



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: June 2, 2014

TO: Legislative Finance Committee

FROM: Lois Steinbeck, Senior Fiscal Analyst
Scot Conrady, Fiscal Analyst
Cynthia Hollimon, Fiscal Analyst

RE: Medicaid Monitoring Report – June LFC Meeting

MEDICAID MONITORING

The Legislative Finance Committee (LFC) adopted as part of its interim work plan monitoring the Medicaid program administered by the Department of Public Health and Human Services (DPHHS). This report is the fourth in a series that will be completed as part of the work plan.

SUMMARY

This report discusses:

- o A \$3.5 million increase in the projected general fund shortfall since the last report to the LFC, with a total general shortfall for Medicaid services estimated at \$10.6 million
- o An overstatement of the shortfall by up to \$2.3 million general fund
- o Availability of excess state special revenue and federal funds that could cover the shortfall for FY 2014
- o The potential use of \$3.5 million in federal funds to offset a portion of the general fund shortfall
- o Continued and new cost pressures

GENERAL FUND SHORTFALL INCREASES

DPHHS continues to project that expenditures for Medicaid services will exceed appropriations. The most recent estimate shows a \$10.6 million general fund shortfall¹, the highest estimated for FY 2014 and an increase of \$3.5 million when compared to the March LFC report.

The table on the following page shows DPHHS Medicaid spending estimates by division compared to appropriations approved by the 2013 Legislature. The estimated expenditures are drawn from the DPHHS budget status report (BSR) submitted May 15.

¹ The total agency wide general fund shortfall projected by DPHHS for FY 2014 is \$11.2 million, which is \$2.0 million higher than reported at the March LFC meeting.

**Monitoring Medicaid Services - FY 2014 Appropriations Compared to DPHHS Projected Expenditures
Based on May 15, 2014 Budget Status Report**

Division/Fund/Grand Total	FY 2014 Legislative Appropriation ¹	Estimated Annual Expenditures ²	Estimated Expenditures (Over) Under Appropriation	Balance as a Percent of Legis. Approp.	Changes in Appropriation Authority ³	Remaining Appropriation (Over) Under Legis. Approp.	Percent of Legis. Approp.
<u>Health Resources⁴</u>							
General Fund	\$121,927,937	\$131,753,330	(\$9,825,393)	-8.1%	\$0	(\$9,825,393)	-8.1%
State Special	44,601,408	45,561,722	(960,314)	-2.2%	519,366	(440,948)	-1.0%
Federal	<u>362,695,552</u>	<u>371,599,412</u>	<u>(8,903,860)</u>	<u>-2.5%</u>	<u>0</u>	<u>(8,903,860)</u>	<u>-2.5%</u>
Subtotal	529,224,897	548,914,464	(19,689,567)	-3.7%	0	(19,170,201)	-3.6%
<u>Senior and Long Term Care⁵</u>							
General Fund	57,498,788	58,039,667	(540,879)	-0.9%	0	(540,879)	-0.9%
State Special	30,074,850	28,504,965	1,569,885	5.2%	0	1,569,885	5.2%
Federal	<u>181,933,711</u>	<u>178,283,793</u>	<u>3,649,918</u>	<u>2.0%</u>	<u>0</u>	<u>3,649,918</u>	<u>2.0%</u>
Subtotal	269,507,349	264,828,425	4,678,924	1.7%	0	4,678,924	1.7%
<u>Developmental Services Division¹</u>							
General Fund	58,653,293	58,521,893	131,400	0.2%	0	131,400	0.2%
State Special	6,040,146	6,040,146	0	0.0%	0	0	0.0%
Federal	<u>168,667,539</u>	<u>162,233,556</u>	<u>6,433,983</u>	<u>3.8%</u>	<u>0</u>	<u>6,433,983</u>	<u>3.8%</u>
Subtotal	233,360,978	226,795,595	6,565,383	2.8%	0	6,565,383	2.8%
<u>Addictive and Mental Disorders</u>							
General Fund	10,658,340	11,004,105	(345,765)	-3.2%	0	(345,765)	-3.2%
State Special	8,717,204	7,979,544	737,660	8.5%	0	737,660	8.5%
Federal	<u>40,310,010</u>	<u>39,562,375</u>	<u>747,635</u>	<u>1.9%</u>	<u>0</u>	<u>747,635</u>	<u>1.9%</u>
Subtotal	59,685,554	58,546,024	1,139,530	1.9%	0	1,139,530	1.9%
<u>Grand Total All Medicaid Services</u>							
General Fund	248,738,358	259,318,995	(10,580,637)	-4.3%	0	(10,580,637)	-4.3%
State Special	89,433,608	88,086,377	1,347,231	1.5%	519,366	1,866,597	2.1%
Federal	<u>753,606,812</u>	<u>751,679,136</u>	<u>1,927,676</u>	<u>0.3%</u>	<u>0</u>	<u>1,927,676</u>	<u>0.3%</u>
Grand Total All Funds	<u>\$1,091,778,778</u>	<u>\$1,099,084,508</u>	<u>(\$7,305,730)</u>	<u>-0.7%</u>	<u>\$519,366</u>	<u>(\$6,786,364)</u>	<u>-0.6%</u>

