OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

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TO: Clayton Schenck, Legislative Fiscal Analyst
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FROM: David Ewer, Budget Director
Office of Budget and Program Planning

DATE: March 2, 2006

SUBJECT: **LFC Review and Comment on a Fiscal Year Transfer Supplemental Appropriation**

In accordance with Title 17, Chapter 7, part 3, MCA, the Governor's Office of Budget and Program Planning is submitting for review and comment at the March meeting of the Legislative Finance Committee a proposed supplemental appropriations to transfer FY 2007 authority to FY 2006.

- The Department of Public Health and Human Services has requested a transfer of up to $11.4 million general fund from FY 2007 to FY 2006. The largest driver of the request: Costs associated with the overcrowding at the Montana State Hospital $3.7 million ; 2) Impact of the Federal Deficit Reduction Act - $3 million; 3) Medicaid expenditures exceeding budget authority - $2 to $4 million; and 4) Administrative leave costs at the Montana Developmental Center - $.7 million. These costs are anticipated to replicate in FY 2007 and will be increased by an additional $3 million due to a full year impact of the Deficit Reduction Act and $6 million due to a decrease in the Federal Medical Assistance Participation (FMAP) for FY 2007 which is the federal share for the cost of Medicaid. Attached is a more detailed breakdown of the transfer amount as well as a memo outlining the steps the department will take to mitigate the effects of the supplemental in FY 2007.

Please let us know if you wish additional information on this transaction.

C: Joan Miles
John Chappuis
Taryn Purdy

CHILDREN AND FAMILIES INTERIM COMMITTEE
MARCH 31, 2006 MEETING
EXHIBIT 5

The Department of Public Health and Human Services estimated general fund appropriation shortfall is due primarily to unavoidable expenditures exceeding appropriations in the following areas:

- The Montana State Hospital opened the receiving unit to alleviate overcrowding. There were significant health and safety issues, which required this action. When the unit was opened, the facility added 36.60 FTE, who were not included in the budget. We also experienced a very high staff turnover rate that required unbudgeted pay exceptions in order to retain staff. The cost overrun at MSH is estimated to be $3.7 million.
- The Montana Developmental Center is estimating a cost overrun of $0.7 million. This is due primarily to overtime expenditures that are being incurred to cover staff on administrative leave. Federal regulations changed in 2005, which require the facility to place on administrative leave staff who make any kind of physical contact with residents of the facility while an investigation is made regarding the contact.
- Medicaid expenditures are exceeding budgeted authority, primarily in the Hospitals, Medicare Buy-in and Adult Mental Health Services categories, by $2.2 million. It is possible, though the DPHHS does not believe it to be likely, this amount could reach $8 million.
- The Federal Budget Deficit Reduction Act (DRA), which was recently passed, could increase general fund expenditures by $3 million in FY06. DPHHS is awaiting federal interpretation and regulation changes regarding the DRA.

There are additional potential pressures on the general fund that are not included in the request to move appropriations as the impact will not be realized until FY 2007.

- A full year of impact from the DRA will increase general fund expenditures by $6 million.
- The proposed presidential budget for FY07, if it were passed as is currently written, would require increased general fund expenditures of another $18 million in FY07 in order to maintain current service levels.
- Finally, the federal Financial Medical Assistance Participation (FMAP) rate for FY07 is less than the amount anticipated when the budget was established. This new rate will result in an additional $6 million general fund shortfall in FY07.

The following potential actions are forwarded as required in MCA 17-7-301 (7) (b) that could be considered to assure the department reduces, to the greatest extent possible, the expenditures in excess of appropriations or funding for the 2007 biennium. The amounts shown are all annual savings that could be generated with an implementation date of July 1, 2006. This is the earliest the department could implement programmatic adjustments that require administrative rule changes. SB-478 of the 2005 Legislature eliminated the state's ability to implement emergency rules in order to achieve a budget reduction in a more expeditious manner.

The department's review will be governed by the principles established SB-41 (listed below for reference) for the Montana Medicaid program and will focus on ensuring that access to services is not impacted for Montanans in need of departmental funded services:

- Protecting those persons who are most vulnerable and most in need, as defined by a combination of economic, social, and medical circumstances;

- Giving preference to the elimination or restoration of an entire Medicaid program or service, rather than sacrifice or augment the quality of care for several programs or services through dilution of funding; and
- Giving priority to services that employ the science of prevention to reduce disability and illness, services that treat life-threatening conditions, and services that support independent or assisted living, including pain management, to reduce the need for acute inpatient or residential care.

