tobacco settlement funds. Two citizen initiatives required that one of the uses for these two funding sources is to maximize enrollment in CHIP.

In other areas of the executive budget request new proposals have been funded with health and Medicaid initiative state special revenue that could have been allocated to present law CHIP services. The total amount of health and Medicaid initiative state special revenue available for appropriation will depend on legislative decisions throughout the DPPHS budget. LFD staff will track legislative action so that it can determine whether there is sufficient state special revenue to offset CHIP general fund.

Option:

The legislature can review appropriations from health and Medicaid initiatives and tobacco settlement revenues to determine whether it wants to offset general fund, reduce spending levels in the account, or approve the executive budget request. There is an additional \$509,434 that could be used to offset general fund allocated to CHIP prior to any legislative action.

Statutory Appropriations

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

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

Statutory Appropriations Department of Health and Human Services					
Purpose	MCA #	Fund Source	Fiscal 2008	Fiscal 2010	Fiscal 2011
<i>Grants to State Approved Addition Programs</i>					
Alcohol taxes allocated to DPHHS					
20% of proceeds to grants to state approved community addiction programs	53-24-108	SSR	\$1,384,888	\$1,534,225	\$1,625,000
6.6% of proceeds to state approved community addiction programs that serve persons with alcoholism and a mental illness	53-24-108	SSR	374,157	506,088	443,329
<i>Assisting Adoption Services</i>					
Child and Family Services Division	42-2-105	SSR	93,061	93,426	93,490
<i>Debt Service</i>					
Debt service for bonds for state hospital	17-7-502	SSR	1,796,631	3,559,516	3,559,274
Debt service for bonds for Montana Developmental Center	17-3-502	SSR	982,030	982,030	982,030

Medicaid – The Match Rate

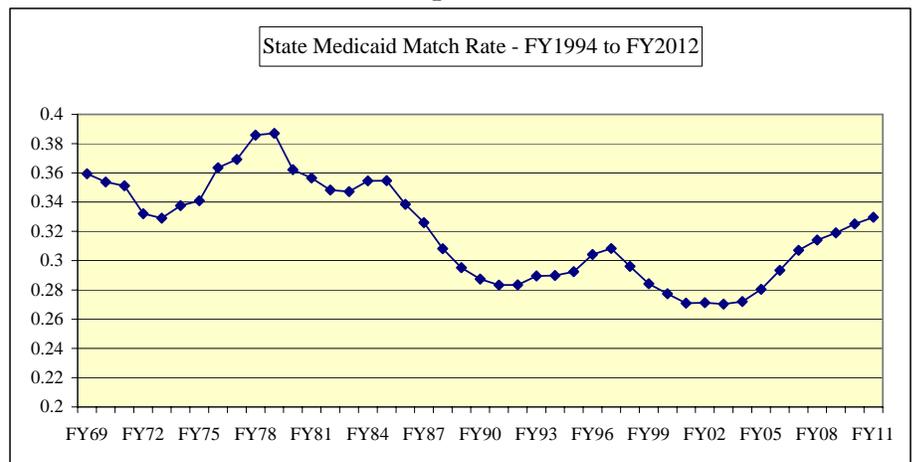
The appropriation for all Medicaid services is about 20 percent of HB 2, similar to other states. It is a significant state expenditure and a significant benefit for many persons and medical providers. In general, the Montana Medicaid program has low financial eligibility criteria and funds a broad array of services.

The Medicaid program is funded by state and federal funds. The federal share of Medicaid service costs is based on a three year average of a state’s per capita income compared to the changes in national per capita income, often referred to as FMAP – Federal Medical Assistance Percentage. The FMAP also determines the state match rate for federal Title IV-E that funds foster care services for eligible children, the matching funding stream that supports child care, and the state match rate for CHIP.

The FMAP has increased since the last legislative session. The state match rate was 31.41 percent in FY 2008 and is estimated to increase to 32.97 percent in FY 2011. Managing the Medicaid services program can be challenging particularly during economic downturns. A 1 percent increase in Medicaid expenditures costs \$8 million general fund over the 2011 biennium. Figure 10 shows the state Medicaid match rate since FY 1994.