Transfer of Authority Between Programs
SB 410 Limit

\$0
(60,000,000)

1. Includes HB 2. Any funds allocated from appropriations in SB 410 will be listed separately as a source of state special revenue. The December Medicaid monitoring report showed an additional \$5.2 million in federal authority appropriated in HB 4 (budget amendment bill) for a residential inpatient psychiatric treatment grant for children's mental health. This authority may not be used for any other purpose. In order to clarify the Medicaid status report going forward, the LFD removed this amount from the DSD federal appropriation.

2. Estimated expenditures are based on the DPHHS May 15, 2014 budget status report (BSR). Expenditure data was drawn from SABHRS as of March 31 and Medicaid projection data is based on claims paid as of March 28.

3. Changes in appropriation authority can include: reorganizations, transfers of authority among Medicaid programs, transfers of authority to other DPHHS programs, reallocations of authority between program functions within a division and additions due to budget amendments. SB 410 limits transfers of Medicaid services appropriation authority to \$60.0 million total funds.

4. HRD received an administrative appropriation of \$519,366 state special revenue transferred from the University of Montana to partially fund a medical education program.

5. The Medicaid appropriation summary in the DPHHS budget status report includes \$100,000 of general fund appropriated for community housing assistance for persons transitioning from facility based care to community services. Since this appropriation does not support Medicaid services, the LFD has not included it in the table.

The majority of the cost overrun is in the Health Resources Division (HRD), largely in hospital, pharmacy, and acute services costs. The shortfall in the Senior and Long Term Care Division (SLTC) is due to lower than budgeted revenue from the nursing home bed fee, which shifts the cost to the general fund. Disability Services Division (DSD) is showing a small reversion. The Addictive and Mental Disorders Division (AMDD) shortfall is due to higher adult mental health costs.

General Fund Change from March Report

The adjacent figure shows the changes in general fund Medicaid cost estimates by division for the May 15 BSR compared to the March LFC report, which was based on February data. The \$3.5 million change is the net of two increases and two reductions in projected overruns.

Estimated General Fund Expenditures for Medicaid Services by Division May Budget Status Report Compared to February Budget Status Report				
Division	Budget Status Report (BSR)		May Over (Under)	%
	February*	May	February	Change
Health Resources	(\$4,796,435)	(\$9,825,393)	(\$5,028,958)	104.8%
Senior and Long Term Care	(836,036)	(540,879)	295,157	-35.3%
Developmental Services	(1,277,606)	131,400	1,409,006	-110.3%
Addictive & Mental Disorders	<u>(137,285)</u>	<u>(345,765)</u>	<u>(208,480)</u>	<u>151.9%</u>
Total General Fund Deficit	<u>(\$7,047,362)</u>	<u>(\$10,580,637)</u>	<u>(\$3,533,275)</u>	50.1%

*The March LFC report was based on data from the February BSR.

As noted earlier, HRD has the largest portion of the general fund shortfall. The estimated shortfall increased by \$5.0 million from the last report to the LFC. As noted in the March LFD report, the HRD shortfall is dominated by:

- o Hospital and clinic costs
 - o Estimated to be overspent by \$8.6 million compared to \$5.5 million in the last report to the LFC
- o Pharmacy and acute care costs
 - o Estimated to be overspent by \$2.4 million compared to \$1.0 million in the last report to the LFC

The SLTC shortfall improved by about \$0.3 million due to projected under expenditures in the home and community based waiver of about \$0.5 million.

In March, children’s mental health services administered by the Developmental Services Division were projected to be short \$1.5 million general fund. However, excess general fund in the appropriation for developmental disabilities Medicaid services was used to offset the children’s mental health shortfall.

General Fund Shortfall Overstated

The FY 2014 general fund shortfall is overstated by up to \$2.3 million. SLTC will be reallocating expenditures among Medicaid services pending federal approval to implement the Community First Choice (CFC) option, which has a 6% lower state match rate than the regular Medicaid match. SLTC will move allowable costs from personal assistance services to CFC, after identifying eligible persons and services provided since October 1, 2013. DPHHS had not

finalized its estimate of CFC cost savings as of the date of this report. However, if SLTC is able to refinance the level of services anticipated during legislative session, it could free up \$2.3 million general fund to be used to offset Medicaid shortfalls in other divisions. This amount has been added to the total available funds to mitigate the general fund short fall discussed below.