The following roster of potential areas to be reviewed for reduction includes several unpalatable items. They demonstrate the magnitude of available appropriations that could be made available if these cuts were made in whole or in part in order to contribute to eliminating deficit for the 2007 biennium.

- Eliminate the Mental Health Services Plan Drugs – potential savings of $2,949,129.
- Eliminate Drugs as an optional Medicaid service – potential savings of $8,718,297.
- Provider Rate reductions – an across-the-board reduction of 7.9% in Medicaid provider reimbursement would generate potential savings of $16,000,000.
- Eliminate all optional services under the Medically Needy program – potential savings of $8,219,390.
- Eliminate all optional adult Medicaid services, including drugs, waiver services and optional services for medically needy – potential savings of $37,408,123.
- Remove the additional 36.60 FTE that were recently added to MSH – potential savings of $1,453,324.
- Eliminate remaining general fund only services (e.g., DD, Mental Health Services Plan) – potential savings not identified.
- DPHHS is continuing to lower administrative costs (i.e., restrict travel, postpone filling positions, etc.)

There are some obvious disadvantages to implementing reductions in many of these areas. These include:

- Eliminate the Mental Health Services Plan Drugs – A significant cost shift would be expected if drug coverage were eliminated. Without drugs, individuals' health would deteriorate to the extent that more intensive services would be required, such as in-patient hospital and nursing home services.
- Eliminate Drugs as an optional Medicaid service – Similar to MHSP drugs, a significant cost shift would be expected if drug coverage were eliminated. Without drugs, individuals' health would deteriorate to the extent that more intensive services would be required, such as in-patient hospital and nursing home services.
- Provider Rate reductions – Provider rate reductions could have a negative impact upon access to service, as some providers may no longer accept Medicaid clients. When the general fund savings are matched with federal Medicaid dollars, the total reduction is approximately $52 million.
- Eliminate all optional services under the Medically Needy program – Similar to the elimination of the drugs programs, a significant cost shift would be expected if coverage were eliminated. Without care, individuals' health would deteriorate to the

extent that more intensive services would be required, such as in-patient hospital and nursing home services. When the general fund savings are matched with federal Medicaid dollars, the total reduction is approximately $26.6 million.

- Eliminate all optional adult Medicaid services, including drugs, waiver services and optional services for medically needy – Similar to the elimination of the drugs programs, a significant cost shift would be expected if coverage were eliminated. Without care, individuals' health would deteriorate to the extent that more intensive services would be required, such as in-patient hospital and nursing home services. When the general fund savings are matched with federal Medicaid dollars, the total reduction is approximately $121.1 million.
- Remove the additional 36.60 FTE that were recently added to MSH – The safety and security issues that these additional staff here intended to resolve would likely recur.
- Eliminate remaining general fund only services (e.g., DD, Mental Health Services Plan) – A cost shift to much more expensive care in the state's institutions would result.
- DPHHS is continuing to lower administrative costs (i.e., restrict travel, postpone filling positions, etc.)

Unfortunately, in spite of DPHHS' current efforts, the fiscal outlook for 2006 worsens significantly in FY 2007. The state will feel additional impact of reduced federal funding resulting from the DRA and from a smaller federal percentage in the cost of Medicaid. The trend to move a larger share of healthcare and social services costs to the states continues, as demonstrated in the proposed President's budget for FY07.

DPHHS is exploring all viable options to control the effects of decreasing federal dollars. The department is examining provider rates; continuing efforts to lower administrative costs (i.e., restrict travel, postpone filling FTE positions, etc.); and examining all programs for cost reduction opportunities.

It is DPHHS' expectation that a supplemental appropriation request in FY 2007 is unavoidable in order to fulfill current program obligations in an environment of continuing reduced federal funding. The department believes that a supplemental appropriation request in FY2007 is unavoidable unless the programmatic actions addressed above or similarly onerous program reductions are made.

The actions listed above, such as elimination of optional services in the Medically Needy program or all optional adult Medicaid Services, necessary to reduce expenditures would have a lasting and negative impact to many Montanans. The Department does not make these suggestions lightly and does not consider them to be in the best interest of the state.