



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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Director  
AMY CARLSON

DATE: March 7, 2014

TO: Legislative Finance Committee

FROM: Lois Steinbeck, Senior Fiscal Analyst  
Stephen Forrest, Fiscal Analyst II  
Cynthia Hollimon, Fiscal Analyst I

RE: Medicaid Monitoring Report – March LFC Meeting

## STATUS OF MEDICAID FUNDING

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

## FY 2014 Medicaid Services Funding and Estimated Expenditures

The table on the following page shows DPHHS Medicaid spending estimates compared to appropriations approved by the 2013 Legislature. The estimated expenditures are drawn from the DPHHS budget status report (BSR) submitted February 15<sup>1</sup>.

## Estimated Cost Overrun

DPHHS continues to project that expenditures for Medicaid services will exceed appropriations by \$7.0 million general fund<sup>2</sup>, which is an improvement of \$0.7 million compared to the report presented at the December LFC meeting. The reduction in the projected shortfall is due to several factors, with one of the most significant being the use of additional state special revenue from the Healthy Montana Kids (HMK) state special revenue account to offset about \$1.5 million of general fund costs.

Federal appropriations, which were estimated to be adequate to cover projected expenditures in December, are now expected to be \$1.4 million short of the amount needed. In December,

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<sup>1</sup> The appropriation data used in the DPHHS BSR is drawn from the state account system as of February 10th. Current month and year-to-date expenses are as of December 31st. Claims data upon which the Medicaid estimates were based is from the MMIS paid claims reports for December 27th.

<sup>2</sup> The total agency wide general fund shortfall projected by DPHHS for FY 2014 is \$9.2 million.

**Monitoring Medicaid Services - FY 2014 Appropriations Compared to DPHHS Projected Expenditures  
as of February 2014; Medicaid Cost Estimates Based on February 15, 2014 BSR**

Division/Fund/Grand Total	FY 2014 Legislative Appropriation <sup>1</sup>	Estimated Annual Expenditures <sup>2</sup>	Estimated Expenditures (Over) Under Appropriation	Balance as a Percent of Legis. Approp.	Changes in Appropriation Authority <sup>3</sup>	Remaining Appropriation (Over) Under Legis. Approp.	Percent of Legis. Approp.
<u>Health Resources<sup>4</sup></u>							
General Fund	\$121,927,937	\$126,724,372	(\$4,796,435)	-3.9%	\$0	(\$4,796,435)	-3.9%
State Special	44,601,408	46,322,708	(1,721,300)	-3.9%	519,366	(1,201,934)	-2.7%
Federal	<u>362,695,552</u>	<u>370,402,186</u>	<u>(7,706,634)</u>	<u>-2.1%</u>	<u>0</u>	<u>(7,706,634)</u>	<u>-2.1%</u>
Subtotal	529,224,897	543,449,266	(14,224,369)	-2.7%	0	(13,705,003)	-2.6%
<u>Senior and Long Term Care<sup>5</sup></u>							
General Fund****	57,498,788	58,334,824	(836,036)	-1.5%	0	(836,036)	-1.5%
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>180,179,591</u>	<u>1,754,120</u>	<u>1.0%</u>	<u>0</u>	<u>1,754,120</u>	<u>1.0%</u>
Subtotal	269,507,349	267,019,380	2,487,969	0.9%	0	2,487,969	0.9%
<u>Developmental Services Division<sup>1</sup></u>							
General Fund	58,653,293	59,930,899	(1,277,606)	-2.2%	0	(1,277,606)	-2.2%
State Special	6,040,146	6,040,146	0	0.0%	0	0	0.0%
Federal	<u>168,667,539</u>	<u>165,001,857</u>	<u>3,665,682</u>	<u>2.2%</u>	<u>0</u>	<u>3,665,682</u>	<u>2.2%</u>
Subtotal	233,360,978	230,972,902	2,388,076	1.0%	0	2,388,076	1.0%
<u>Addictive and Mental Disorders</u>							
General Fund	10,658,340	10,795,625	(137,285)	-1.3%	0	(137,285)	-1.3%
State Special	8,717,204	8,064,231	652,973	7.5%	0	652,973	7.5%
Federal	<u>40,310,010</u>	<u>39,377,370</u>	<u>932,640</u>	<u>2.3%</u>	<u>0</u>	<u>932,640</u>	<u>2.3%</u>
Subtotal	59,685,554	58,237,226	1,448,328	2.4%	0	1,448,328	2.4%
<u>Grand Total All Medicaid Services</u>							
General Fund	248,738,358	255,785,720	(7,047,362)	-2.8%	0	(7,047,362)	-2.8%
State Special	89,433,608	88,932,050	501,558	0.6%	519,366	1,020,924	1.1%
Federal	<u>753,606,812</u>	<u>754,961,004</u>	<u>(1,354,192)</u>	<u>-0.2%</u>	<u>0</u>	<u>(1,354,192)</u>	<u>-0.2%</u>
Grand Total All Funds	<u>\$1,091,778,778</u>	<u>\$1,099,678,774</u>	<u>(\$7,899,996)</u>	<u>-0.7%</u>	<u>\$519,366</u>	<u>(\$7,380,630)</u>	<u>-0.7%</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 February 15, 2014 budget status report (BSR). Expenditure data was drawn from SABHRS as of December 31 and Medicaid projection data is based on claims paid as of December 31.
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.

reversions from some 100% federally funded Medicaid services, including reimbursements to Indian Health Services, were expected to be sufficient to cover the additional federal authority needed for other services. In total, state special revenue appropriations are estimated to be sufficient to cover estimated costs.