Funds Available to Offset General Fund Shortfall

There is up to \$14.9 million that can be used to offset the FY 2014 general fund shortfall. The March Medicaid monitoring report identified sources of state special revenue and federal funds available to offset the FY 2014 projected general fund cost overrun. The adjacent figure shows those funds and includes the additional general fund due to CFC. If not all of the Children’s Health Insurance Program Reauthorization Act (CHIPRA) funds, SB 410, or HMK funds are needed to offset the FY 2014 general fund shortfall, the funds could be used in FY 2015.

Funds that Could Offset FY 2014 Estimated General Fund Shortfall	
Source of Funds	Millions
Additional 2013 CHIPRA Bonus Grants	\$2.5
2014 CHIPRA Bonus Grant	7.0
SB 410 Appropriation to DPHHS	2.0
Additional HMK Funds	<u>1.1</u>
Subtotal State Special Revenue & Federal Funds	12.6
Community First Choice Offset*	<u>2.3</u>
Total Available to Offset FY 2014 Shortfall	<u>\$14.9</u>
*Final amount could be lower.	

DPHHS received \$9.5 million more in CHIPRA bonus payments than the legislature included in HB 2. According to federal guidance provided to DPHHS, the funds can be used for a wide range of purposes. However, the funds may not be used to match other federal funds. The March report includes additional information on CHIPRA bonus payments.

DPHHS has not yet indicated how it will use the \$2.0 million state special revenue appropriation from SB 410. However, those funds could be used as state Medicaid match in place of general fund.

Although DPHHS applied a portion of the higher insurance premium tax state special revenue projected to be available to pay Healthy Montana Kids (HMK) costs, it did not allocate the entire amount estimated to be available. The additional HMK funding could also be used in place of Medicaid general fund match. Both the March 2014 and December 2013 LFC reports discuss the additional HMK revenue and SB 410 funds in greater detail.

Proposal to Use \$3.5 Million in CHIPRA Bonus

DPHHS has submitted a budget change document (BCD) to use \$3.5 million of federal CHIPRA bonus funds to replace general fund for state facility overtime costs. The freed up general fund would be transferred to HRD to cover a portion of the projected general fund shortfall. If the Office of Budget and Program Planning approves the BCD, it would lower the projected Medicaid general fund shortfall by a third.

State Special Revenue and Federal Appropriations Are Adequate

DPHHS is projecting that other funding sources will be adequate to cover increased Medicaid costs. There will be excess state special revenue due to the combined impact of lower:

- o Collections of nursing home utilization fees (state special revenue)

- o Expenditures in the basic mental health waiver (also known as the HIFA waiver – Health Insurance Flexibility and Accountability)
- o Transfers of county funds to use as match for mental health Medicaid services

In the March LFC report, DPHHS projected a shortfall in federal authority that has changed to a surplus of about \$1.0 million in the May BSR. The change is largely due to lower anticipated reimbursements to Indian Health Services (I.H.S.) providers, which declined \$6.3 million and are 100% federally funded. The total appropriated for the federal I.H.S. reimbursement is \$63.7 million.

CHANGES TO MEDICAID SERVICES APPROPRIATION AUTHORITY

There have been no overall changes to the level of Medicaid services appropriations since the December 2013 LFC meeting. As noted earlier, there were internal reallocations of authority within the Developmental Service Division Medicaid services appropriations.

POTENTIAL MEDICAID SERVICES COST IMPACTS

There are potential risks that could raise Medicaid costs, including FY 2015 expenditures:

- o Addition of a new service - the patient centered medical home model of care (PCMH)
- o Increased Medicaid enrollment through the federal health insurance marketplace

PCMH

The March LFC report included a discussion of the addition of the PCMH service as authorized by SB 84 passed by the 2013 Legislature. Originally, DPHHS anticipated implementing a pilot program that would limit provider participation. The option currently being considered focuses more on limiting the patient population approved to participate in a PCMH and establishing reimbursements at a higher, but unspecified level, compared to reimbursement rates reported at the March LFC meeting.