This summary gives legislators an overview of the Montana Medicaid program. In general, once a state opts into the Medicaid program it:

Figure 10



- o Must fund certain services (mandatory services such as hospital, skilled nursing, and physician services)
- o Can opt to provide other medical services (optional services such as prescription drugs, mental health services, most non-hospital based therapies such as physical, occupational and speech therapy)
- o Must offer services statewide, allowing freedom of choice among providers
- o Must establish eligibility for certain mandatory groups at specified federally established minimum levels and in some cases cannot exceed the federal maximum levels (such as low income families and children, disabled adults and children, and persons over 65)
- o May opt to add additional eligibility groups
- o Must establish provider rates at levels sufficient to ensure provider participation in the program (courts have held that low provider rates can limit provider participation thereby limiting access to services and freedom of choice among providers)

States can also ask for a waiver of federal regulations, meaning that one or more of the federal Medicaid requirements can be suspended. Such Medicaid services are often referred to as a “waiver”.

DPHHS divisions oversee the following Medicaid waivers, which allow DPHHS to bypass certain federal mandates:

- o Human and Community Services Division – waiver to limit Medicaid services to a basic set of services for able bodied adults with dependent children
- o Disability Services Division – home and community services waiver for individuals with a developmental disability to provide non traditional services ranging from very intensive habilitation services to supported community employment for adults, and family education and support services for children
- o Health Resources Division – a demonstration waiver to provide community services for children at risk of placement in a residential treatment facility
- o Senior and Long Term Care Division – home and community services waiver for physically disabled and elderly persons to provide assistance to live in community, rather than hospitals or skilled nursing facilities
- o Addictive and Mental Disorders - home and community services waiver for adults with a serious and disabling mental illness to provide assistance to live in the community, rather than hospitals or skilled nursing facilities

Figure 11

Size of Family Unit	2008 Poverty Levels by Family Size					
	Percent of Federal Poverty Level					
	40%	100%	133%	150%	175%	200%
1	\$4,160	\$10,400	\$13,832	\$15,600	\$18,200	\$20,800
2	5,600	14,000	18,620	21,000	24,500	28,000
3	7,040	17,600	23,408	26,400	30,800	35,200
4	8,480	21,200	28,196	31,800	37,100	42,400
5	9,920	24,800	32,984	37,200	43,400	49,600
6	11,360	28,400	37,772	42,600	49,700	56,800
7	12,800	32,000	42,560	48,000	56,000	64,000
8	14,240	35,600	47,348	53,400	62,300	71,200
Each Additional Person	\$1,440	\$3,600	\$4,788	\$5,400	\$6,300	\$7,200

*The federal poverty level index is updated in late February/early March each year.

Financial Eligibility

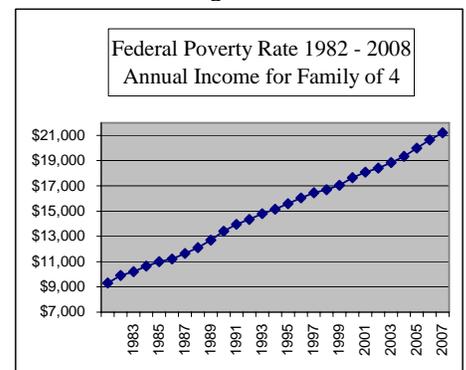
Most programs administered by DPHHS have financial eligibility tied to the federal poverty level. Figure 11 shows the calendar year 2008 federal poverty level by family size at various levels of poverty. For instance, the federal poverty level for a family of four would be \$21,200 annually. Similarly, 175 percent (CHIP eligibility level) for a family of four would be \$37,100 annually. The federal poverty guidelines are updated annually and usually published in late February or early March.

Figure 12 shows the change in the federal poverty level for a family of four from 1982 to 2008. Historically, the poverty thresholds have increased about 3 percent annually since 2000. Since 1982, the federal poverty level increased slightly more – 0.6 percent - than the consumer price index. In general legislators should expect increases in the federal poverty level commensurate with the changes in the consumer price index.

Legislative Interim Committee Work Related to DPHHS Programs

This section summarizes the work of two interim committees that considered issues and made recommendations to the 2009 legislature. This information is included so that legislators can consider legislative initiatives related to

Figure 12



DPHHS and the executive budget. Only recommendations with a fiscal impact are listed.

Interim Committee on Law and Justice

HJR 50 called for a study of the process and cost of psychiatric pre-commitment examination, detention, and treatment at the Montana State Hospital. The Law and Justice Interim Committee was assigned the study and the committee recommends to the 61st Legislature for the 2009 session enactment of the following bills:

LC0307 - Establishing a grant program to reimburse up to 50 percent of a county's costs for jail diversion, crisis intervention services, and precommitment cost insurance premiums (if such insurance is set up by the counties) for mentally ill individuals picked up by law enforcement. Preliminary cost estimate and "placeholder" appropriation amount: \$615,937 general fund each year of the biennium.