The major pressure points for Medicaid services with projected general fund cost overruns are:

- o Health Resources Division - \$4.8 million (68% of the total)
  - o Medicaid hospital services - \$5.5 million
    - This amount is about \$2.1 million greater than estimated in the December report
    - Ongoing factors related to the projected short fall are higher reimbursement due to more complex patient acuity and an increase in the number of services
- o Developmental Services Division - \$1.3 million (19% of the total)
  - o Children's mental health services - \$1.5 million due to growth in targeted case management services and reductions in prior authorization for utilization of some services
- o Senior and Long Term Care Division - \$0.7 million (12% of the total)
  - o Nursing home services - \$0.8 million due to lower state special revenue collections in the nursing home utilization fee, which shifts costs to the general fund
- o Addictive and Mental Disorders Division - \$0.1 million (2% of the total)
  - o Adult mental health services – \$0.1 million due to growth in case management and physician services

Some Medicaid services administered by the Health Resources, Developmental Services, and Senior and Long Term Care Divisions are projected to have general fund surpluses, which partially offset the shortfalls estimated in the individual services noted above.

### ***Reductions to 2015 Biennium Executive Budget Request for Medicaid Services***

As noted above, the estimated Medicaid services costs exceed the FY 2014 appropriation by \$7.0 million general fund. The 2013 Legislature reduced the FY 2014 executive budget request for Medicaid funding by:

- o \$3.0 million general fund by lowering certain trended Medicaid services estimates by 2%
- o \$0.8 million for funds to support the recently approved Medicaid state plan amendment to provide home and community based services for seriously emotionally disturbed children

The projected shortfall exceeds the legislative reduction by \$3.2 million general fund.

### ***Major General Fund Differences from the December Report***

The most recent estimate of the Medicaid services general fund shortfall shows a \$0.7 million improvement from the December LFC report. The major difference is in managed care services (largely physician services) administered by the Health Resources Division. In the December report, there was a \$1.2 million deficit projected compared to the February estimated surplus of \$1.7 million general fund. This change is the result of a funding shift. DPHHS will use an additional \$1.5 million in state special revenue from the HMK state special revenue account in

place of general fund. The total cost estimated for managed care services changed very little from the December report.

In December LFD staff discussed an updated revenue estimate for the HMK state special revenue account that could be used to offset up to \$2.6 million of the projected general fund shortfall. The Office of Budget and Program Planning subsequently updated its revenue projections as well, resulting in DPHHS's action discussed above.

## **State Special Revenue and Federal Appropriations**

DPHHS is projecting that overall there will be excess state special revenue authority, but in a reverse from the December report to the LFC there is a projected deficit of \$1.4 million in federal authority. Excess state special revenue authority is due to 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)

## ***Major Differences from the December Report***

As noted earlier, federal appropriation authority may be less than needed to fund the Medicaid cost projection, with a total deficit of \$1.4 million compared to a projected surplus of \$14.6 million in the December report. The shift is due to primarily to:

- o Higher projected shortfalls in hospital services costs, as noted in the discussion related to general fund appropriation shortfalls
- o An estimated \$10.0 million increase in federal reimbursements to Indian Health Services (I.H.S.) providers<sup>3</sup> compared to the December report

DPHHS will be able to transfer federal authority from other programs in order to cover the anticipated shortfall.

## **CHANGES TO MEDICAID SERVICES APPROPRIATION AUTHORITY**

There have been no changes to Medicaid services appropriations since the December LFC meeting. Examples of changes include transfers of authority to other programs within DPHHS and the addition of funds due to approved budget amendments.

## **LFD ANALYSIS OF FUNDS AVAILABLE TO OFFSET A PORTION OF THE COST OVERRUN**

There is \$10.9 million in state special and federal revenue available to offset the projected general fund shortfall in FY 2014, with some of the funds available for FY 2015 if needed. The largest offset is \$8.4 million of state special revenue:

- o SB 410 appropriations
  - o \$2.0 million appropriated to DPHHS and \$6.4 million of the \$7.5 million appropriated to the Governor's Office<sup>4</sup>

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<sup>3</sup> I.H.S. appropriations were projected to be underspent by \$16.6 million in the December LFC report compared to \$6.6 million in revised February estimates. The total FY 2014 appropriation for I.H.S. reimbursements is \$63.8 million.