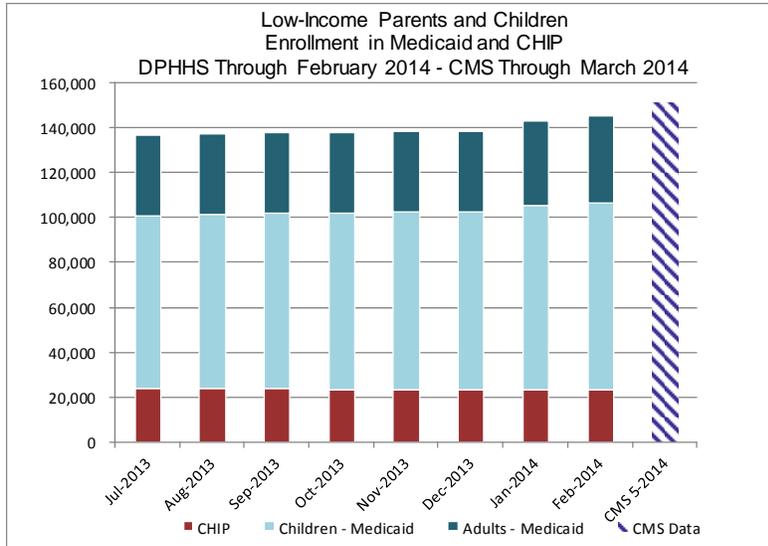
Medicaid Enrollment Increases

Medicaid enrollment increases of 6,571 persons from the federal health insurance marketplace were reflected in the monthly Medicaid data published by DPHHS. The change measured from December to February is more than double the 2,901 person increase during the same time a year ago. Most of the new enrollees are children (3,758) and low-income parents (about 3,000)².

CMS Medicaid/CHIP Enrollment Through the Federal Marketplace

There may be additional enrollees determined eligible through the federal marketplace who are not yet included in the DPHHS Medicaid eligibility reports. In early May, the Centers for Medicare and Medicaid (CMS) released state by state counts of total enrollment through the federal marketplace, including new enrollees in Medicaid and the Children’s Health Insurance Program (CHIP).

² The number of adults determined eligible in the aged or disabled categories declined slightly over that period.



The adjacent figure shows the Medicaid and CHIP enrollment data reported by DPHHS and CMS. DPHHS enrollment data is lagged two months and is current as of February 2014. The CMS information from the federal marketplace is current as of May 2014. The CMS report shows that Montana Medicaid and CHIP enrollment increased 14,132 compared to average Medicaid and CHIP enrollment of 137,596 from July through September 2013. The CMS report exceeds the most recent

Medicaid enrollment data from DPHHS by about 7,600 persons.³ The difference between the CMS and DPHHS enrollment numbers could be due to the different times that enrollment numbers were released. DPHHS enrollment data is lagged by two months. Future DPHHS reports may show enrollment increases similar to the CMS data.

Cost Saving Measure

DPHHS reported to the March 2014 meeting of the Interim Children and Families Committee that the department would be lowering the Medicaid reimbursement rate for elective deliveries and C-sections, which are provided without a medically necessary reason. The hospital rate will be lowered by about 33% and the physician reimbursement will be lowered 12%. Estimates of the amount of savings are not yet available.

DPHHS Next Steps

Medicaid services cost projections continue to exceed available general fund. DPHHS has submitted a BCD to offset \$3.5 million of the \$10.6 million projected general fund shortfall. DPHHS will need to take additional steps to mitigate the shortfall, which could include:

- o Reducing expenditures
- o Using available state special and federal funds to cover costs normally funded from the general fund

LFC Options

The LFC can consider several options related to the 2014 projected Medicaid cost overrun, funding available to offset general fund costs, and the items that increase FY 2015 Medicaid costs.

³ Centers for Medicare and Medicaid Services, Department of Health and Human Services, Profiles of Affordable Care Act Coverage Expansion Enrollment for Medicaid/CHIP and the Health Insurance Marketplace, May 1, 2014, accessed May 13, 2014 at the following link: http://aspe.hhs.gov/health/reports/2014/MarketPlaceEnrollment/Apr2014/Marketplace_StateSum.cfm.

Options related to the projected general fund shortfall and DPHHS actions to mitigate the shortfall:

- o Request that DPHHS discuss with the LFC what additional action it may take to address the projected general fund shortfall:
 - o Will DPHHS use SB 410 appropriations and if so how much?
 - o Will DPHHS apply the remainder of CHIPRA bonus funds to current general fund expenditures and use the freed up general fund to pay Medicaid matching costs? If so, how much will be used?

Option related to items that increase FY 2015 Medicaid costs:

- o Request that DPHHS provide an estimate of the FY 2015 cost of the PCHM model for review at the October LFC meeting
- o Request that DPHHS provide an estimate of the FY 2015 cost to cover the increased Medicaid enrollment that occurred through the federal marketplace