LC0329 - Establishing a pilot program for jail suicide prevention screening under a contract administered by the Department of Public Health and Human Services (DPHHS). Preliminary cost estimate and "placeholder" general fund appropriation amount: \$214,000 for FY2010 and \$89,000 for FY2011.

LC0516 - Requiring DPHHS to contract for up to three emergency detention beds in each mental health service area for persons who are a danger to themselves or others because of a mental disorder and who may need commitment. Preliminary cost estimate and "placeholder" general fund appropriation amount: \$410,625 in each year of the biennium.

LC0517 - Allowing a petition for involuntary commitment to be suspended if a respondent agrees to be diverted to short-term inpatient treatment for up to 14 days and requiring DPHHS to contract for up to three short-term inpatient treatment beds in each mental health service area. Preliminary cost estimate and "placeholder" appropriation amount: \$1.7 million general fund each year of the biennium.

Children, Families, Health, and Human Services Interim Committee

The Children, Families, Health, and Human Services Interim Committee conducted three studies that were approved by the 2007 Legislature and assigned to the committee:

- o Senate Joint Resolution 5, a study of Montana's emergency medical services (EMS) system
- o Senate Joint Resolution 15, a study of Montana's health care delivery system
- o A mental health study funded through House Bill 2, the general appropriations bill

The committee recommends to the 61st Legislature for the 2009 session enactment of the following bills:

LC0337 - Creates a grant program to pay for new vehicles and equipment for volunteer EMS agencies.

LC0332 – Establishes a resolution to encourage continued monitoring by the 2009-10 Children and Families Interim Committee of independent efforts to establish web sites that provide information on health care costs.

LC 339 - Appropriates up to \$1.5 million general fund to support efforts to put a system for electronic health records into place.

LC 340 – Establishes a resolution to support funding that may be included in the governor's budget for the electronic health records project (to be introduced in lieu of LC 339 if the governor's budget contains the funding).

Mental Health Study

The 2007 Legislature included \$200,000 in House Bill 2 during the May 2007 special session for "an interim study of mental health." The study was assigned to the Children and Families Committee, which approved hiring a consulting firm to conduct the study. The committee modeled a Request for Proposals largely on the elements of SJR 27, which called for an analysis of the publicly funded mental health system to determine whether gaps in services exist, whether other financing sources existed, and whether the system could be better coordinated.

DMA Health Strategies of Massachusetts was the successful bidder for the contract. The committee heard the final report from DMA on Oct. 14, 2008, and took several actions, including requesting the following legislation:

LC 592 - Provides for an interim study of a managed care mental health system.

LC 593 - Appropriates \$2.4 million general fund to sustain existing kids management authorities (KMAs) at the community level and create 10 additional KMAs.

LC 595 - Appropriates \$250,000 general fund to provide flexible funding to meet the needs of children up to the age of 6 and of high-risk children with multi-agency needs.

The committee also agreed to ask for changes to two bill drafts proposed by the Law and Justice Interim Committee as part of its interim studies of mental health needs in the justice system. The Children and Families Committee suggested amendments to LC0307, which creates a grant program for county crisis and jail diversion beds. The proposed changes would allow expenditures to include Crisis Intervention Team training for law enforcement officers; provide grants to collaborative efforts, not just counties; and match county precommitment costs if the county participates financially in a collaborative effort.

The committee also suggested revising LC 329, which creates a pilot program to screen jail inmates for suicide risk, to require screening inmates for any mental disorder.

It also asked the Department of Public Health and Human Services and the Department of Corrections continue to report to the Legislature on how they are following up on report recommendations.

Budget Summary by Category

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

Budget Item	-----General Fund-----				-----Total Funds-----			
	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	348,225,059	348,225,059	696,450,118	83.18%	1,357,322,268	1,357,322,268	2,714,644,536	82.94%
Statewide PL Adjustments	9,160,377	9,372,054	18,532,431	2.21%	13,452,235	13,648,449	27,100,684	0.83%
Other PL Adjustments	41,626,391	55,129,724	96,756,115	11.56%	207,440,727	261,425,964	468,866,691	14.32%
New Proposals	11,368,559	14,137,207	25,505,766	3.05%	26,848,993	35,731,203	62,580,196	1.91%
Total Budget	\$410,380,386	\$426,864,044	\$837,244,430		\$1,605,064,223	\$1,668,127,884	\$3,273,192,107	