- o \$1.1 million of additional insurance premium tax revenues allocated to the Healthy Montana Kids (HMK) program based on LFD staff revenue projections, which exceed the funding change made by DPHHS discussed earlier

**CHIPRA (Children’s Health Insurance Program Reauthorization Act) Bonus**

There is \$2.5 million in federal revenue available to offset the general fund cost overrun. Shortly after the December LFC meeting, DPHHS was awarded a CHIPRA bonus grant of \$7.2 million for federal fiscal year (FFY) 2012, which is \$2.5 million greater than the amount anticipated and appropriated in HB 2 for the 2015 biennium. In addition, DPHHS may receive another CHIPRA grant for FFY 2013 of up to \$7.0 million. CHIPRA bonus funds can be spent for nearly any DPHHS function, except that the bonus funds may not be used to match federal funds.

The adjacent table shows the functions supported by the CHIPRA bonus payment as appropriated in HB 2, excess funds available from the most recent bonus payment, and the additional potential bonus funds for FFY 2013. Both the FFY 2012 and FFY 2013 bonus payments can be spent during the state 2015 biennium.

Actual and Potential Federal CHIPRA Bonus Funds Available to Offset Projected General Fund Shortfall	
HB 2 Appropriation/Actual Grant and Excess Grant Funds/Potential Future Grant	Biennial Appropriation
<u>HB 2 Appropriation</u>	
Child Care - Best Beginnings STARS	\$2,400,000
Montana State Hospital Overtime	2,000,000
Prevent Jail Suicide Funds	<u>250,000</u>
Total HB 2 Appropriation	4,650,000
<u>Actual Grant Award - FFY 2012*</u>	<u>7,185,000</u>
<u>Actual/Potential Offset for Projected General Fund Overrun</u>	
Excess Funds Available from FFY 2012* Grant	2,535,000
Potential Funds - Estimated FFY 2013* Grant	<u>7,026,000</u>
Total Potential Offset	<u>\$9,561,000</u>
FFY is federal fiscal year.	
Source: Federal Funds Information for States	

***Bonus Payments Appear to be One-Time Funds***

The CHIPRA bonus payment program expires in FFY 2013. To date, there has not been Congressional action to extend the program. Many of the activities tied to incentive payments are now practices required by the Affordable Care Act (ACA). It appears likely that the bonus payments will not be an ongoing source of funding.

***Potential Uses of CHIPRA Bonus***

The CHIPRA bonus can be used to fund a wide variety of DPHHS activities. As noted previously the most significant prohibition is that the bonus cannot be used to match federal funds. Therefore the funds cannot be used in place of the general fund needed for state Medicaid match.

**New Potential Cost Impact**

DPHHS anticipates implementing a new Medicaid waiver by October 1, 2014, subject to federal approval. DPHHS proposes to select 4 to 6 providers to offer services under a patient centered

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<sup>4</sup> About \$500,000 of the SB 410 appropriation to the Governor’s Office was used for an administrative appropriation to the Department Justice to fund criminal narcotics investigators in eastern Montana and \$600,000 is allocated to fund a potential cost overrun for the Office of the Public Defender.

medical home (PCMH) model of care.<sup>5</sup> DPHHS anticipates paying providers between \$1.50 to \$4.00 per enrollee per month depending on the service model selected.

LFD staff requested information on the estimated cost of the waiver for FY 2015. DPHHS did not provide an estimate and indicated that the eventual cost would depend on the providers selected and the number of enrollees served. LFD staff will continue to monitor the potential cost impact.

## **DPHHS Next Steps**

Medicaid services cost projections continue to exceed available general fund. DPHHS will need to take 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
- o Moving general fund from FY 2015 to FY 2014 to fund anticipated costs, which would provide the LFC an opportunity to review and comment on the statutorily required plan to reduce expenditures to be within the appropriations in the second year of the biennium. Usually such plans have been available at the June LFC meetings and sometimes as early as March.

## **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 proposed PCMH model.

Options related to the projected general fund shortfall and DPHHS actions to mitigate the shortfall: Request that DPHHS discuss with the LFC what action it may take to address the projected general fund shortfall.

- 1) Will DPHHS use SB 410 appropriations and if so how much?
- 2) Will DPHHS apply the CHIPRA bonus to current general fund expenditures and use the freed up general fund to pay Medicaid matching costs?
- 3) Will DPHHS submit a request to transfer general fund from FY 2015? If so, how soon will it do so?

Option related to proposed PCMH model: Request that DPHHS provide an estimate of the FY 2015 cost of the PCHM model for review at the June LFC meeting.

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<sup>5</sup> SB 84 passed by the last legislature and codified in Title 33, chapter 40, part 1 of the MCA gives DPHHS the authority to establish one or more PCMH programs. The law terminates December 31, 2017. The fiscal note produced by the Office of Budget and Program Planning showed a \$0 impact from the bill.